2022

Serbia Local Infrastructure and Institutional Development Project (P174251)

PROJECT OPERATIONS AND GRANT MANUAL (POGM)

BELGRADE, March 2022 (upd May 2023)

Contents

[1 INTRODUCTION 6](#_Toc135815820)

[1.1 Purpose of Project Operations and Grant Manual 6](#_Toc135815821)

[1.2 Key Project Documents 6](#_Toc135815822)

[2 PROJECT DESCRIPTION, OBJECTIVES AND INDICATORS 8](#_Toc135815823)

[2.1 Project Description 8](#_Toc135815824)

[2.2 Project Components 9](#_Toc135815825)

[Component 1: Climate Smart Mobility 9](#_Toc135815826)

[Component 2: Strengthening Capacity for Infrastructure Service Delivery 10](#_Toc135815827)

[Component 3: Project Management and Awareness Raising 12](#_Toc135815828)

[2.3 Project Development Objectives (PDO) 12](#_Toc135815829)

[3 INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS 13](#_Toc135815830)

[3.1 Institutional arrangements and responsibilities 13](#_Toc135815831)

[3.2 The Main Roles and Responsibilities of the Project Stakeholders 14](#_Toc135815832)

[3.2.1 Ministry of Construction, Transport and Infrastructure 14](#_Toc135815833)

[3.2.2 Project Implementation Unit (PIU) 14](#_Toc135815834)

[3.2.3 Steering Committee 16](#_Toc135815835)

[3.2.4 Local Self Governments 16](#_Toc135815836)

[3.2.5 Standing Conference of Towns and Municipalities 18](#_Toc135815837)

[3.2.6 Central Fiduciary Unit (CFU) 18](#_Toc135815838)

[3.2.7 Funding Agencies 19](#_Toc135815839)

[3.2.8 Working Groups 21](#_Toc135815840)

[3.2.9 Summary of Main Responsibilities of the Project Stakeholders 21](#_Toc135815841)

[3.3 Communication 22](#_Toc135815842)

[3.3.1 Communication for technical issues 23](#_Toc135815843)

[3.3.2 Communication for procurement issues 23](#_Toc135815844)

[3.3.3 Communication for financial issues 24](#_Toc135815845)

[3.3.4 Communication for contractual issues 24](#_Toc135815846)

[3.4 Meetings 24](#_Toc135815847)

[3.4.1 Regular meetings 24](#_Toc135815848)

[3.4.2 Ad-hoc meetings 24](#_Toc135815849)

[3.4.3 Steering Committee Sessions 24](#_Toc135815850)

[4 PROJECT PROCEDURES AND INFRASTRUCTURE INVESTMENTS CYCLE 25](#_Toc135815851)

[4.1 Conditions precedent to the Project effectiveness 25](#_Toc135815852)

[4.2 Activities to be implemented 26](#_Toc135815853)

[4.3 Selection and approval of strictly targeted grant activities 27](#_Toc135815854)

[4.4 Methodology for calculation of grant amounts / formula 32](#_Toc135815855)

[4.5 Citizen Engagement during infrastructure investment selections 34](#_Toc135815856)

[4.6 Gender in infrastructure investments 36](#_Toc135815857)

[4.7 Quality of technical documentation for the infrastructure investments 37](#_Toc135815858)

[4.8 Internship Program 37](#_Toc135815859)

[5 ENVIRONMENTAL AND SOCIAL FRAMEWORK 39](#_Toc135815860)

[5.1 Overview of relevant Environmental and Social Standards for the LIID Project 40](#_Toc135815861)

[5.2 Legal Operational Policies relevant to the LIID Project 40](#_Toc135815862)

[5.3 Potential Environmental and Social Impacts and Risks 40](#_Toc135815863)

[5.3.1 Environmental Risk Rating 40](#_Toc135815864)

[5.3.2 Social Risk Rating 41](#_Toc135815865)

[5.4 Environmental and Social Risk Management 42](#_Toc135815866)

[5.4.1 Environment and Social Standards (ESSs) that Apply to the Activities Being Considered 42](#_Toc135815867)

[5.4.2 General Environmental, Health and Safety (EHS) Guidelines 46](#_Toc135815868)

[5.4.3 Environmental and Social Eligibility Criteria and Exclusion 46](#_Toc135815869)

[5.4.4 Risk Classification according to the WB ESMF 46](#_Toc135815870)

[5.4.5 Selection and Approval of Strictly Targeted Grant Activities - Environmental and Social Screening and Project Approval 47](#_Toc135815871)

[5.4.6 E&S Performance, Supervision, Monitoring and Reporting 50](#_Toc135815872)

[5.4.7 Environmental and Social Audit for Activities Already Commenced 51](#_Toc135815873)

[5.4.8 Social screening of Infrastructure Investments for Land Acquisition, Restriction on Land Use and Involuntary Resettlement Impacts 52](#_Toc135815874)

[5.5 Monitoring and Reporting 52](#_Toc135815875)

[6 FINANCIAL MANAGEMENT 53](#_Toc135815876)

[6.1 Financial Management 53](#_Toc135815877)

[6.2 Accounting System 53](#_Toc135815878)

[6.3 Financial Reporting 54](#_Toc135815879)

[6.4 Financial Control 54](#_Toc135815880)

[6.5 Internal Control 55](#_Toc135815881)

[6.6 Financial Audit 56](#_Toc135815882)

[6.7 Financial Procedures 56](#_Toc135815883)

[6.8 Financial Plan 56](#_Toc135815884)

[6.9 Disbursement 57](#_Toc135815885)

[6.10 Payments 59](#_Toc135815886)

[6.10.1 Payment of services 61](#_Toc135815887)

[6.10.2 Payment of goods 61](#_Toc135815888)

[6.10.3 Payments for Infrastructure investment projects implemented by the LSG 61](#_Toc135815889)

[7 PROCUREMENT 63](#_Toc135815890)

[7.1 General 63](#_Toc135815891)

[7.1.1 General Procurement Notice (GPN). 64](#_Toc135815892)

[7.1.2 Major procurement categories under the Project. 64](#_Toc135815893)

[7.1.3 The Client and the PIU Capability Assessment. 65](#_Toc135815894)

[7.1.4 Procurement Risk 65](#_Toc135815895)

[7.1.5 Use of Serbian electronic Government Procurement 65](#_Toc135815896)

[7.1.6 Procurement KPIs for the LSGs Procurement 65](#_Toc135815897)

[7.1.7 Procurement thresholds and prior review thresholds. 66](#_Toc135815898)

[7.2 Procurement Planning 66](#_Toc135815899)

[7.2.1 Project Procurement Strategy for Development 66](#_Toc135815900)

[7.2.2 STEP 67](#_Toc135815901)

[7.2.3 Procurement Arrangements and Management 67](#_Toc135815902)

[7.3 Procurement Methods 67](#_Toc135815903)

[7.3.1 Approved Selection Methods: Goods, Works and Non-consulting Services 67](#_Toc135815904)

[7.3.2 Approved Selection Methods: Consulting Services 71](#_Toc135815905)

[7.3.3 Operating costs 75](#_Toc135815906)

[7.3.4 Post Review Ratio 76](#_Toc135815907)

[7.3.5 Fraud and Corruption 76](#_Toc135815908)

[7.3.6 Eligibility and Mitigation of Conflict of Interest 78](#_Toc135815909)

[7.3.7 Retention of Procurement and Record Keeping 79](#_Toc135815910)

[7.3.8 Advertisements 79](#_Toc135815911)

[7.3.9 Evaluation Committees 79](#_Toc135815912)

[7.4 Complaints management and dispute resolution systems 80](#_Toc135815913)

[7.5 Misprocurement 80](#_Toc135815914)

[7.6 The World Bank standard sample Procurement Documents 80](#_Toc135815915)

[8 STAKEHOLDER ENGAGEMENT AND GRIEVANCE MANAGEMENT 81](#_Toc135815916)

[8.1 Project Grievance Mechanism 81](#_Toc135815917)

[8.2 World Bank Grievance Redress Services 82](#_Toc135815918)

[9 Document Management System 83](#_Toc135815919)

[9.1 Type of Documents 83](#_Toc135815920)

[9.2 Identification of Documents 83](#_Toc135815921)

[9.3 Registration and Distribution of Reports and Minutes 84](#_Toc135815922)

[9.4 Handling of Communication Documents 84](#_Toc135815923)

[9.5 Handling of Visibility Documents 85](#_Toc135815924)

[10 PROJECT MONITORING, REPORTING AND EVALUATION 86](#_Toc135815925)

[10.1 Project Result Monitoring and Evaluation Arrangements 86](#_Toc135815926)

[10.2 Monitoring of Works Contracts 87](#_Toc135815927)

[10.2.1 Possession of Site 87](#_Toc135815928)

[10.2.2 Supervising engineer 87](#_Toc135815929)

[10.2.3 Responsible Persons at the LSG Level 87](#_Toc135815930)

[10.2.4 Site visit check 87](#_Toc135815931)

[Annex 1: PDO Key Indicators 91](#_Toc135815932)

[Annex 2: Monitoring & Evaluation Plan: PDO Indicators 93](#_Toc135815933)

[Annex 3: Template of the Framework Agreement (FA) 98](#_Toc135815934)

[Annex 4: Template of the Grant Agreement (GA) 102](#_Toc135815935)

[Annex 5: Model Bidding Document for Works 110](#_Toc135815936)

[Annex 6: Draft Procurement Plan 132](#_Toc135815937)

[Annex 7: Template of the Environmental Screening Questionnaire 136](#_Toc135815938)

[Annex 8: Template of the Social Screening Questionnaire 138](#_Toc135815939)

[Annex 9: Terms of Reference for Financial Audit 140](#_Toc135815940)

[Annex 10: Formula- Calculation and Evaluation 145](#_Toc135815941)

[Annex 11: WB Exclusion List 154](#_Toc135815942)

[Annex 12: Grant Summary Report Template 155](#_Toc135815943)

ABBREVIATIONS AND ACRONYMS

|  |  |
| --- | --- |
| AFD | Agence Française de Développement |
| CFU | Central Fiduciary Unit |
| COVID-19 | Coronavirus Disease 2019 |
| CoPs | Community of Practice |
| DA | Designated Account |
| DDs | Design Documents |
| EC | Evaluation Committee |
| ESMF | Environmental and Social Management Framework |
| ESMP | Environmental and Social Management Plan |
| ESMPCL | Environmental and Social Management Plan Check List |
| ESS | Environmental and Social Standards |
| EU | European Union |
| FA | Framework Agreement |
| FM | Financial Management |
| GA | Grant Agreement |
| GHG | Greenhouse Gases |
| GoS | Government of Serbia |
| GRM | Grievance Redress Mechanisms |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |
| IPA | Instrument for Pre-Accession Assistance |
| IPC | Interim Payment Certificate |
| IPF | Investment Project Financing |
| LIID | Local Infrastructure and Institutional Development Project |
| LSG | Local Self-Government |
| M&E | Monitoring and Evaluation |
| MCTI | Ministry of Construction, Transport and Infrastructure |
| MoF | Ministry of Finance |
| MoM | Minutes of the meeting |
| OECD | Organization for Economic Co-operation and Development |
| PDO | Project Development Objectives |
| PF | Procurement Framework |
| PFM | Project Finance Management |
| PIM | Public Investment Management |
| PIMIS | Public Investment Management Information System |
| PIU | Project Implementation Unit |
| POGM | Project Operations and Grant Manual |
| PPSD | Project Procurement Strategy for Development |
| PSEP | Project Level Stakeholder Engagement Plan |
| RAMS | Road Asset Management System |
| RPF | Resettlement Policy Framework |
| RSD | Serbian Dinar |
| SCTM | Standing Conferences of Towns and Municipalities |
| SEP | Stakeholder Engagement Plan |
| SOEs | Statement of Expenditures |
| STEP | Systematic Tracking of Exchanges in Procurement |
| SUDS | Sustainable Urban Development Strategy |
| SUMP | Sustainable Urban Mobility Plan |
| TA | Technical Assistance |
| TOR | Terms of Reference |
| TTFP | Trade and Transport Facilitation Project |
| UN | United Nations |
| UNDB | UN Development Business |
| VPD | Vehicles per Day |
| WB | World Bank |
| WHO | World Health Organization |

# INTRODUCTION

## Purpose of Project Operations and Grant Manual

The Government of Serbia (GoS) has requested the International Bank for Reconstruction and Development - World Bank (Bank) and Agence Française de Développement (AFD) support to strengthen infrastructure service delivery at the local level with a special focus on improving mobility in a sustainable manner to increase accessibility to economic and social opportunities. This operation, known as the Local Institutional and Infrastructure Development Project (translated into Serbian as *Razvoj Lokalnih Institucija i Zelene Infrastrukture*) (LIID or “The Project”), will support the scale-up of inclusive, green, and sustainable infrastructure as a means of ensuring Green growth and equal wealth distribution across the country. The Project’s financing arrangements are specified in the (i) Loan Agreement between the AFD and the Republic of Serbia (“AFD’s Credit Facility Agreement”), (ii) the Co-Financing Agreement between the Bank and the AFD, and (iii) Loan Agreement between the Bank and the Republic of Serbia (LA).

This Project Operations and Grant Manual (POGM - hereinafter referred to as the Manual) outlines operational guidelines and procedures to be followed in the implementation of the Project. The Project will finance a mixture of investments and technical assistance in support of improved Green and inclusive infrastructure service delivery at the local level.

This Manual is intended to be used by the Ministry of Construction, Transport and Infrastructure (MCTI) as the main implementing authority and it’s LIID Project Implementation Unit (PIU) respectively. The Manual also targets Local Self Governments – Municipalities and Cities (collectively referred to as LSGs) during the Project implementation. In the context of this Manual, LSGs shall have the meaning as assigned in the LA *(“Participating LSG” means any LSG to benefit from investments under any part of the Project, in accordance with the criteria set forth in the POGM; and “Participating LSGs” means more than one Participating LSG).* Infrastructure investments are equivalent to Sub-Project under Component 1, with the meaning assigned in the LA.

All supporting documents, forms, and templates required for the implementation of the components and management activities are included in annex of this Manual, and provided guidelines for the:

* Institutional and implementation arrangements including communication,
* Project procedures and infrastructure investment cycle including assessment of eligibility,
* Financial management of allocated resources,
* Technical management, monitoring and evaluation of the components’ activities,
* Procurement and contracting of required goods, works and services,
* Management of Environmental & Social risks and impacts attributable to the Project, and
* Management of stakeholder and citizen engagement including the Project Grievance mechanism.

## Key Project Documents

During the preparation of the Project the following key documents have been prepared and adopted/signed, which sets out the policy and regulatory framework for the implementation, monitoring and evaluation of the Project:

* Loan Agreement (LA) to be signed between the IBRD and the Republic of Serbia.
* Credit Facility Agreement (CFA) to be signed between the Government of France and the GoS.
* Project Appraisal Document (PAD), December 2021.
* Project Procurement Strategy for Development (PPSD), December 2021.
* Draft Procurement Plan (PP) January 14, 2022.
* Labor Management Procedures (LMP), December 2021.
* Environmental and Social Management Framework (ESMF), December 2021.
* Environmental and Social Commitment Plan (ESCP), December 2021.
* Resettlement Policy Framework (RPF), December 2021.
* Project Level Stakeholder Engagement Plan (SEP), December 2021.
* Draft Framework Agreement (FA) to be signed between the MCTI and each and any participating LSG (Annex 3).
* Draft Grant Agreement (GA) to be signed between the MCTI and each LSG for the approved infrastructure subproject (Annex 4), and
* This Manual.

# PROJECT DESCRIPTION, OBJECTIVES AND INDICATORS

## Project Description

The objective of the Project is to improve the LSGs capacity to manage sustainable infrastructure and improve access to economic and social opportunities in a climate aware manner. Much of the burden for delivering on the Green commitments of the Sofia Declaration signed by the GoS will fall to the LSGs who already struggle with infrastructure in need of renewal and increasing environmental pollution. The Project will be a mixture of investment and technical assistance (TA) to boost Green and inclusive infrastructure service delivery at the local level, including the implementation of the relevant measures of Sustainable Urban Development Strategy (SUDS). The Project will focus on strengthening capacities and technical approaches to implement existing regulatory, planning, and legal frameworks. Investments will focus on improving integrated mobility infrastructure and overall resilience of LSGs.

The Project will open a path for a long-term engagement in support of LSGs in Serbia. It will inform the development of a policy and investment framework that can be strengthened over time, allow the Bank and other development partners to contribute, and ultimately support, Serbia’s European Union (EU) accession and improved absorption of funds. It is designed in a manner that could absorb resources from other donors and also extend the sectorial coverage above and beyond local roads and mobility.

The Project will provide investments and technical support for sustainable improvement of local roads and mobility and overall resilience of the LSGs since the responsibility for implementation of the central Component to this Project, namely Component 1 (Climate Smart Mobility), will be the responsibility of the LSGs - from planning, through procurement, implementation, monitoring and evaluation. The LSGs will receive advice from the CFU and hands-on training, support and guidance from the PIU. This Green Infrastructure investment will be supported by improved transport asset management and concepts of Building Back Better, and, inclusion, natural based design, decarbonization of the economy and creating a cleaner living environment. The Project will support the LSGs to improve mobility, accessibility, resilience, and safety and lower emissions, and therefore bring along incremental benefits vs. the business as usual without the Project.

Through decentralized implementation local capacities shall be increased in a sustainable manner, induce spill over effect, and allow for high absorption of resources.

All works will be below the Bank’s threshold for large works, allowing for usage of national work contracts. Size of the contracts and type of works will not be limited but will be such that construction works (excluding project preparation, consultation, bidding, etc.) can be finished within one construction season, reducing a risk of not absorbing the resources. Given that the LSGs annual expenditures on infrastructure are approximately EUR 450 million, the amount envisaged under the Component will raise infrastructure investments by the LSGs by around 8 (eight) percent during a 5-year period. An increase will ensure that the LSGs’ absorption capacity is not overwhelmed. Capacity support will be provided to all LSGs, but a special focus and efforts will be on LSGs that are the weakest in terms of investment funding absorption capacity.

Maximum grant amounts will be set in accordance with an agreed formula (based on population, area, development gap, and environmental index). The formula will ensure fair distribution of resources with focus on poorer and more vulnerable LSGs. Equally important, it will determine the known amounts of available resources, allowing for the LSGs to properly plan and scope proposed investments. Detail description of the formula and its parameters are included in this Manual.

To incentivize change, the LSGs will receive grant transfers from the central level for infrastructure investments, and will sign Framework Agreements (FA) with the MCTI, which will include a set of commitments to improve public financial and transport infrastructure management at the local level. The financing for infrastructure to be provided by the Project will be additional, and not substitute for existing infrastructure spending by the LSGs. To this end, the FA will include provision that average annual capital spending from own resources during the project life cannot be lower than the average of the past three years (exempting 2020) plus inflation. The LSGs will enter into a Grant Agreement (GA) with the MCTI defining the sub-project to be funded from the Project in a particular LSG, financial arrangements and utilization of transferred funds restricted to eligible expenditures.

The Project activities will bring substantial Climate Change (CC) co-benefits through improved transport infrastructure resilience and maintenance, investments in active mobility infrastructure, development of sustainable urban mobility plans promoting modal shift and the Greening of transport, and utilization of modern technologies and recycle materials in civil works when appropriate.

The currently anticipated closing date of the Project is November 30, 2028.

## Project Components

The Project objective will be achieved through implementation of the following three (3) components:

1. Climate Smart Mobility;
2. Strengthening Capacity for Infrastructure Service Delivery; and
3. Project Management and Awareness Raising.

### Component 1: Climate Smart Mobility

The objective of this component is to improve mobility within the LSGs through strengthening the system for transport infrastructure service delivery and by supporting transport infrastructure renewal that will increase resilience to natural disaster while reducing the emissions of GHGs and local pollutants including PM2.5 and NoX. This component will finance targeted investments, analytics, technical assistance, and tools. Support to improved planning and management will ensure that these investments are inclusive, Gender Equality sensitive, and that infrastructure is managed in a sustainable way over the long term. Each LSG will be eligible for grants for infrastructure investments up to a value determined per predefined formula, but the award of a grant will be subject to compliance with agreed eligibility and compliance criteria. The component will be implemented through (i) Infrastructure renewal; and (ii) Sustainable mobility.

#### Subcomponent 1.1. Investments in Climate Smart Mobility

The objective of this subcomponent is to improve existing transport and associated infrastructure to support Climate Smart mobility and a move toward safe, green and clean transportations systems. The infrastructure financing will be provided through existing mechanisms for strictly targeted grant transfers from the central government to the LSGs. The investments will aim at accelerating the shift to sustainable and Climate Smart mobility and establishing green and clean transportations system. The investments will contribute to reducing the environmental footprint of delivering transport services and improving overall LSGs’ resilience to natural hazards. The majority of investments will be in transport infrastructure reconstruction and rehabilitation, within the existing infrastructure perimeters. Minor greenfield investments will be considered, for example the construction of side-walks, bicycle lanes and dedicated public transport infrastructure, where required. The promotion of resilient and inclusive approach and of active mobility and priority for public transport will be central to the Project and LSGs’ subprojects design.

The Project will finance a range of investments to build climate resilience of the transport network including slope and bank protection, and drainage facilities. Some complementary activities will be considered where necessary to promote greener transport modes such as the greening of public spaces and addressing legacy pollution. Installation of digital infrastructure where applicable will be included and the project will promote the utilization of modern technologies for the recycling of materials in civil works, as per the guidelines that will be defined under ongoing EU IPA program. This subcomponent will also finance technical assistance required for the execution of the works including services for design, supervision, technical audit, and road safety audit. Table 1 provides an indicative list of eligible investments.

Table 1: Examples of types of investments that will be supported through the operation

|  |  |  |
| --- | --- | --- |
| * Rehabilitation of roads, bridges and streets * Traffic management schemes (traffic calming measures, parking management, pedestrian access, safety, congestion management, street lighting, etc.) * Infrastructure for public transport (bus stops, bus lanes) * E-Mobility (charging stations, e-bikes/scooters) |  | * Dedicated non-motorized transport infrastructure (walking and bicycling) including public green spaces and lighting * Measures to improve climate adaptation including slope stabilization, river-bank protection, drainage works * Measures to improve environment including but not limited to provision of green space (forestation), legacy pollution clean-up |

#### Subcomponent 1.2 Sustainable Mobility

The objective here is to strengthen LSGs systems to plan, manage, implement, and operate resilient transport networks that promote patterns of climate smart mobility in a sustainable manner. This subcomponent will finance technical assistance, capacity building and demonstration pilots in three main areas:

1. Improve local road network management and resilience. Outputs will include a framework for local roads management including guidance on institutional arrangements, policy, standards, maintenance contracting, asset management, resilience, and road safety with special focus on safety of children. An easy-to-use Road Asset Management System (RAMS) will be developed and introduced in participating LSGs.
2. Mainstream sustainable and integrated mobility planning. Outputs will include some 40-gender sensitive Sustainable Urban Mobility Plans (SUMPs) with transport management plans for medium and small size LSGs.  The activity will streamline a gender sensitive approach in urban planning, design of mobility solutions and public space enhancement as well as in development of recommendations and identification of priority investments. Development of interactive guidelines and training of LSGs staff throughout the project life and knowledge exchange will be integral part under the SUMPs.Smart mobility research center and solutions through digital technologies. Outputs will include concept and preliminary design for research and testing center for smart mobility, proposals for smart mobility contractual modalities, and up to 5 smart mobility pilots in areas such as optimizing public transport services, intelligent transportation systems, real-time information, and infrastructure or service sharing schemes. The pilots will be implemented through calls for proposals that will prioritize solutions that could be scaled up across the country.  Smart mobility research center and solutions pilots will be used to assess the potential for scaling up transport management approaches through utilization of modern technologies. The subcomponent will support development of the concept and preliminary design for research and testing center for smart mobility. In addition, it will finance up to 5 smart mobility pilots such as optimizing public transport services, intelligent transportation systems, dynamic infrastructure management systems, real-time information, infrastructure or service sharing schemes, etc. The pilots will be implemented through call for proposals. Advantage would be given to the proposals that are scalable and that will promote non-motorized transport and/or will result in reduction of emissions from transport. All pilots will commit to publish gathered data in the GoS’s open data portal. The smart mobility pilots also will explore proposals for different contractual modalities.

### Component 2: Strengthening Capacity for Infrastructure Service Delivery

The objective of this component is to improve the effectiveness and sustainability of infrastructure service delivery at the local level through strengthening the LSGs’ capacity to implement improved local planning and the PFM processes. The component will finance a mixture of TA and capacity building activities focused on: (i) enhanced strategic participatory planning and identification of pipeline projects; and (ii) strengthened institutions, PFM, and access to financing.

#### Subcomponent 2.1. Enhanced Participatory Planning and Preparation of Pipeline Projects

The objective of this subcomponent is to enhance participatory approaches in local development planning, improve coordination among different development planning documents and sectorial strategies, include climate and resilience considerations into the planning approaches and better integrate them into the capital investment and budget planning process. In addition, the subcomponent aims to identify and support the early preparation of urban development and municipal infrastructure projects that go beyond the roads and mobility sector. Specifically, the subcomponent will finance TA and capacity building in three main areas:

* Improve Participatory Local Development Planning in Pilot LSGs.

The activities will support the development of critical planning documents and linking them to corresponding capital investment and budget planning processes. The focus will be on reducing defragmentation of multiple plans and incorporating climate and resilience considerations into the planning documents. The specific planning documents to be supported will be based on an initial assessment of the planning status and capacity in selected pilot LSGs. The improved planning will strengthen linkage between broad development plans and asset management systems and annual and multiannual budgets and will also enhance the budgeting of individual infrastructure projects. Supporting the quality of infrastructure budgeting will strengthen programmatic budgeting practices. Specific emphasis will be given to ensuring improved citizen engagement, including from women and vulnerable groups to mainstream participatory approaches. The development of manuals and templates would also be supported so that lessons learned can be applied beyond the pilot LSGs. The activity will include extension of E-Government portal with the feature of informing the users on the planned infrastructure investments and planned consultations as well as to annually collect citizen opinion on main infrastructure priorities in their LSG.

* Identification and Preparation of Pipeline Projects in Pilot LSGs.

The activities will focus on the identification and early project preparation activities for the future urban development and municipal infrastructure investment projects that that go beyond the roads and mobility sector. The activities will be based on the improved participatory planning approaches piloted under activity 2.1(i). Specific technical assistance would be provided for preparation (pre-feasibility, feasibility etc.) to ensure readiness of investments.

#### Subcomponent 2.2. Strengthened Infrastructure Service Delivery Enablers

The objective of this subcomponent is to promote sustainability and long-run improvements of the infrastructure service delivery by improving technical capacities and tools for infrastructure service delivery and PFM and by proposing set of recommendations for enhancement of institutional arrangements and access to financing. It will equip the LSGs with capacities and tools to perform their infrastructure related functions in a sustainable and climate aware manner and will propose set of recommendations for further policy and institutional enhancements. The support being provided under this subcomponent will be especially critical for smaller and poorer LSGs where funding and experience with managing public investments has been lower, while it will seek to address capacity constraints and the need for institutional strengthening across the LSGs. The subcomponent will be implemented through set of analytical work, TA, and development of tools, in particular:

* Improving Access to Financing.

The output will be assessment the current local infrastructure financing framework and recommendations to improve the LSGs’ ability to raise private capital for infrastructure investments, potentials of green funds, and perspective of the municipal fund scheme;

* Strengthening Institutions and Human Capacities.

The outputs will be a review of the currently fragmented institutions and human capital and recommendations for consolidated approaches and process simplification – including ‘fit for purpose’ digitization - to enable existing staff to work efficiently and meet national and local requirements, as well as to develop prioritized approaches to staff expansion and training. Introduction of young workforce to the sector will be supported through 40 (forty) paid three to six months internships placed at the PIU, the MCTI and the LSGs. Out of these at least 28 (twenty-eight) will be for women (70 percent). Public Investment Management Information System (PIMIS) database and Project Management tool will be delivered so that each LSG will be able to use it to plan and manage their infrastructure contracts.

* Enhancing Capacities for Climate Aware Infrastructure Service Delivery.

The output will be capacity building and implementation support in a number of areas with special focus on efficiency, transparency and Green Procurement; PFM/Public Investment Management (PIM) with a special focus on monitoring and reporting on Green impacts and LSGs Owned Enterprises’ performance and transparency and inclusion of citizen feedback; contract management; and social and environmental management. It will also support inter municipal cooperation and knowledge exchange on sustainable LSG development.

### Component 3: Project Management and Awareness Raising

**The objective of this component is to establish an institutional set-up that will enable successful implementation of the Project and raise awareness about the importance of Green Transition and sustainable mobility.** The subcomponent will support the establishment and maintenance of a strong PIU and the strengthening and maintenance of the Central Fiduciary Unit (CFU) within the Ministry of Finance (MoF).In addition, thePIU will be responsible for the overall management of the Project and will provide day-to-day project management support to the LSGs to ensure transparency and accountability of the Project's interventions and results. Expenses financed by this activity include the PIU salaries and the salaries of the CFU staff (in accordance with the rotation model of financing), operating costs, office equipment, dedicated web page and supervision platform, awareness-raising campaigns, communication strategy, and the PIU and the CFU training. To facilitate online control, the georeferenced platform will be introduced.

## Project Development Objectives (PDO)

**The objective of the Project is to** i**mprove the LSGs capacity to manage sustainable infrastructure and improve access to economic and social opportunities in climate aware manne**r. The Project will be a mixture of investment and technical assistance to boost Green and inclusive infrastructure service delivery at the local level, including the implementation of the relevant measures of the SUDS. The Project will focus on strengthening capacities and technical approaches to implement existing regulatory, planning, and legal frameworks. Investments will focus on improving integrated mobility infrastructure and overall resilience of the LSGs.

**To measure achievement of these objectives the following indicators will be used (Project Development Objectives (**PDO) Indicators Table is enclosed in Annex 2.)

* Subprojects supporting climate adaptation and/or mitigation actions (Percentage)
* Commercial and social services connected by improved, safe and resilient transport network (Number),
* LSGs with developed annual and multi-annual budgets corresponding to development plans and asset management systems (Number),
* LSGs utilizing simple road asset management methods developed under the project (Percentage), and
* Citizens reporting satisfaction with process of infrastructure service delivery, gender disaggregated (Percentage).

# INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

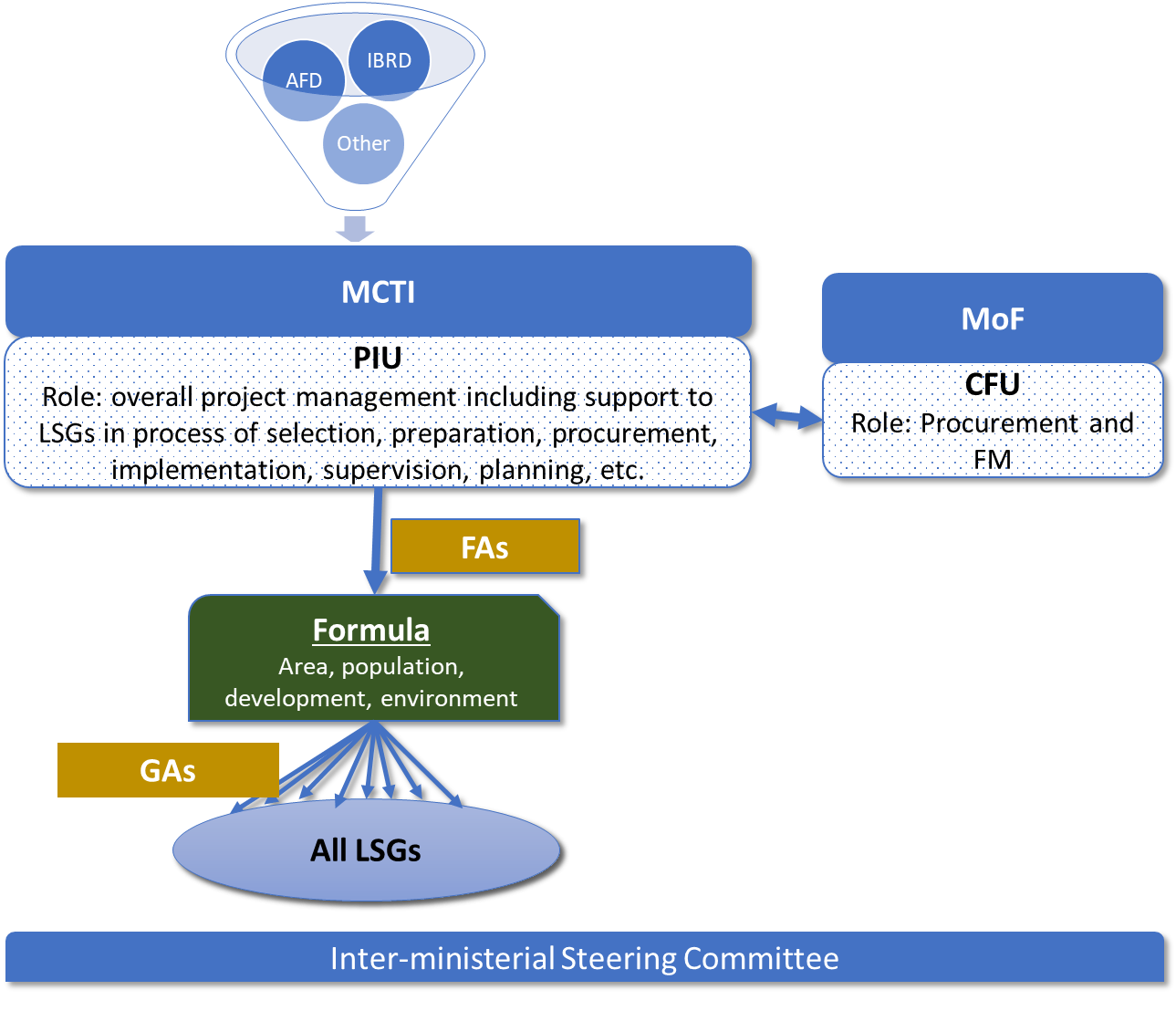
## Institutional arrangements and responsibilities

The Project operational structure is complex with the following key institutions involved in the implementation and decision-making process:

* International Bank for Reconstruction and Development - World Bank (IBRD),
* Agence Française de Développement (AFD),
* Ministry of Finance (MoF),
* Ministry of Construction, Transport and Infrastructure (MCTI),
* Project Implementation Unit (PIU),
* Steering Committee,
* Central Fiduciary Unit (CFU) housed under the MoF,
* Standing Conference of Towns and Municipalities (SCTM), and
* Local Self Governments (LSGs).

The overview of the institutional set up and high-level concept is shown in the figure below.

Figure 1: Institutional set up



## The Main Roles and Responsibilities of the Project Stakeholders

### Ministry of Construction, Transport and Infrastructure

The Project will be managed by the MCTI through an already established PIU (details of set-up are provided in the sub-chapter below), who will be directly responsible for the implementation of all Project components. The MCTI is generally responsible for road transport, roads and traffic safety, railways and intermodal transport, air traffic and transport of dangerous goods, waterways transport and navigation safety, construction affairs, implementation of consolidated procedures and legislation, spatial and urban planning, international cooperation and EU integration in respective fields, inspection supervision and housing and architectural policy, communal activities and energy efficiency. The PIU shall be maintained throughout the Project implementation, and shall be responsible to manage, coordinate, monitor end evaluate the implementation of the Project.

The Project implementation and ultimate accountability for execution of the Project will be anchored in the MCTI.

The MCTI will disburse and transfer grants from the Loan proceeds for approved infrastructure investments. The infrastructure financing will be provided through existing mechanisms for strictly targeted grant transfers from the central government to the LSGs. This will be enabled through FAs and GAs that the MCTI will sign with each LSG for any approved infrastructure investment, which will define specific responsibilities related to the implementation of the subject investment. The detailed procedure and content of those agreements are provided in Chapter 4.1 and the Annexes 3 and 4 respectively.

### Project Implementation Unit (PIU)

The Project will utilize the PIU housed under the MCTI already established to manage the Serbian part of the Western Balkans Trade and Transport Facilitation Project (WBTTF). Incremental needs of the Project will be satisfied by hiring additional experts. This includes the relevant expertise related to the extend scope of the Environmental and Social Framework (ESF).

The PIU will be in charge of overall management of the Project and implementation of all activities, except infrastructure investments for which the LSGs will assume responsibilities strengthened by the capacity building efforts of the Project. The PIU will provide full technical support and guidance to the LSGs in selecting, preparing, reviewing, supervising, and managing infrastructure investments. The PIU will screen the submitted LSGs’ proposals for infrastructure investments against eligibility criteria (both technical and E&S). Following the screening the PIU will verify the eligibility and compliance and will formally approve submitted infrastructure investment projects and their design for financing, and notify the MCTI that relevant FA and GA can be concluded.

The establishment of the PIU is supported by the Loan funds and the PIU staff shall work under respective ToRs acceptable to the Bank and remunerated on the basis of market rates in order to avoid fluctuation of the skilled staff. The PIU staff shall enter into contracts with the MCTI using the standard Bank time-based form of contract, which will in details describe the scope of work for each PIU consultant, rights and responsibilities for both contractual parties, and the obligation that both contractual parties must respect and behave accordingly while conducting the Project activities and tasks. Contracts are subject to the Bank’s review and approval.

To enhance the capacity specifically to cover the Project needs, the capacity of the PIU shall be strengthen through filling the following positions:

* Project Manager for the PIU (Head of the PIU),
* Deputy Project Manager for the PIU,
* Administrative assistant,
* Environmental specialist (2),
* Social safeguard and citizen engagement specialist,
* Procurement capacity development consultant,
* Human development specialist,
* Urban mobility experts / transport planners/traffic engineer (4),
* Road safety expert,
* Civil engineer (5),
* Transport economist,
* Urban development specialist (3),
* Disaster risk management specialist,
* Institutional development specialist / policy specialist,
* Investment financing expert, fund raising, funding expert,
* PFM specialist,
* Public communications and awareness campaigns specialist,
* IT specialist,
* Monitoring and Evaluation (M&E) specialist,
* Occupational, health and safety specialist,
* CFU staff (2).

In monitoring the implementation progress of the infrastructure investments, the PIU shall randomly check the progress of works and ground truth technical, environmental and social information provided by the LSG both initially through their self-assessment and subsequent progress reports.

The PIU will also be responsible for preparing and guiding TAs and capacity building activities under the Project, monitoring effects, and communicating with citizens. It will facilitate organization of a Community of Practice (CoP), trainings, knowledge exchange, completion of planning documents, and delivery of tools for project management and the PIMIS.

The PIU will also be in charge of final approval of procurement documents, upon obtaining the consent from the CFU.

Main responsibilities as briefly explained above can be grouped under the following clusters:

* **Management and administration of the Project implementation.** This includes: (i) coordination of the overall Project implementation activities, (ii) coordination of involved institutions in order to make sure that the Project activities are implemented in a technically and timely harmonized manner, (iii) coordination of international and local consultants and (iv) act according the Bank's requirements;
* **Planning and budgeting.** This includes precise assessment of the activities related to the Project preparation and implementation from their technical, financial and procurement viewpoint. The Project’s budget will be prepared by the PIU, with the inputs from the LSGs and overall support from the CFU. The deviation of actual versus budgeted figures will be monitored on a regular basis, appropriately analysed, and corrective actions will be taken. The LSGs will report to the PIU and the PIU will report to the CFU on the LSGs’ use of funds.
* **Procurement.** This includes final approval of procurement documents, upon obtaining the guidance from the CFU.
* **Management of environmental and social risks and compliance assurance**. The PIU shall ensure that the daily implementation of the Project, including infrastructure investments implemented by the LSGs, are carried out in compliance to the adopted, disclosed and consulted Project E&S Instruments: the ESMF, and the infrastructure investment specific ESMPs/ESMP Checklists, Project Level SEP, LMP and RPF including any Resettlement Action Plans (RAP).
* **Monitoring and evaluation.** This includes establishment of arrangements for systematic comparison of actual Project activities against plan on the basis of agreed indicators and objectives. The Project shall be monitored according to the result framework of Monitoring and Evaluation in line with Chapter 10 and Annex 2. The PIU shall also monitor the environmental and social performance of the overall Project, and of individual infrastructure investments as per the respective monitoring plans to be included in infrastructure investment specific ESMPs;
* **Reporting.** This role includes establishment of regular reporting system that is able to produce information about the Project as stipulated in the LA, CFA, PAD, this Manual, or as may be from time to time requested by the Bank, the AFD, the MCTI, the MoF or authorized officials from the LSGs;
* **Citizen engagement.** The citizen engagement element shall take an important role during the Project implementation. The PIU Social Safeguard and Citizen Engagement specialist with help of the other PIU members shall be responsible for planning and conducting the Project Citizen Engagement activities including feedback in the final project selection process. The project will increase transparency and inclusion of citizen feedback on infrastructure priorities through E-Government portal will be enhanced with the feature of informing the users on the planned infrastructure investments and planned consultations as well as to annually collect citizen opinion on main infrastructure priorities in their place of living. Comprehensive details are provided in Chapter 4.5.4.

### Steering Committee

To facilitate government level coordination and efforts, the Steering Committee will be established to coordinate support for the improvement of local infrastructure service delivery and implementation of SUDS. The Steering Committee will be chaired by the MCTI with members from relevant stakeholders, including the MoF, the Ministry of Environmental Protection, the Ministry of Public Administration, the SCTM, and on ad hoc basis representatives of the LSGs. The Steering Committee is envisaged to take the leading role in facilitating the Project implementation and resolve bottlenecks.

### Local Self Governments

Serbia is organized as a unitary state, with a dominant central government level. At the subnational government levels, the LSG units (also known as LSGs) consist of municipalities, cities and the city of Belgrade. The 145 eligible LSGs (117 municipalities, 29 cities and the capital City of Belgrade) are grouped in 25 districts, 13 of which are classed as “lagging regions”[[1]](#footnote-2). Most responsibilities are shared between the central government and the LSGs. Regions mostly play a coordinating role with limited functions, but there are efforts of the GoS and the LSGs to create intermunicipal cooperation bodies. Among the main functions of the LSGs[[2]](#footnote-3) are services delivery, management of existing assets, and implementation of local investments, often through local public service companies owned by the LSGs. The LSGs are established to support local economic development, develop, maintain and manage local roads and other public infrastructure, and provide local services including for waste, water, public transport, education and health facilities and other services important for local development. In addition, the LSGs are obliged to exercise so called “public responsibilities“, tasks under the competences of the GoS delegated to the LSGs through special laws (sectorial laws). In undertaking these functions, the LSGs are guided by regulation around planning, implementation and service delivery, finance and infrastructure network management. While much of the policy and regulation around these areas is in place, the LSGs often lack the capacity and financing to effectively implement them. This means that existing resources are either not used or not used effectively. A key objective of this project will be to build capacity for the more effective execution of existing systems of implementation.

The LSGs are the main beneficiaries of the infrastructure investment components of this Project, under the strictly targeted grant schemes.

The LSGs will be responsible for selection, preparation, design, procurement, payment, supervision and management of infrastructure investments with strong day-to-day support, guidance and approval of procurement by the PIU and the CFU.

Once application for support of infrastructure investments has been assessed as eligible and approved by the PIU, the MCTI and the LSG will enter into a FA to define the duties and responsibilities related to the requirements of the Project implementation.

As the next step, but before the procurement process has formally commenced, the MCTI and the LSG shall enter into a GA, under terms and conditions acceptable to the Bank, establishing funding and performance requirements for each infrastructure investment. The GA sets forth obligations relevant to the infrastructure investment with due diligence and efficiency, and in conformity with adopted administrative technical financial, economic, environmental and social standards, and practices and in accordance with the Anti-Corruption Guidelines and the pertinent provisions of the POGM, the Environmental and ESCP and Project document, and the LA. These, inter alia, include obligations to:

* carry out LSG’s subproject 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 carrying out the applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP), the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower, the POGM and the LA; maintain policies and procedures adequate to enable monitoring and evaluation in accordance with indicators acceptable to the Bank, of the progress of the subprojects and the achievement of their objectives, participate in informal daily works supervision according to the national legislation;
* Monitor the performance of the civil works contractor;
* Monitor the performance of the supervision contractor;
* Resolve land acquisition issues and provide the PIU with information relevant for preparation of resettlement instruments, if any;
* Obtain construction permit according to the national legislation;
* Provide access to the site to the contractor;
* Interact with the designers and design auditors under administrative and technical support by the PIU and the Urban Mobility experts/transport planners/traffic engineers;
* Check and approve interim payment certificates certified by the engineer for works, and check and approve supervisors’ reports and invoices before submission for payment to the PIU;
* Issue an opinion on completed works under the relevant infrastructure investment before the final payment is made to contractors;
* 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 its operations, including the operations, resources and expenditures related to the subprojects; and at the Bank’s or the MCTI’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 MCTI and the Bank, and permit the Bank to make such statements as so audited available to the public, along with the GA;
* Carry out applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP; and
* Maintain the roads rehabilitated under the relevant infrastructure investment after a handover of said roads has been completed;
* Establish and facilitate citizen engagement process and selection of interventions based on community preferences.
* enable the MCTI and the Bank to inspect the subproject, its operation and any relevant records and documents.

The LSG shall nominate a local Coordinator responsible for overall coordination, implementation, monitoring and reporting on the LSG’s subproject implementation in a timely, efficient and effective manner and inform in writing the MCTI and the PIU.

The LSG shall establish a project specific project team led by the local Coordinator, responsible for direct preparation, procurement, implementation and monitoring of the investment.

Whenever required, the LSG shall set up an internal structure by nominating an appropriate number of technical experts (civil works, environmental and social, traffic) to enable the LSG to carry out the infrastructure investment activities as per the FA and GA requirements. The CVs of the nominated technical experts shall be attached to the letter of information sent to the MCTI with a copy to the Head of the PIU.

The LSGs will be responsible to implement the SEP and citizen engagement activities commensurate to the complexity and needs of the infrastructure development investment.

The LSGs will be obliged to report on the Project achievement and to introduce asset and project management tools, improve strategic and medium-term planning and budgeting, and perform supervision and implementation of safeguard framework documents. The relevant safeguard documents will be prepared through the PIU, with the exception of the ESMP checklist which will be the responsibility of the LSG. The template ESMP checklist is provided in the ESMF. During implementation the LSGs will transfer the worksite to contractor subject to necessary safeguards documents, regularly monitor the progress of works, and alert the PIU to any omissions to the initial designs and safeguard frameworks. Any project attributable land acquisition will follow the RPF under the Project and the corresponding RAP. Infrastructure investments requiring physical displacement will not be eligible to be included in the Project. Project proceeds are eligible to cover the costs of infrastructure investment preparation and supervision. The LSGs will be expected to participate in technical assistance and capacity building activities and ensuring the tools introduced through the project are utilized at the local level.

### Standing Conference of Towns and Municipalities

The main body lobbying on behalf of the LSGs is the SCTM, which represents their interests and may provide a convening forum for more integrated planning and policy development.

### Central Fiduciary Unit (CFU)

The CFU, within the MoF, was established to provide fiduciary support (procurement and financial management activities) to all Bank-supported projects in Serbia and will be in charge of fiduciary responsibilities for the Project and providing assistance in capacity building to the LSG on fiduciary issues. The CFU is appropriately staffed with sufficient capacity for planning and budgeting within the CFU in order to manage Project funds in terms of optimal allocation, liquidity and overall performance. For the Project implementation the CFU will be supported by two additional experts funded through the Project.

The PIU with support of the CFU will prepare in-year financial plans and cash forecasts based on the Project’s budget, thus ensuring adequate liquidity management and withdrawal of funds. The CFU will provide guidance to the PIU in approving the LSG procurements, bidding documents, bid evaluation report, and the amendment to the contract submitted by each of the LSGs. The CFU will also provide training to the LSGs on how to ensure stronger competition and increase transparency in procurement.

The CFU, will carry out fiduciary activities in procurement and finance. Details of the CFU responsibilities are the following:

* **Procurement,** that includes (i) ensuring compliance with the procurement rules and procedures as defined in the applicable Regulations[[3]](#footnote-4), LA, AFD Requirements, this Manual and Procurement Plan (PP) of the Project; (ii) assistance to the PIU in review, update and revision of PP, if needed; (iii) support to the PIU in preparation of tender documents in accordance with the agreed procurement plan; (iv) support to the MCTI/PIU during evaluation process, (v) fiduciary assistance to the PIU to build capacity of the LSGs for preparation of infrastructure investment tender documents based on the adopted model template (vi) assistance in preparation of draft agreements for signing; (vi) using the electronic platform for Systemic Tracking of Exchanges in Procurement (STEP); (vii) providing inputs to the PIU in preparation of progress reports on procurement as part of the Project progress reports;
* **Financial management and accounting,** that includes organization and operation of the Project financial management system acceptable to the Bank and the AFD. The system is being established for the Project on the basis of similar systems used in other Bank financed projects. The system is to include an accounting and control module with the capability to record and retrieve in a timely manner all financial transactions under the Project. The CFU will verify and approve payments to contractors. Payments will be executed by the MCTI and the statements will be sent to the CFU FMS to account the transactions.
* **Auditing,** that includes external annual audit of Project accounts and financial records in accordance with the Bank requirements;
* **Reporting,** that includes establishment of regular reporting system facilitating sharing information about the Project as stipulated in the LA, CFA, PAD and this Manual, or as may be from time to time requested by the Bank, the AFD, the MCTI, the MoF or authorized officials of the LSGs.
* **Capacity building.** The PIU will be responsible for building the capacity of LSGs to enable them to undertake these activities affectively with the fiduciary support of the CFU. The CFU will also participate in organized training to the LSGs on how to ensure stronger competition and increase transparency in procurement.

### Funding Agencies

The Project will be financed from two sources, respectively the Bank and the AFD funds in equal proportions. From the managerial point of view:

**The Bank** is responsible for overall supervision of the Project, and will provide additional implementation support throughout the Project's lifespan. This will include: (a) periodical supervision missions, (ii) trainings, as necessary; (iii) follow up on the project’s financial management system, including reporting requirements and adherence of this Manual, including but not limited to accounting, reporting and internal controls; (iv) guidance on the Bank’s Procurement Regulations; (v) review of procurement documents and provision of timely feedback to the PIU; (vi) monitoring of compliance with the standards of safeguard instruments.

In addition to ensuring compliance with the Bank’s requirements and the financing agreement, the Bank team will focus special attention on ensuring close coordination between the MCTI, the PIU, and the LSGs. The involvement of numerous stakeholders entails high coordination and transaction costs which could delay project implementation. The Bank will work with the MCTI to ensure that all entities have the relevant skills and receive necessary training. The PIU will also receive specific coordination support from the Bank in the fiduciary, procurement, and project management dimensions.

Through supervision missions, the Bank team will carry out field visits to major construction sites and hold meetings with key stakeholders. The team supporting the WBTTL would be a mix of personnel based at the Bank’s Headquarters and Country Offices in the region. Additional support will be provided by the Bank’s procurement, financial management, and environmental and social specialists. The Implementation Support Plan will be reviewed at least once a year to ensure that it continues to meet the implementation support needs of the Project and the PDO.

* **Strategic**: Supervision missions will meet with the PIU and the LSGs to: (a) review progress on the Project’s activities; (b) re-confirm strategic alignment of Project activities to the PDO; (c) promptly address any shortcomings in project implementation; (d) ensure the necessary coordination among respective stakeholders; and (e) evaluate progress on cross-cutting issues such as monitoring and evaluation, training, communication and dissemination of the Project results and experiences. Supervision missions will be done according to the COVID-19 situation and will follow the recommendations of the GoS as well as the Bank. Virtual missions will be carried out when the Covid-19 does not allow in-site ones. The online supervision platform, utilizing free of charge the Mapillary application or similar, will be established too.
* **Technical**: The Bank Project team will consist of technical specialists who will review and supervise the execution of the Project activities, ensure that they remain in line with the PDO, and advise on adjustments to the designs and procurement plan when necessary. The support will also focus on ensuring the technical quality of bidding documents and evaluation reports, contract management, and the quality of all works, goods, and services delivered.
* **Environmental and Social Management**: Bank environmental and social specialists will support the MCTI in complying with the Bank’s Environmental and Social Standards, procedures and good practices. These specialists will provide expert knowledge to appropriate staff and contractors, will conduct regular supervision of implementation of the environmental and social instruments, and provide capacity building of counterpart staff through hands-on support and training on the ESF.
* **Procurement**: Procurement reviews and supervision will be conducted by the Bank’s Accredited Procurement Specialist (APS) assigned to the Project. In addition, one supervision visit is expected to take place per year when ex post reviews will be conducted. Procurement documents will be kept readily available for the Bank’s post review during supervision missions or at any other point in time. A post review report will be prepared annually and shared with the CFU.
* **Financial Management** During Project Implementation: The Bank will supervise the Project’s financial management (FM) arrangements in two main ways: (i) review the Project’s interim un-audited financial reports consolidated for all implementing entities and Project components and subcomponents for each calendar quarter, as well as the Project’s annual audited financial statements and auditor’s management letter; and (ii) perform periodic on-site supervision to review the Project’s financial management and disbursement arrangements and ensure compliance with the Bank's requirements. The on-site supervision will include monitoring of agreed actions, review of randomly selected transactions, review of internal controls, and other specific supervision activities. Supervision will be performed by the Bank accredited financial management specialist.

**The AFD** financed part shall follow the Bank’s Financial Management and procurement operational guidelines as well as the Environmental and Social Framework. The collaboration between the Bank FM team and the AFD would be as follows: (a) the Bank FM team would review all annual audited project financial statements and quarterly un-audited interim financial reports provided by the Implementing agency; (b) the Bank FM team will follow up with the implementing agency on these reviews, including monitoring and consultation on the implementation of recommendations in the auditors’ reports; (c) the Bank FM team would serve as the focal point for the AFD vis-a-vis the implementing agency in all matters related to FM under the Project. From the Disbursement perspective, the Bank would: (a) review each withdrawal application furnished by the implementing agency to verify that the amount requested is eligible for financing under the AFD’s Financing Agreement; and (b) notify the AFD that the withdrawal application is in proper order, and that it has determined that the amount requested is eligible for financing under the AFD financing.

### Working Groups

With the objective to strengthen the LSGs systems to plan, manage, implement, and operate resilient transport networks that promote patterns of climate smart mobility in sustainable manner specific activities such as TA, capacity building, demonstration pilots, and development of simple transport asset management tool shall be implemented. The support will be streamlined by establishing **working groups** based on each LSG’s willingness to implement the institutional reforms suggested in this project. In all activities, the project will incorporate redressing citizen grievances and promoting transparency in decision making. The specific areas of support include:

* Improve local road network management and resilience;
* Mainstream sustainable and integrated mobility planning;
* Pilot Smart Mobility solutions through digital technologies.

### Summary of Main Responsibilities of the Project Stakeholders

The main responsibilities of the Project stakeholders relevant to the Project management are given in Table 2 below.

Table 2: Project Management Responsibilities

| **Project Stakeholder** | **Main Responsibilities** |
| --- | --- |
| IBRD | Approval of outputs, documents, plans, etc.  Support to the PIU by providing advice and comments  Monitoring of Project implementation |
| AFD | Monitoring of Project implementation |
| MCTI | Hiring of Staff for expand the existing PIU  Establishment of the Steering Committee  Monitoring of execution of technical description of the Project  Ensuring that Project implementation is in line with the LA, CFA, national requirements, development objectives and requirements of the EU Acquis  Opening of two segregated designated accounts (one for the IBRD and one for the AFD) to disburse funds other than for direct payments.  Monitoring of improving the policy and regulatory framework |
| CFU | Coordination and collaboration with the MCTI and the PIU on the Project implementation  Fiduciary support to the Project (financial management and procurement)  Ensuring that Project implementation is in line with the LA and the CFA |
| Steering Committee | Resolution of project multi-sectoral obstacles  Support of the policy measures recommended under the Project  Provide policy guidance to the Project implementing agencies;  Ensure proper coordination and cooperation between the project implementing agencies  Oversee the delivery of the Project results/outputs within the stipulated time periods. |
| PIU | Ultimate responsibilities for all aspects of the Project implementation, including but not limited to project preparation and technical design, tendering, supervision, quality of assurance, etc.  Focal point for communication lines and ultimately responsible for all communication with internal and external parties.  Coordination of activities among various Project stakeholders  Collaboration with the LSGs on issues relevant for execution of works and services, before and during execution  Building capacity of the LSGs to implement infrastructure investments.  Coordination and oversight of works, goods and service contracts (including supervision of works contracts for infrastructure investments)  Development of the ESF Instruments other than Low Risk Infrastructure Investments  Development of the Project documentation  Monitoring and evaluation of the Project |
| Working Group | Will be established when needed to discuss, among other things, proposed technical approaches, support implementation of interventions on local level together with municipalities, frame human capital related interventions, inclusion of new technologies and Information and Communication Technology (ICT) solutions |
| LSGs | Conducting of activities relevant for the implementation of a specific Project activity on their territory  Procurement of infrastructure investment components with the fiduciary support of the CFU  Cooperation with the relevant stakeholders |
| Contractor(s) for works Suppliers for goods, and services (consultants) | Responsible for ensuring that they execute the relevant contracts in accordance with the terms and conditions. |

## Communication

Communication in the meaning assigned in this Manual refers to any exchange of information, including but not limited to letters, e-mails, notices, faxes, minutes of meetings, delivery of technical documents, contracts and invoices etc., which refer, affect or in any way amend the scope, content, budget, time frame, sources, outputs, working schedule and the principles written in this Manual or any other management document of the project.

The Head of the PIU is the focal point for communication lines and will be ultimately responsible for all communication with internal and external parties. Notwithstanding, the PIU shall engage a Social Safeguard and CE specialist who shall be inter alia responsible for outreach and assisting the PIU in disclosure, dissemination of information and communication with the local population. The media for communication shall be as seen fit for each community taking into consideration the type and sensitivity of stakeholders. The local context shall be taken into consideration. Since the Project will take special measures to ensure that disadvantaged and vulnerable groups have equal opportunity to access information, provide feedback, or submit grievances, social safeguard and citizen engagement specialist will enable proactive outreach to all population groups. Focus groups dedicated specifically to vulnerable groups will be conducted to gauge their views and concerns including for Roma communities, households and individuals to identify any cumulative vulnerability stemming from their unintegrated status in the community and the project attributable impacts.

Internal communication includes communication between the PIU and the CFU and the PIU and the LSG.

The external communication includes communication with MoF, the Steering Committee, the Bank and the AFD. This type of communication is mainly related to the submission of plans, reports, obtaining approvals on key documents, such as financial plans, PIPs, tender documents, reports, etc.

All communication documents will be in English. Responsibility for recording of incoming and outgoing correspondence is with the Administrative Assistant in the PIU, in line with the Chapter 9 of this Manual.

For the purpose of efficient time spending and ensuring smooth and effective implementation of the Project activities, it is recommended that all approvals be issued by the relevant party within defined commenting period.

All lines of communication in the Project are given in the Figure 2 below. There are five different lines of communication as can be followed with different colours in the figure:

* Blue line: Communication and document flows for the technical issues.
* Green line: Communication and document flows for the procurement issues.
* Grey line: Communication and document flows for the contractual issues.
* Red line: Communication and document flows for the financial issues.
* Black line: Daily communication.

Figure 2. The Lines of Communication



LSGs

### Communication for technical issues

Covers any written document produced for the technical implementation of the Project and includes, but it is not limited to Design Documents (DDs), FA, property rights settings, if any, building permits, works, etc. This type of communication is shown as blue line in the figure above.

### Communication for procurement issues

This type of communication includes any written document produced for the purpose of procurement of works/services/goods, and includes, but it is not limited to TDs, procurement notice, evaluation report, procurement strategy, procurement plans, etc. This type of communication is shown as green line in the Figure 2.

### Communication for financial issues

Financial documents refer to invoices, disbursement request for the Loan tranches, payment requests and any other document arising from the financial transaction, as well as financial plans and reports, and approvals. This type of communication is shown as red line in the Figure 2.

### Communication for contractual issues

This type of communication covers contracts, contract amendments and progress reports. The parties involved in this type of communication are the Bank, the AFD, the Steering Committee, the PIU, the CFU, contractors/suppliers/consultants (designer, reviewer) and Supervision Engineer.

## Meetings

### Regular meetings

Monthly Progress Meetings – the PIU will organize regular Monthly Progress Meetings with the aim to identify the Project progress, discus open issues, bottlenecks, plan the activities, which are going to be taken as well as responsible party for it, etc. Minutes of Meeting (MoM) shall be regularly prepared and distributed to all participants, respectively the CFU, the LSGs, Supervision Engineer within one week.

Regular meetings will be held with participation of the PIU, the Bank, the AFD with participation of the MCTI on a need basis, to closely monitor the progress of the Project implementation.

### Ad-hoc meetings

During the Project implementation, there is possibility for other, ad-hoc meetings that will be held apart from above listed. In that case, it is recommended to the participants to prepare MoM, which will contain all important aspects of the relevant meeting, as well as to distribute MoM to the Head of the PIU and all other parties included in the Project on whose actions such conclusions could have impact.

### Steering Committee Sessions

The Steering Committee will meet at least quarterly or more often, if needed. The session will be organized by an invitation of the Head of the Steering Committee. Administrative support will be provided by the PIU. MoM from the sessions, as well as conclusions, decisions, etc. will be distributed to the relevant parties in the Project.

# PROJECT PROCEDURES AND INFRASTRUCTURE INVESTMENTS CYCLE

## Conditions precedent to the Project effectiveness

The MoF, the MCTI, the PIU and the CFU will actively collaborate in the onset to achieve the effectiveness of the Project and satisfy any condition set forth in the LA and CFA prior to first disbursement under the Loan.

Activities to be implemented within this Phase are as follow:

1. Signing of the IBRD Loan Agreement (LA).
2. Signing of the CFA with the AFD.
3. Effectiveness of the Project. Pursuant to the LA and the CFA conditions precedent to the effectiveness are as follow:
4. The CFA has been duly signed by both parties, i.e. the AFD and the Republic of Serbia;
5. Submission to the AFD of the following documents:
6. an original of the legal opinion from the Ministry of Justice customary for this type of transaction in form and content satisfactory to the AFD with certified copies (each with an official translation into the language of the CFA) of all documents to which such legal opinion refers, demonstrating that the CFA is legally effective and enforceable and, in particular: (i) that the Republic of Serbia has met all requirements under its constitutional law and other applicable legal provisions for the valid assumption of all its obligations under the CFA, (ii) that no official authorizations, consents, licenses, registrations and/or approvals of any governmental authority or agency (including the National Bank of Serbia, hereinafter: NBS) are required or advisable in connection with the execution and performance of the CFA by the Republic of Serbia (including without limitation that all amounts due by the Republic of Serbia to the AFD under the CFA whether as principal or interest, late payment interest, Prepayment Indemnity, incidental costs and expenses or any other sum are freely convertible and transferable), (iii) that choice of French law to govern the CFA and the submission to arbitration are valid and binding, as well as that arbitration awards against the Republic of Serbia will be recognized and enforceable in the Republic of Serbia, and (iv) that neither the Republic of Serbia nor any of its property has any right of immunity from arbitration, suit, execution or other legal process;
7. Evidence of the enactment by the National Assembly of the Republic of Serbia of the law ratifying the CFA (together with evidence of such law being promulgated by the President of the Republic of Serbia) and published in the Official Gazette of the Republic of Serbia;
8. Confirmation of the MoF that the CFA has been duly evidenced therewith;
9. Evidence of any filing or registration, deposit or publication requirements of the CFA and payment of any stamp duty, registration fees or similar duties in connection with the CFA, as applicable.
10. Nomination of the Project Steering Committee – the MCTI establishes the Committee comprised of high-level policy decision makers;
11. Designated Accounts (DAs) – the MCTI will ensure that two segregated DAs are opened following the Project effectiveness:
12. Authorized Signatories – the GoS will nominate authorized signatories for Loan disbursement and management of two segregated DAs before the Project effectiveness;
13. Record Account in the MCTI – the MCTI will open the Project record account in RSD following opening of two segregated DAs;
14. Project registration – the MCTI will through the CFU register the Project at the Tax Authority of the Republic of Serbia for the purpose of VAT exemption;
15. General Procurement Notice – Publishing of General Procurement Notice (GPN) in the UNDB and local papers is obligatory according to the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017, August 2018 and November 2020. The PIU, with assistance of the CFU, will prepare the GNP and submit it to the Bank following negotiations;
16. PPSD – Prepared by the PIU with assistance of the CFU during the Project preparation and approved by the Bank.

## Activities to be implemented

The Project may finance smaller greenfield investments, for example bicycle lanes and sidewalks which are currently missing in Serbia. Civil works will be focused mainly on rehabilitation and repairs following the existing alignments, while slight corrections and widening may occur where necessary to improve safety, resilience, and accessibility. The Project will also repair, and upgrade drainage facilities, small bridges, and culverts as needed, improve resilience, and relocate and repair aboveground and belowground utilities. The technical designs will include safety features such as guardrails, pavement markings, and speed reduction measures in urban and residential areas. In addition, designs will include features to improve safety and accessibility for nonmotorized road and transit users, such as sidewalks; new or improved bus stops; bicycle lanes; lighting; and other facilities to improve safety of access to schools, health centres, and other public amenities. The Project will install ducts and pipes for fibre optic cables, where appropriate.

During the preparation of the Project, the MCTI and the LSGs prepared a sample list of potential infrastructure investment projects for the first-year investment program in 40 (forty) LSGs. **The sample list of potential projects was developed through a four-step process**.[[4]](#footnote-5) This Manual has built upon the four-step exercise and has developed a sophisticated but streamlined assessment process for the selection of eligible infrastructure investments.

According to the mentioned preliminary list, the composition of the infrastructure investment projects to be financed will consist of 49.5 percent of roads/streets, 32.5 percent active mobility, 6 percent street lighting, and 12 percent disaster risk management related investments.[[5]](#footnote-6)

## Selection and approval of strictly targeted grant activities

The Project has been designed to benefit all 145 LSGs and has determined that all LSGs are eligible to receive grant transfer subject to nominating infrastructure investments and provided they meet eligibility criteria.

Infrastructure investments will be implemented in a decentralized manner by the LSGs. To this end, the LSGs will be responsible for the implementation of infrastructure investments including project prioritization, preparation, procurement, and payment for works and services related to infrastructure investments, environmental and social management, supervision, monitoring and reporting and on-going management of infrastructure.

Total available grant funds for each LSG will be defined per formula provided in the Annex 10 of the Manual and per the methodology described in the Chapter 4.4.

The infrastructure financing will be provided through existing mechanisms for strictly targeted grant transfers from the central government to the LSGs and each LSG will sign a FA with the MCTI in which respective responsibilities and obligations under the Project are defined and signature of which is prerequisite for the LSGs to access the resources. The LSGs will have an option to contribute additional financial contributions. The detailed FA content is defined in the Manual (Annex 3). Among the obligations of the LSGs are to perform investment selection according to planning documents and best practices; ensure Bank ESSs are enforced; deliver data and reports needed for the Project implementation; implement proposed improved planning and budgeting approaches and documents; implement easy-to-use road asset management systems and project management tool; ensure transparency in procurement; more elaborated preparation of individual project(s) including resilience, safety, and active mobility considerations; streamlined supervision of works; usage of open data platforms where applicable; improved planning documents, etc.

The LSGs involved in the Project and interested in the specific topics will have opportunity to gather in a Community of Practice (CoPs) and attend targeted trainings aiming at increasing the LSGs capacity to deliver sustainable infrastructure services. The CoPs will meet quarterly (virtually through video) at least once a year in person should Covid-19 pandemic situation allow. The Project will also have a dedicated webpage, with all relevant documents, templates, and other information needed for implementation of the Project activities, as well as the information available to public. It will also serve to collect and distribute information, collect citizen feedback, enable online supervision, and to help monitor progress. Trainings on PFM, PIM, procurement, SUMPs, engineering, contract management will be delivered on regular basis through the web page.

The selection process for infrastructure investments comprises the following mandatory steps as provided in table 3 below:

Table 3: Selection and approval STEPS

| **STEP** | **ACTIVITY** | **RESPONSIBILITY** | **OUTCOME/RESULT** |
| --- | --- | --- | --- |
|  | **Call for Proposal** | MCTI/PIU | Sharing project information including eligibility criteria, date for submission and deadline for submission.  The defined criteria with weighting for selection and prioritization will be developed and shared with the LSGs and will be prerequisite for selection of eligible investments that will be covered. |
|  | **Submission of proposal /Expression of interest together with Self-assessment** | LSG  SCTM  Targeted TA - Consultant to support the early identification and the preparation of LSG investment infrastructure investments | Identification of viable and eligible infrastructure investments in line with the Project targets. |
|  | **Assessment and budgeting** | PIU | Application of formula defined in the Annex 10 to determine the maximum grant value each LSG may receive for eligible infrastructure investments. |
|  | **Assessment of technical eligibility** | SCTM  PIU  Targeted TA - Consultant to support the early identification and preparation of LSG investment infrastructure investments | Possible decisions:   * 1. Decision that proposed infrastructure investment is not eligible (in this case the LSG is informed that the proposed infrastructure investment is dropped).   2. Decision that the proposed infrastructure investment may be eligible subject to further technical adjustments and improvements. Documentation sent back to LSG for adjustments with the support of TA   3. Decision that the proposed infrastructure investment meets the technical eligibility criteria. |
|  | **Environmental and social screening and risk assessment** | PIU through their Environmental specialists and Social Safeguard and Citizen Engagement specialist | Possible decisions:   * 1. Decision that the proposed infrastructure investment is not eligible due to exclusion of activities based on their E&S risk defined in the ESMF   2. Decision that the proposed infrastructure investment has met the E&S eligibility criteria. For eligible proposed infrastructure investment decision on risk classification based on social and environmental impacts to determine the ESF instruments to be prepared to manage the E&S risks of the infrastructure investment.   3. Substantial and High-risk infrastructure investment thus not eligible. |
|  | **Final decision on eligibility** | PIU | Notification to the MCTI and the LSG that the proposed infrastructure investment has met **ALL** eligibility criteria (technical and E&S). |
|  | **Prioritization of infrastructure investments (if needed)** | LSG assisted by SCTM and TA | Final list of prioritized eligible infrastructure investment to fit into the maximum grant value the LSG may receive for eligible infrastructure investments. |
|  | **Framework Agreement (FA)** | MCTI and LSG | Condition precedent for LSG to formally enter in the Investment cycle  Signed FA – defining overarching duties and responsibilities related to the requirements of the Project implementation and setting out performance expectations and compliance with the Bank procedures. |
|  | **Grant Agreement (GA)** | MCTI and LSG | Condition precedent to procurement activities and commencement of works.  Executed GA – Securing funds to implement the investment project through the MCTI undertaking to pay the LSG earmarked funds to the local Consolidated Treasury Account, to meet eligible project expenditures. |
|  | **Procurement of services for design, supervision, technical audit, and road safety audit and works** | The LSG with support of TA and the PIU and fiduciary support of the CFU | For eligible infrastructure investments for which the design and technical documentation including RSA has not been developed by the LSG prior to the submission of the proposal. If the LSG decides to use grant proceeds for project design and/or supervision, these will have to follow the Bank procurement rules. |
|  | **Technical assistance and capacity building** | The PIU on technical, environmental/social and design requirements with the CFU support on fiduciary activities (Procurement and Financial Management) | Strengthening of the LSGs capacities to procure, implement, supervise and monitor infrastructure investments. |
|  | **Preparation of ESF Instruments including training to the LSGs employees in supervision, and environmental and social requirements under the ESF** | Low risks – the LSGs  Moderate risk – the PIU through External consultants for development of ESMPs and RAPs including training | LSGs prepare, disclose and consults on the ESMP checklist.  The PIU develops the ESMP, Resettlement Action Plan/Abbreviated Resettlement Action Plan (RAP/ARAP) and conducts the Stakeholder Engagement and public consultation in line with the SEP. |
|  | **Procurement of works** | The LSG with close support of the PIU and fiduciary support of the CFU | The LSGs will use the model Bidding document (given in Annex 5) for small works and may use the Serbian electronic Government Procurement (e-GP) with necessary customization to make it consistent with the Bank's Core Procurement Principles. |
|  | **Implementation of infrastructure investments and Contract administration** | LSG supported by the Supervision Consultant with reporting requirements on physical, financial progress and the ESF compliance | The LSG shall submit project progress reports on physical progress of works.  The LSG shall be responsible for submitting financial reports covering one calendar quarter, or the report on total expenditures for the first tranche, if shorter than one quarter, and shall also prepare quarterly financial reports on the use of grants. |
|  | **Monitoring and Evaluation** | Supervision Consultant  PIU | The PIU through the Civil engineer, Environmental specialists and Social safeguard and Citizen Engagement specialist shall perform the site visit checks on a regular basis once a month to ground truth information from LSGs progress reports. The PIU shall also monitor the environmental and social performance as per the respective monitoring plans to be included in infrastructure investment specific ESMPs. |
|  | **Implementation of modern asset management practices for local road network and of sustainable urban mobility plans** | LSGs with support of TA | Developing the local transport network climate vulnerability guidelines and incorporation of the analyses into road asset management system. |

Approval of the nominated infrastructure investment projects will follow the robust and straightforward eligibility and compliance approval process as depicted in table 3 above.

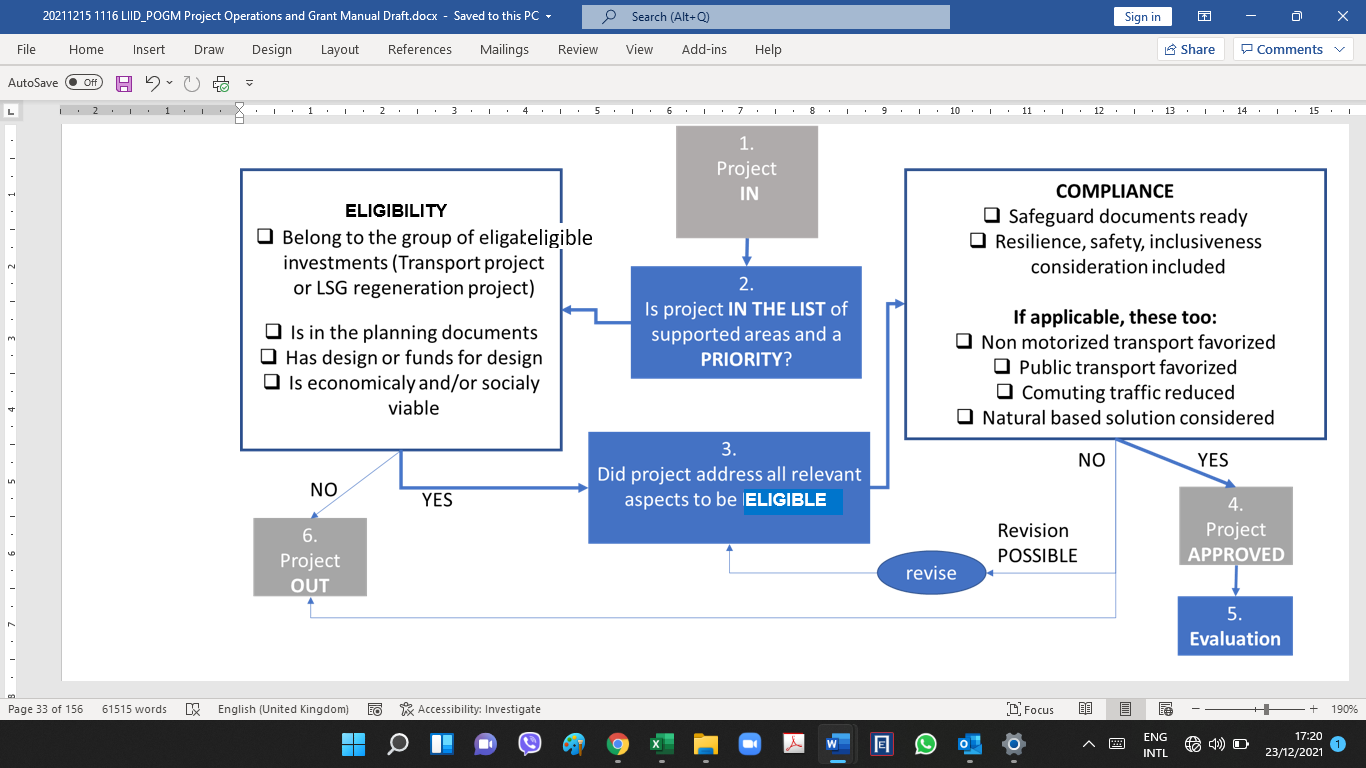
The main elements are as follows:

1. Proposal(s) by each of the LSGs will be submitted to the PIU for the eligibility and compliance check.
2. Eligibility check will confirm if the proposed subproject:
   * 1. Belongs to the group of investments to be financed under the Project, as defined in the Table 1;
     2. Is included in the planning documents as defined in the Law on Planning and Construction;
     3. Is economically and socially justifiable; and
     4. Has designs ready or secured funds for design completion.

At later stage of the Project, once the road asset management methodology is developed, the eligibility check will also confirm that the road asset management methodology supports the proposed subproject.

1. Once the proposal is approved, the LSG should finalize project design (if relevant) and accompanying documents. Once the final documents for the proposal are delivered, the PIU will confirm if proposed design is compliant with the requirements under the Project, in particular if:
   * 1. Compliant safeguard documents as per the Bank policies are delivered;
     2. Design properly addressed resilience, safety and, where applicable, natural based design;
     3. Where applicable, if design included infrastructure for active mobility and favorized public transport.
2. The PIU will support the LSGs in subprojects preparation and will review the quality of the submitted infrastructure investment projects against the best practices and eligibility criteria.
3. Upon those approvals, the procurement will be conducted by the LSGs under close support and guidance of the PIU and fiduciary support of the CFU. The PIU will review bidding documents, bid evaluation reports and amendments to the contract prepared by the LSGs. The approval of each of those documents by the PIU will be the condition for the next phase in the procurement process implemented by the LSG.
4. The LSGs will also be responsible for the supervision of environmental and social related aspects and grievance mechanisms, with close support and oversight by a dedicated Social safeguard and Citizen Engagement specialist of the PIU. Simplified schematic representation of investment eligibility and compliance approval process is shown in figure below.

Figure 3: Eligibility and Compliance Selection Tool



The Eligibility and Compliance Selection Tool has been developed for the Project to allow for transparent and straightforward evaluation of the proposed investments. The PIU will use this tool for every proposed investment to determine if the projects are eligible and compliant with the Project goals and objectives. The tool will also provide indication where the submitted project could be improved to increase expected benefits from the investments. Once the Project is effective, the tool will be published at the Project web page where LSGs will be able to do also self-assessment and early adjustments of the intended interventions.

## Methodology for calculation of grant amounts / formula

Each LSG will know in advance the maximum amount of grants for which they are eligible, which will contribute to the stability of financing and improve their ability to plan. The formula uses parameters related to the population, area, development class, hazard climate risks, average expenditure on infrastructure of the LSG as well as the development gap. More weight is given to the development gap to ensure that a large share of the available resources benefits less developed LSGs. The LSGs that would need additional support are identified by comparing the amounts for which an LSG would be eligible and amounts they spend annually for infrastructure investments. These are the LSGs that have very low spending on infrastructure investment in the past three years. Technical assistance within the Project will be, in particular, focused on empowering those LSGs to identify and prepare infrastructure investment projects. Twenty LSGs have been identified as being in need for intensive support and will have special attention.

The formula is designed as a combination of weightings against indicators and criteria and any activity scoring below the aggregate of 35 points will not be eligible for financing. Activities scoring in the range between 35-50 points may be considered subject to further review, while those scoring 50 points or more are considered eligible.

Formula for calculation of grant amount (assigned transfer) is as follows:

|  |  |
| --- | --- |
| 1st STEP | Data on population for each LSG is weighted (normalized) with average value of population for 145 LSGs (**47.580**) |
| 2nd STEP | Data on area for each LSG is weighted (normalized) with average value of areas for 145 LSGs (**535km2**) |
| 3rd STEP | Data on development class for each LSG is weighted (normalized) with average value of development class for 145 LSGs (**2,92**); since one of the main goals of the LIID intervention is to help the least developed LSGs, 5th development class was assigned to sub-class of devastated LSGs and in line with stated values they entered calculation. |
| 4th STEP | Data on climate risks for each LSG is weighted (normalized) with average value of climate risk class for 145 LSGs (**2,9**). |
| 5th STEP | Calculation of SUM coefficient (weighted sum) per LSG:  (Normalized value for population) multiplies (value of Population indicator 35 percent) plus (Normalized value for area) multiplies (value of area indicator 25 percent) plus (Normalized value for development class) multiplies (value of development class indicator 35 percent) plus (Normalized value for climate index class) multiplies (value of climate index class indicator 5 percent). |
| 6th STEP | Calculation of multiplayer coefficient per LSG: Data on weighted sum for each LSG is normalized with average value of weighted sum for 145 LSGs (**93,69**) |
| 7th STEP | Calculation of assigned transfer for each LSG: total available grant amount multiplies multiplayer coefficient |
| 8th STEP  Additional fine tuning | Reserving 10 percent for contingencies per each LSG. Meaning final initial value of investments should not be more than 90 percent of the assigned sum.) |

**SENSITIVITY ANALYSIS**

Formula has been revisited several times to include inputs form various stakeholders. Weights for each indicator have been tested for reality and fairness in iterative process. Based on those sensitivity tests, the following distribution of weights among indicators is considered to provide the best grant distribution among LSGs:

1. Population 35 percent
2. Area 25 percent
3. Development class 35 percent
4. Climate 5 percent.

**Distribution of Grant Amount per LSGs**

To assess if the formula is properly prioritizing devastated regions but also gives enough weight to population, climate and area parameters, the distribution of assigned sums per LSGs was analyzed.

|  |  |  |
| --- | --- | --- |
| **Amount range** | **Number of LSGs** | **Total amount** |
| **Under 1 mil €** | **7** | **5.665.520** |
| **1-1,5 mil €** | **43** | **55.305.736** |
| **1,5-2,5 mil €** | **76** | **141.012.351** |
| **2,5 mil € - 5 mil €** | **17** | **52.726.676** |
| **Above 5 mil €** | **2** | **16.289.717** |
|  | **145** | **240.000.000** |

First group of (7) seven LSG, does not have devastated, 3rd and 4th development class LSGs. 4 (four) LSGs from 2nd development class group and 3 (three) LSGs from 1st development class group. Most of LSGs have small area and/or belong to higher development class rank.

Second group of 43 (forty-three) does not contain devastated 5th development class while 9 (nine) LSGs are with development index 4 th . There are 20 (twenty) LSGs from 3rd development class group, 11 (eleven) LSGs from 2nd development class group and 3 (three) LSGs from 1st development class group. These group covers smaller LSGs or those with medium development index.

Third group of 76 (seventy -six) LSGs contains 18 (eighteen) devastated LSGs with development index 5, 15 (fifteen) LSGs are from 4th development class group, 24 (twenty-four) LSGs from 3rd development class group, 12(twelve) LSGs from 2nd development class group and 7 (seven) LSGs from 1st development class group. This group consists of the biggest number of devastated LSGs and LSGs with lower development class.

Forth group of 17 (seventeen) LSGs contains 1 (one) LSG from 5th  development class group, 1 (one) LSG from 4th development class group and 3 (three) LSGs from 3rd development class group, 7 (seven) LSGs from Category 2nd and 5 (five) LSGs from 1st development class. Here the majority of LSGs are well developed populated LSGs.

Fifth group consist only from Novi Sad and Belgrade (1st development class LSGs).

## Citizen Engagement during infrastructure investment selections

The Project design has incorporated best practice approaches for Stakeholder and Citizen Engagement (SE/CE) throughout the Project. During the Project preparation, the LSGs were consulted to understand their needs and challenges through an online survey designed by the Bank team and experts in different topics (finance, infrastructure, governance, etc.). The LSGs, as main beneficiaries of the Project, have been extensively consulted through an online survey and field visits to understand their main challenges and difficulties. 95 LSGs completed the on-line survey. Moreover, given the nationwide scope and multisectoral character of the Project Component 1, CE activities during implementation will be two dimensional: (i) Presentation of the Project and sector and infrastructure investment selection which will focus on informing the public about the Project and (ii) subproject specific community engagement which will present the public the site-specific impacts, opportunities and challenges of the infrastructure investment.

CE will take place at several levels:

1. a participatory approach to develop SUMPs and planning documents
2. consultation of medium-term plans and budget while developing Strengthened infrastructure service delivery enablers;
3. development of dedicated Project web page with CE interface;
4. support to community awareness campaigns
5. development of participatory planning manuals and preparation of pipeline projects; and
6. enhancement of E-Government portal with Infrastructure consultation service. The dedicated webpage will, beside information on the Project and procurements, provide interface for citizens to register their grievances, citizen input in infrastructure prioritization, and citizen feedback related to the achieved infrastructure improvements. Community awareness campaigns will focus on civil society and citizens with the goal of empowering them to actively impact infrastructure development in their LSG. The campaigns will focus on raising awareness on the importance of the green agenda, road safety, ways in which infrastructure could be greener, etc.

To ensure that voice of vulnerable groups is heard and that their requirements are addressed, all relevant CE activities, including strategic participatory planning and budgeting will entail special feedback sessions and meetings tailored to the needs of such groups. The SEP has identified key vulnerable groups and has designed a focused strategy to incorporate views of vulnerable groups. The Project will take special measures to ensure that disadvantaged and vulnerable groups have equal opportunity to access information, provide feedback, or submit grievances. The employment of social safeguard and citizen engagement specialist will help to ensure proactive outreach to all population groups. Training and awareness raising sessions will be conducted in villages rather than municipal centres to ensure higher participation of targeted population. Focus groups or individual consultation meetings dedicated specifically to vulnerable groups will be conducted to gauge their views and concerns including for Roma communities, households and individual to identify any cumulative vulnerability stemming from their alienation from the society and under integration and the impacts attributable to project also be envisaged as appropriate. Mainstreaming CE in the infrastructure planning and prioritization will benefit vulnerable groups, including women and the disabled. Improving public transit services, bus stops, and bicycle and pedestrian facilities will also benefit certain socioeconomic and demographic groups - especially the poor and women - who are less likely to rely on private automobiles to meet their mobility needs because of very small percentage of private car ownership among vulnerable groups as well as due to differences in travel patterns. These project interventions will also help improve their income-generating opportunities beyond their settlements and towns and contribute to better and more sustainable livelihoods.

Participatory strategic planning under Subcomponent 2.1 and budgeting under 2.2 will take into account the needs of different gender groups with special focus on women and vulnerable population and will assure both woman’s and man’s involvement in project identification and design

To ensure inclusive and participatory approach data collected through participatory planning and budgeting will be disaggregated in terms of living area (rural/urban), people with disabilities, gender, and/or the elderly. Participatory planning will be done in human-possibility-driven, and iterative manner. Problems will be redefined through discussion with stakeholders engaged in co-creation. A large number of possibilities and new ideas will be tested in an iterative process in which people share feedback. Many different tools will be used in the process of participatory planning, including evidence-based analysis with use of geo-information technologies, interviews, place-based processes that engage local communities in co-creation can create value in the design and creation of planning documents. CE will be an integral part of improvements of PFM by making information available to citizens on budget allocations, assets, planned investments and maintenance in their LSG.

Interventions planned, funded and coordinated centrally by government are not enough to deal with the complex challenges that some citizens face. In this context, ‘place’ can provide a valuable focus point for the PIU. It can help to:

* support civic engagement by enabling communities to apply local skills and strengths, and have a sense of ownership over decisions that are made,
* think holistically and systematically by helping to understand how systems impact people’s lives, and bring together players from different portfolios and sectors to develop solutions,
* support preventative, cost effective responses by building resilient communities and targeting investment based on what works locally.

To ensure that the feedback loop is closed, the PIU and the LSGs will provide feedback on respective CE activities to all involved stakeholders. The report will include a list of all comments/inputs received during the activity and how they were addressed and incorporated into respective Project activities. The report will be delivered to relevant stakeholders by e-mail or post and will be published on the Project web page.

To streamline CE across the country and beyond the Project, the Project will support piloting enhancement of the E-Government portal with infrastructure consultation service taking into account creation of the upcoming E-Space platform. The service will allow private users to (i) annually vote for infrastructure priorities in their LSGs and (ii) timely share information on planed infrastructure works in their LSGs and scheduled public consultations. The upcoming E-Space platform will satisfy both the Project`s stakeholder and CE needs and efforts. The planning documents will be linked and published to provide better visibility and information sharing. This operation will employ a strong consultative approach and CE through participatory strategic planning and enhancement of E-Government portals to reinforce existing policy.

## Gender in infrastructure investments

The Project will develop a Gender Action Plan. This Plan will be prepared in the first six months of the Project and shall be integrated in the Project design. The Gender Action Pan shall be prepared with in-house and external capacity and shall be provided to the Bank for review and comments.

Beside introduction of paid internship for typically man dominated occupations with a target of at least 70 percent of interns being women, all technical assistance will take into consideration needs of different gender groups, as well as intersectionality, while analytical work will ensure that the data are collected in gender disaggregated manner. In particular, development of missing SUMPs across the country will be based on the strong deep dive on different mobility patterns, needs, and challenges among gender groups. Recommendations and identification of future investments will take into consideration gender differences. Participatory strategic planning under Subcomponent 2.1 and budgeting under 2.2 will consider the needs of different gender groups with special focus on women and will assure both woman’s and man’s involvement in Project identification and design. Gender Action Plan for the Project will include a detailed checklist for each activity financed under the Project, with clear guidance on what Gender Equality aspects and support activities should be addressed through it.

Proposed innovative interventions: The Project will address reported gender gaps in the transport and construction sectors through *Bespoke paid internship program for females at the MCTI and the LSGs.* The Project will offer three-month internships in the MCTI and/or LSG to at least 28 women who are last-year university students or recent graduates (raising the number of interns from zero to 28), in roles that are traditionally male-dominated (e.g., engineers, geologists, hydrologists, etc.), by reaching out to the universities that prepare graduates in the related fields. Given the low share of women employed in the sector and the fact that the MCTI is implementing multiple construction projects in the country, the proposed activity promises to create a demonstration effect and challenge gender stereotypes about ‘acceptable’ jobs for women. It will also signal that the GoS is an Equal Opportunities employer and keen to support gender diversity in its workforce. At the same time, this intervention will facilitate establishing education-employment pathways between the MCTI and local universities. Specifically, the MCTI will establish a cooperation with at least one Serbia-based university with an existing engineering program creating an opportunity for the MCTI to access a broader pool of qualified women candidates and for these candidates to gain hands-on experience that can improve their job prospects after graduation and better inform their future career decisions.

## Quality of technical documentation for the infrastructure investments

Technical documentation for civil works under the Project should be completed according to the national legislation requirements, as supplemented by the Bank requirements, including universal access and designed with acceptable quality that will be confirmed by the PIU experts. The PIU will provide administrative and technical support to the LSGs during the process of design completion/preparation/ design audit, etc. Acceptable civil works designs will provide safe and resilient facilities that appropriately accommodate the needs of non-motorized road users and address local environmental risk factors, such as flooding, landslides, earthquakes or others.

The PIU will carry out assessment of design documents prepared and submitted by the LSGs. The assessment will consider quality check of the design documents, drawings and technical specifications, ensuring Bills of Quantity are complete and prices of the items are reflecting the updated market prices, drainage system with recipient is incorporated, technical designs are audited by independent design auditor in accordance with the national legislation and positive design audit reports are in place considering part of the design documents for each infrastructure investment, traffic designs (if any) are correct or to be improved, expropriation issues are resolved/ongoing/to be carried out, pedestrian paths and/or bicycle paths are or can be designed, empty ducts for future installation of fibre optic cables are or might be designed, road/street lightning is or can be designed, construction permits are in place or in procedure, etc.

In order to unify the technical design requirements for the infrastructure investments, the PIU experts will establish a list of technical design requirements for the LSGs. The process of approving or rejecting the technical designs by the PIU will be transparent through dialogs, meetings and regular communication between the LSGs and the PIU staff. The PIU is also responsible for quality control of the designs.

## Internship Program

The Project will address reported gender gaps in the transport and construction sectors through the mentioned *Bespoke paid internship program for females at the MCTI and the LSGs.* As already explained, the introduction of young workforce to the sector will be supported through40 (forty)paid three to six months internships placed at the PIU, the MCTI and the LSGs. This project-based work will thus help bridge the skills gap in the transition from campus to career.

The MCTI, shall:

1. provide payments to interns to finance all or a portion of the costs of their participation in the Internship Program under Part 2.2 Strengthened infrastructure service delivery enablers, in a manner acceptable to the Bank, and in accordance with the eligibility criteria.
2. The duration of the internship will be between three to six months and shall be fairly remunerated in line with Labor legislation.
3. The maximum number of accumulated payments per internship cycle to any intern in the Internship Program under the Project shall be the equivalent of [$3000].
4. Ensure that payments are disbursed to interns (i) in accordance with the procedures set forth in the Manual; (ii) in accordance with the applicable provisions of the Anti-Corruption Guidelines governing recipients of Loan proceeds other than the Borrower; (iii) in a timely fashion; and (iv) with due diligence and efficiency; and
5. Formalize a cooperation agreement, under terms to be approved by the Bank, with at least one Serbia-based university with an existing engineering program which includes a broad pool of qualified women candidates. Cooperation Agreements shall be sent in draft forms for prior review to the Bank and shall include eligibility and selection criteria including requirements for stakeholder engagement among the pool of candidates.

Implementing the Internship Program will comprise of the following actions:

# ENVIRONMENTAL AND SOCIAL FRAMEWORK

In response to the commitment of the GoS to comply with the Bank’s Environmental and Social Framework (ESF), effective as of October 1, 2018, prior to Appraisal of the Project a set of documents to manage Environmental and Social risks and impacts attributable to the Project and promote good E&S practice has been developed. These are: (i) Environmental and Social Commitment Plan (ESCP), (ii) Environmental and Social Management Framework (ESMF), (iii) Resettlement Policy Framework (RPF), (iv) Labor Management Procedures (LMP and (iv) Project Level Stakeholders Engagement Plan (PSEP). Implementation of the Project, approval and implementation of all activities and infrastructure investments must be compliant to these documents, the overall ESF and the Bank’s EHSG at minimum at all stages of implementation. These ESF instruments will be available at the Project website and shall remain in public domain throughout the duration of the Project.

Table 4: Overview of ESF Instruments relevant to the Project

| **Document** | **Purpose** |
| --- | --- |
| Environmental and Social Management Framework (ESMF) | Sets out the principles, policies and procedures for environmental and social management that the GoS agrees to employ in the context of the Project. The ESMF outlines the project context, possible environmental and social impacts, and their management. The document guides implementation that meets the requirements of the Bank’s ESF and ESHG, and the Serbian legislation, and describes the procedural responses to identifying and managing impacts throughout the Project. Finally, the ESMF provides guidance for the process and the content of Environmental and Social Management Plans (ESMPs) and Checklist ESMPs for all infrastructure investments which will be implemented under the Project. |
| Project Level Stakeholder Engagement Plan (PSEP) | Sets out the stakeholder engagement and documentation disclosure requirements in the context of the Project, including a Project specific Grievance Redress Mechanism, which will be equipped to handle SEA/SH related grievances. |
| Resettlement Policy Framework (RPF) | The overarching objectives of the RPF is to define rules, principles, procedures, actions and outline organizational structures and capacity requirements during the lifespan of the Project to avoid, minimize and mitigate the loss of private lands and non-land assets, and resultant loss in livelihoods of affected people. The RPF also provides guidance for development of individual Resettlement Action Plans (RAPs), inclusive of the detailed screening mechanism. Each infrastructure investment shall be subjected to the social screening mechanism by using the tools under the RPF. The outcome of the screening will determine the complexity, magnitude and scale, including any legacy issues, of the land acquisition and resettlement impacts under each infrastructure investments. On ground activities may not commence until and unless the Due Diligence has been completed and RAPs developed commensurate to the nature, complexity, scale and magnitude of impacts covered under the Bank’s Environmental and Social Standards (ESS). |
| Labor Management Procedures (LMP) | Sets out the way in which the Project workers will be managed, in accordance with the requirements of national law and ESS2 on Labor and Working Conditions. The procedures will address the way in which these requirements will apply to different categories of the Project workers including direct workers, and the requirement for third parties in managing their workers. |
| Environmental and Social Commitment Plan (ESCP) | A legal document, part of the LA, setting out material measures and actions, specific documents or plans, as well as the timing for each of these the Republic of Serbia through the MCTI is required to comply with. |

## Overview of relevant Environmental and Social Standards for the LIID Project

The below are the applicable Bank Environmental and Social Standards. The objectives set forth thereunder shall be met throughout the Project life cycle:

|  | **E & S Standards** | **Relevance** |
| --- | --- | --- |
| ESS1 | Assessment and Management of Environmental and Social Risks and Impacts | Relevant |
| ESS2 | Labor and Working Conditions | Relevant |
| ESS3 | Resource Efficiency and Pollution Prevention and Management | Relevant |
| ESS4 | Community Health and Safety | Relevant |
| ESS5 | Land Acquisition, Restrictions on Land Use and Involuntary Resettlement | Relevant |
| ESS6 | Biodiversity Conservation and Sustainable Management of Living Natural Resources | Not Relevant |
| ESS7 | Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities | Not Relevant |
| ESS8 | Cultural Heritage | Relevant |
| ESS9 | Financial Intermediaries | Not Relevant |
| ESS10 | Stakeholder Engagement and Information Disclosure | Relevant |

These ESSs are accompanied by unbinding Guidelines, Best Practice Notes, Templates and Checklists.

## Legal Operational Policies relevant to the LIID Project

|  |  |
| --- | --- |
| Legal Operational Policy | Triggered? |
| Projects on International Waterways OP 7.50 | Yes |
| Projects in Disputed Areas OP 7.60 | No |

## Potential Environmental and Social Impacts and Risks

### Environmental Risk Rating

The environmental risks are considered **moderate**. Although the main long-term impacts of the Project are likely to be positive, given its Green and sustainable footprint, several short-term risks need to be considered. The main environmental risks are related small to medium scale construction works and to: (i) impacts on ground and surface water, soil and air contamination (dust and noise); (ii) OHS issues and access to work sites; (iii) improper waste management, related to infrastructure investments under Component 1.

The potential adverse environmental risks and impacts that could be identified are impacts on ground and surface water, soil and air contamination (dust and noise), occupational health and safety (OHS) issues and access to work sites and improper waste management. To mitigate these risks and adverse impacts, an ESMF has been prepared, as the guiding instrument in addressing and mitigating risks during the Project implementation, but also to set the E&S criteria driving selection of infrastructure investments and monitoring requirements. The ESMF also sets forth a screening mechanism to ensure **no “substantial” or “high-risk" activities are financed under the Project**. At this stage, all works are expected to be undertaken within the existing infrastructural footprint (with the possibility of minor expansion that can result in land acquisition), thus the environmental impacts are expected to be low in magnitude, predictable, and temporary if identified, mitigated, and dealt properly. Site-specific ESMPs or ESMP Checklists (ESMPCL) will be prepared and will include site-specific impacts and mitigation measures. The ESMP/ESMPCL provisions will be incorporated into the bidding documents and the contractor's contract for each infrastructure investment.

### Social Risk Rating

The Project social risk is rated as **moderate**. Considering the nature of the Project, strong CE/SE for the proposed activities are the key to the Project success. On that account, CE activities have started during early Project preparation. In order to ensure timely and precise stakeholder identification a Project level Stakeholder Engagement Plan (SEP), acceptable to the Bank was developed, disclosed and consulted by the Republic of Serbia through the MCTI prior to the Project Appraisal. The Project level SEP presented the Project Grievance Redress Mechanism (GRM), identified Project Affected Parties (PAP) and Other Interested Parties (OIP), as well as vulnerable groups and ensured that planning, implementation, and monitoring of CE activities are adequately coordinated across key stakeholders. Vulnerable groups are not likely to be negatively affected by the Project and both dimensions of CE will mainstream engagement of vulnerable groups and ensure that they benefit from the Project. The CE activities will continue throughout the Project’s lifecycle and will be reflected in the Project level SEP, and subsequently the infrastructure investment level SEPs where the budget for CE will be defined.

Although exact Project activities are not defined at this time, it can be presumed that the interventions will not involve large land acquisition. Furthermore, resettlement resulting from Project activities is not anticipated. Mostly small-scale impacts due to spot widening and/or minor impacts on livelihoods (e.g. relocation of formal or informal kiosks or stands) in urban areas are expected. Furthermore, resettlement resulting from Project activities is not anticipated.

ESS2 will apply to (i) direct workers (PIU) and to (ii) contracted workers. The employment will be generated at the local level, considering the small scope of civil works under Component 1, thus minimizing the risk of labor influx and Sexual Exploitation and Abuse (SEA)/Sexual Harassment (SH). SH, in particular, can be a risk during project construction and operation, and therefore the project level LMP includes measures to address it. Furthermore, the Project Grievance Mechanism (GM) is enabled to recognize SEA/SH grievances which will be managed separately by a trained expert. Acknowledging the urban character of expected sub-projects under Component 1, risks under ESS4 are mainly in relation to the inability for full partition or fencing off construction sites. Moreover, Traffic/Road Safety could be impacted through Project activities and will be mittigated by provisions determined in the Trafic Management Plan (TMP).

## Environmental and Social Risk Management

### Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

#### ESS1 Assessment and Management of Environmental and Social Risks and Impacts.

The eligible infrastructure investments expected to be financed, be part of the screening criteria defined in the Environmental and Social Management Framework (ESMF) and included in this Manual.

The initial criterion is that the activities proposed would result in energy, water, or raw material savings, pollution prevention, an increase of green areas, and an overall decrease of GHG emissions along with climate-resilient local transport.

Potential environmental adverse impacts and risks may occur in Component 1, within physical works on rehabilitation and reconstruction of infrastructure facilities, but the project will not include works outside the already existing parameters. If the potential risks and adverse impacts are identified timely and all mitigation measures are applied adequately these should be small in magnitude and temporary. Thus, impacts from these activities should be typical for construction works, and as such, predictable localized and, easily manageable. Some impacts for the communities living around the construction sites, that could be identified are noise emission, dust emission, wastewater, construction waste, risks to workers (OHS issues). Due to the scale of the proposed works and all mitigation measures proposed, no major potential risks are anticipated for the communities living in the vicinities of the future work sites.

Expected social impacts under Component 1 include OHS risks in relation to civil works; Community health and safety risks including trespassing of the construction site, traffic, generation by the project, traffic interruptions and risk of inadequate waste management; and land loss due to minor land acquisition activities. As the sub-projects which potentially envisage land acquisition activities are not known, ESS5 is applicable on a precautionary basis. Social risks under Components 2 and 3 are not anticipated at this stage. There will be community-level engagement and awareness-raising to counter impacts like traffic interruptions etc.

#### ESS10 Stakeholder Engagement and Information Disclosure

Given the nationwide scope and multisectoral character of the Project, the community engagement process will be two dimensional: (I) Presentation of Project and sector and sub-project selection and (ii) sub-project-specific community engagement. The first dimension of community engagement will focus on informing the public about the Project, Project objectives, eligibility criteria for grants, etc. Once the sub-project is selected, the second dimension of engagement will focus on site-specific impacts, opportunities, and challenges of the sub-projects.

In order to ensure timely and precise stakeholder identification a Project level Stakeholder Engagement Plan (SEP), acceptable to the Bank has been developed, disclosed, and subjected to public consultations prior to Project Appraisal. The Project level SEP has identified Project Affected Parties (PAP) and Other Interested Parties (OIP), as well as vulnerable groups, and mechanisms to ensure that planning, implementation, and monitoring of CE activities are adequately coordinated across key stakeholders. Furthermore, the project level Grievance Redress Mechanism (GRM) is part of the Project level SEP. Although the Project’s Sexual Exploitation and Abuse (SEA)/Sexual Harassment (SH) and Sexual Exploitation and Abuse/Sexual Harassment risk was assessed as low (because of (i) the expected local employment and (ii) expected low number of workers on construction sites) the GM will, on a precautionary base, be enabled to recognize SEA/SH grievances. Such grievances will be managed separately by a trained expert, but will use the same process value chain and timeframes as the GM given in the SEP. The necessary training for the appointed staff member who is to deal with such grievances will be provided by the WB.

For each project activity and infrastructure investment, under all three components, an infrastructure investment level Stakeholder Engagement Plan will be prepared as a part of the sub-project specific Environmental and Social Assessment (ESMP/ESMP Checklist) according to the Project level SEP. This will be developed by the PIU Social safeguards and citizen engagement consultant with participation of relevant LSGs. The infrastructure investment level SEP[[6]](#footnote-7) will identify all interested and affected parties and propose concrete action plans for engaging different stakeholders.

Key vulnerable groups identified in the SEP include ( retired, elderly, and people with disabilities and chronic disease; single-parent-headed households, male and female; people with low literacy and ICT knowledge; economically marginalized and disadvantaged groups; persons living below the poverty line and women). Since the Project is being implemented across the country the exact number of people within vulnerable groups is not known with certainty at this stage, but will be given in detail in sub-project level SEP. However, the project is not expected to have a negative impact on vulnerable or excluded groups. In order to minimize and mitigate any potential negative impacts on such groups, the Project will facilitate a proactive engagement with vulnerable individuals or groups to ensure that their needs are met. The exact details and extent of such engagement will be given in the sub-project level SEPs and will depend on specific needs of each defined vulnerable group.

The stakeholder engagement activities started during the early preparation of the Project, having in mind the importance of CE for Project success. On that account LSGs, as main beneficiaries of the Project, have been extensively consulted through an online survey to understand their main challenges and difficulties. 95 LSGs completed the survey, answering questions about different topics, such as infrastructure management, governance, public spaces, finance ect., enabling, the Project to better understand their needs and thus, prioritize project activities. Such meaningful CE will continue throughout the Project’s life cycle. Moreover, the project will be used to strengthen the capacity of the local government in the dialogue with the communities in local road network maintenance.

Due to the Covid 19 pandemic outbreak, during the course of project implementation, limitations to traditional stakeholder engagement activities may be imposed (i.e. exercising social distancing and avoiding public gatherings) to prevent and reduce the risk of the virus transmission. In such circumstances, citizen and stakeholder engagement will be performed as per specifications listed in the World Bank’s Technical Note: Public Consultations and Stakeholder Engagement in WB-supported operations when there are constraints on conducting public meetings[[7]](#footnote-8).

#### ESS2 Labor and working conditions (as defined by ESS 2, GIIP and national requirements)

To manage risk related to Labor and Working condition including OHS risk a Labor Management Procedures (LMP) have been developed. The LMP applies (i) direct workers hired to implement the Project (PIU) and to (ii) contracted workers engaged by the contractors and subcontractors. The Project will not engage community workers. Given that the Labor related laws in Serbia comply with ILO conventions, risks of labor management issues and the OHS are low to moderate. OHS risks are mostly related to civil works; Community health and safety risks including trespassing of the construction site, traffic generation by the project, traffic interruptions and risk of inadequate waste management.

Direct workers will be hired on a consultancy basis whereby no objection from the Bank team will be obtained for each position. The most important aspect of the implementation of the ESS2 will be ensuring contracted companies apply the respective provisions determined in the Labor-Management Procedures (LMP). Given the expected small-scale nature of the works, the employment will most probably be generated at the local level, thus minimizing the risk of labor influx and the expectancy of workers from outside of the region. The project is unlikely to encounter SEA/SH.

The scale of Labor use will be complex for management as a consequence of multiple small to medium scale individual construction/rehabilitation sites established to complete intended activities. Subproject specific risks and adequate mittigation measures on labor and working conditions will be identified as part of the Environmental and Social Assessments (ESMP or ESMP Checklist) which will be a part of tendering documents making them binding for the contractor. Risks related to the construction activities and unsafe labor and working conditions, shall be mitigated by adequate enforcement of the LMP with focus on the elevated monitoring level based on specific circumstances of construction activities and therewith associated risks with consideration of cumulative impacts stemming from the road and rail traffic ongoing during the construction works. In the light of the unfolding the Covid-19 crisis, pandemic impact considerations are included as a crosscutting element among the majority of labor issues and are addressed in the LMP prepared for the Project. All reasonable precautions to protect the health and safety of workers commensurate to the risks will be implemented, including hiring contractors that have the technical capability and positive track record in managing the occupational health and safety issues of their employees. Provisions for establishing a Worker’s GM have been included in the LMP prepared for the Project.

OHS risks are manageable through application of the guidelines in ESMF, the national laws, policies and rules, the EHS Guidelines which will allow prevention and protection measures to be introduced following the order of priority: Eliminate the hazard, controlling the hazard and minimizing it. The risk of informal labor and associated lack of protection will be mitigated through screening/E&S screening checklist, labor and working conditions commitments signed by any third party, labor and working conditions reporting requirements during contract implementation and by providing access to the Project workers grievance mechanism. Contractors will be required to develop construction OHS Management Plans.

#### ESS3 Resource Efficiency and Pollution Prevention and Management

It is expected that a certain amount of waste will be generated as a result of the reconstruction and rehabilitation works under Component 1. If it is estimated that hazardous waste could occur during these works, this needs to be addressed in a manner prescribed for the management of this type of waste.

Prior to the start of works, Waste Management Plan needs to be prepared as part of site-specific ESMPs/ESMPCLs, to determine the quantities of waste, their categorization, and the proposed handling, storage, transport, and disposal measures. Site-specific ESMPs will be prepared and implemented in order to address procedures related to waste management, wastewater, communal, hazardous waste, if relevant.

Overall, due to the Project’s Green and sustainable nature, significant use of natural resources is not expected. On the other side, what could be expected is reduced use of energy and natural resources as project grants will be available for these kinds of infrastructure investment projects. Grants will be provided for each LSG (value will be determined per predefined formula), but eligible infrastructure investment will have to be Green, to improve resilience, safety, and/or environmental footprint and will focus on transport, energy, solid waste, and public space.

#### ESS4 Community health and safety

Some of the interventions on existing infrastructures could impact the overall community, where at this stage traffic management and traffic safety are identified as one of the main impacts. Given the urban character of expected infrastructure investments under Component 1, full partition or fencing off construction sites might not be possible, therefore, signalling will be installed and mitigation measures to control trespasses, excessive noise, and dust levels will be ensured through a robust mitigation and management plan in the Environmental and Social Assessments (ESA) for each infrastructure investment. Risks to the community stemming from unauthorized access to working sites will be prevented through a set of measures specified in ESAs such as allowing access only to authorized persons with informational and warning signs and fences. Traffic/Road Safety Management Plans with measures to ensure the safety and well-being of nearby communities and road users during construction and for the operation phase will be prepared together with the Emergency Response Plans with procedures to respond to accidental leaks, spills, emissions, fires, and other unforeseen crisis events. General guidelines for traffic management plans have been included in the ESMF to guide contractors to prepare site-specific plans. Special guidelines will be given for sensitive sites like those near schools, hospitals, religious places, etc.

The principle of universal access will be incorporated into all relevant infrastructure investments.

**The Covid-19 considerations**. The Covid-19 pandemic gives rise to unparalleled environmental, health and safety and social risks and impacts, presenting significant challenges to companies and their workforces, contractors and suppliers across the country and globally. The crisis has already transformed into an economic, labor and health shock. Communicable diseases pose a significant public health threat. Typically, health hazards relating to poor sanitation, low awareness or disregard of healthy and preventive behaviour may exacerbate the risk to Covid-19 exposure. The Project’s risk communication and community engagement activities coupled with broader stakeholder engagement activities will ensure that clear information is provided to all workers and the community including World Health Organization guidance and the WBG Advisory note on Contingency planning to deliver safe works. Recognizing that no single measure is likely to be effective in the long term, a combination of behavioural and environmental modifications will need to be considered. The procurement documents used to procure works, services and goods shall be strengthened with the ESF and the Covid-19 enhancements by introducing the ESF into the bidding documents.

#### ESS5 Land acquisition, restriction on Land use and Involuntary resettlement

The envisaged eligible sectors for investments under Component 1 are transport, energy, solid waste separation, and public spaces. Although the Project activities will be implemented countrywide, neither the exact location nor specific interventions to be supported are specified at this time. Hence, ESS5 is applicable on a precautionary basis

Considering the nature of the Project, it can be presumed that the interventions will not cause large land take impacts. Mostly, small-scale impacts for spot widening in urban areas are expected. Furthermore, minor impacts on livelihood are possible (e.g. relocation of formal and informal kiosks or stands). Resettlement resulting from the Project activities is not expected. In order to address the aforementioned risks, the MCTI has prepared a Resettlement Policy Framework (RPF) to establish resettlement principles, organizational arrangements, and design criteria to be applied to infrastructure investments, and to mitigate potential resettlement impacts. The RPF has set out guidance for a detailed and a screening procedure to assess the potential scale and scope of the loss of private assets and determine the potential relevance of the ESS5 for each selected infrastructure investment. If the screening procedure determines the ESS5 as relevant, a site-specific Resettlement Action Plan (RAP) will be developed for each respective infrastructure investment. The RPF has provide specific guidance for the preparation of site-specific RAPs. The detailed screening tool is provided in the RPF.

#### ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The Project is not expected to support any significant construction activities that might have negative impacts on biodiversity or living natural resources. In addition, activities are going to be implemented in inhabited areas with specific urban biodiversity that is of significant value in particular in peri-urban areas. As such, the ESMF setс forth detailed guidance on how to best assess the potential impacts to natural and sensitive areas, even if those are not under some sort of formal protection. Furthermore, the ESMF includes provisions on excluding infrastructure that may be located in such environments or that may have impacts on such areas.

#### ESS8 Cultural Heritage

This Standard is relevant. The Project will entail construction and reconstruction works along with excavations, demolition, and movement of the earth. The expected civil works, however, will be limited to rehabilitation of infrastructure within its existing footprint (with the possibility of minor expansion that can result in land acquisition). Due to civil works, Chance Find's procedures have been included in the ESMF in line with national legal requirements and good international practice. The ESMF includes provisions on ensuring no cultural heritage is impacted during works.

### General Environmental, Health and Safety (EHS) Guidelines

The EHS Guidelines are technical reference documents with general and industry-specific examples of the Good International Industry Practice (GIIP). The EHS Guidelines contain the performance levels and measures that are normally acceptable to the Bank, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology.

The Bank requires borrowers/clients to apply the relevant levels or measures of the EHS Guidelines. When host country regulations differ from the levels and measures presented in the EHS Guidelines, infrastructure investment projects will be required to achieve whichever is more stringent.

The General EHS Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors and should be used together with the relevant Industry Sector Guideline(s).

### Environmental and Social Eligibility Criteria and Exclusion

Eligible infrastructure investment will have to be Green, to improve resilience, safety, and/or environmental footprint and will focus on transport, energy, solid waste, and public space.

It is envisaged that only those interventions that are increasing resilience and safety and/or reducing environmental footprint will be eligible for financing under the Project. The eligible infrastructure investments will have to be classified as “Green” per the definition included in this Manual and the type of infrastructure investment projects anticipated to be financed are:

* local roads rehabilitation and upgrade to incorporate bike paths,
* closure of the local roads, and transformation to pedestrian zones and green public spaces,
* shifting from diesel-run public transport to natural gas or electric,
* the substitution of old public lighting with EE bulbs, etc.

There will be no water supply and waste water-related infrastructure investment projects neither infrastructure investments related to solid waste disposal. The scope and exact locations of Project interventions are yet to be determined, but all works are envisaged to be carried out within the scope of existing infrastructural facilities.

Finally, no **substantial** or **high-risk** activities will be financed under the Project.

The Project will not finance (i) any of the activities listed in the World Bank Group IFC Exclusion List given in the Annex 11 nor (ii) any high risk or substantial risk projects, that would require Environmental Impact Assessment as per the Law on Environmental Impact Assessment (Official Gazette of the Republic of Serbia No. 135/2004 and amended in 2009 - 36/2009) or as per WB ESS 1. (e.g. activities that may cause long term, permanent and/or irreversible adverse impacts (e.g. loss of major natural habitat); activities that have a high probability of causing serious adverse effects to human health and/or the environment; activities that may affect lands or rights of minorities; activities that may have significant adverse social impacts and may give rise to significant social conflict, activities resulting in physical displacement).

### Risk Classification according to the WB ESMF

The Bank classifies all projects in one of the four following groups, namely projects with:

* High Risk
* Substantial Risk
* Moderate Risk
* Low Risk.

To determine appropriate risk classification, the following issues are and will be taken into account:

* Type, location, sensitivity and scope of the project,
* Nature and magnitude of potential environmental and social risks and impacts, as well as
* Republic of Serbia's (including any agency responsible of project implementation) capacity and commitment to manage environmental and social risks and impacts in the manner consistent with ESSs.
* Other areas of risk that may be relevant to delivery of the ES mitigation measures and outcomes.

Other areas of risk can be also relevant for implementation of measures, as well as for results of environmental and social impacts mitigation measures, depending on specific project and context. These can include legal and institutional framework and its implementation and supervision strength, nature of mitigation and the proposed technology, managerial structures and legislation, as well as considerations related to stability, conflict or security.

The overall Environmental and Social Risk Classification of the Project is classified as “moderate” by the Bank standards. As such, this Project cannot finance activities that have their individual risk rating higher than Moderate.

### Selection and Approval of Strictly Targeted Grant Activities - Environmental and Social Screening and Project Approval

Each infrastructure investment shall undergo an environmental and social assessment as required by the national legislation supplemented by requirements of the ESSs. The ESMF has called for the assessment procedure consequently integrating stakeholder engagement activities including consultation and feedback.

The assessment responsibility lies with the MCTI/PIU who will ensure that assessments results are integrated into infrastructure investment planning, design, implementation, operation and maintenance. The MCTI/PIU will screen, monitor and report on the environmental and social performance. The screening reports shall be sent to the Bank for review and records.

The Environmental and Social assessment will follow the 5-step process to identify risks associated with specific infrastructure investments, screen out any substantial and high-risk activity, identify potential impacts and define measures aimed to prevent or minimize negative impacts and determine the type of management instrument required to meet the project standards:

* Infrastructure investment screening and risk classification
* Infrastructure investment preparation
* Preparation and disclosure of ESMP or ESMP checklist and public consultations
* Integration of ESMP or ESMP checklist in tender documents
* Implementation, project supervision, monitoring and reporting.

#### Step 1 - Infrastructure investment screening and risk classification

Each activity to be funded under the Project (yet to be identified) will be screened against the eligibility criteria and requirements of the ESF Policy by using the information of Environmental and Social Screening Questionnaire. Template of the Environmental Screening Questionnaire is given in the Annex 7 while the template of the Social Screening Questionnaire is given in the Annex 8.

As the Project will involve several smaller infrastructure investments, the Bank requirements involve mandatory review of adequacy of local environmental and social requirements relevant for the infrastructure investments, as well as assessment of the capacity to manage the environmental and social risks and impacts of such infrastructure investments, particularly, Borrower's capacity to:

* perform infrastructure investments environmental and social screening;
* ensure necessary expertise for conducting environmental and social assessment;
* review findings of environmental and social assessment for individual infrastructure investments;
* implement mitigation measures; and
* monitor environmental and social impact during project implementation. If necessary, the Project may envisage measures to strengthen Borrower's capacities.

For the initial screening of each infrastructure investment, the Environmental and Social Screening Questionnaire has been developed.

Questionnaires shall be completed by the MCTI/PIUs Environmental specialists and Social Safeguard and CE specialist and submitted by the MCTI/PIU along with the E&S Screening report to the Bank together with the proposed decision on the risk category of the infrastructure investment/activity. The Bank’s E&S specialist within the task team will retain oversight over the process for the duration of the project implementation.

The Environmental and Social Screening Questionnaire comprises four parts:

* Administrative and institutional data: includes a narrative part that characterizes the Project, including administrative and institutional data, and a brief description of technical contents of the Project, as well as the location of the infrastructure investment. This part can contain up to two pages of text. Annexes for all additional information can be supplemented if necessary.
* Project eligibility criteria: includes questions that should assist in determining whether the subproject in question is eligible for funding.
* Basic information on proposed infrastructure investment, and
* Project information relevant for impacts and risks: includes a series of questions on potential adverse environmental and social impacts covering all ESS 1-10, with two possible answers: "yes" or "no".

#### Step 2 - Infrastructure investment preparation

The LSGs prepare and submit to the PIU necessary documentation for infrastructure investment implementation, including technical documentation (this shall include climate-sensitive design solutions, capacity building, and installation of preventive systems) for the infrastructure investment to be financed, technical description of the infrastructure investment, permits and approvals issued by competent bodies related to the implementation of the infrastructure investment as well as the time schedule of works. This information shall be accompanied by a completed self-assessment form.

#### Step 3 - Preparation and Disclosure of the ESMP and ESMP Checklist and Public Consultations

Based on the screening procedures and findings, the site specific ESMP, or the ESMP Checklist , based on the infrastructure investment description and volume (i.e. the ESMP checklist for rehabilitation prepared per template by the LSGs; the ESMP for construction measures - Prepared by the PIU and external consultancy support) are to be prepared for each individual infrastructure investment prior to bidding procedures, by Environmental specialists and Social Safeguard and CE specialist in the MCTI/PIU, and shall be subject to review and approval of the Bank. Simple ESMP Checklists will be used for infrastructure investments that are unlikely to cause significant environmental and social impacts and that are typical for small scale construction and refurbishing/repurposing/rehabilitation investments. For more complex infrastructure investments which are likely to impose moderate environmental and social risks and impacts, an ESMP will be prepared with aim to identify, evaluate, and prevent potential environmental and social risks and impacts. The mitigation measures for identified impacts and risks will be incorporated into the ESMP/ESMP checklist. The purpose of the ESMP/ESMP checklist is to predict potential effects and improve the environmental and social aspects of infrastructure investments by minimizing, mitigating, or compensating for adverse impacts.

Each ESMP and ESMP Checklist shall be publicly disclosed while public consultations shall be conducted only for ESMPs. The documents shall be disclosed on the MCTI/PIU websites and the websites of the LSGs. It is the responsibility of the MCTI/PIU to organize disclosure of subject documents, announce calls for public consultations in media and at local level, prepare and perform presentation of the infrastructure investments and their environmental and social aspects in line with the Project level SEP. Alongside the documents, an invitation for the public consultation will be published (e-format and printed media) and comments are invited to be submitted electronically and written submission thereof within a clearly defined time period (for a minimum of two weeks). Hard copies shall be made available at the LSGs premises, and other locations as deemed relevant. By the end of the disclosure period, the public consultation meetings for the ESMPs shall be conducted, inviting stakeholders and the general public to proactively participate. The design and organization of the consultation meeting will take into account the Covid-19 national and the WHO rules and recommendations. If the measures related to the Covid-19 pandemic would not allow the classic public consultations, virtual public consultation is to be organized where the subject document is disclosed and a set of activities is performed to ensure public awareness (public call for comments announced through newspapers, TV, radio, social networks; recording or live stream of the presentation etc.).

All comments and questions shall be processed and together with feedback incorporated in the final version of the Environmental and Social Assessments (ESAs, meaning ESMP, ESMP Checklist) and captured in the minutes of the meeting. The disclosure and consultation shall be guided by the Project PSEP and subsequent SEPs and consider potential limitations to traditional engagement due to the Covid-19 pandemic.

#### Step 4 - Integration of ESMP and ESMP Checklist in tender documents

The E&S management instruments (ESMP, ESMP Checklist) will be prepared prior to the bidding of works and the PIU will be responsible to integrate final version of ESAs into tender documents for the selected infrastructure investments and in the contracts for their execution to be signed with the selected works contractors. The tender documents shall impose the Contractor's obligation to comply with the requirements specified in the ESAs. The Contractors will be required to demonstrate that all mitigation measures have been accounted for to ensure infrastructure investment implementation in environmentally and socially acceptable manner.

Standard Bidding Documents of the World Bank for Procurement of Works as updated in January and October 2017 and revised in July 2019 and further updated in January 2020 already contain clauses for enhancement of environmental, social, health and safety performance.

In addition to the overall technical screening under 4.3 the infrastructure investment subproject will be subjected to the E&S screening and may result in the project finally being classified in one of the following categories:

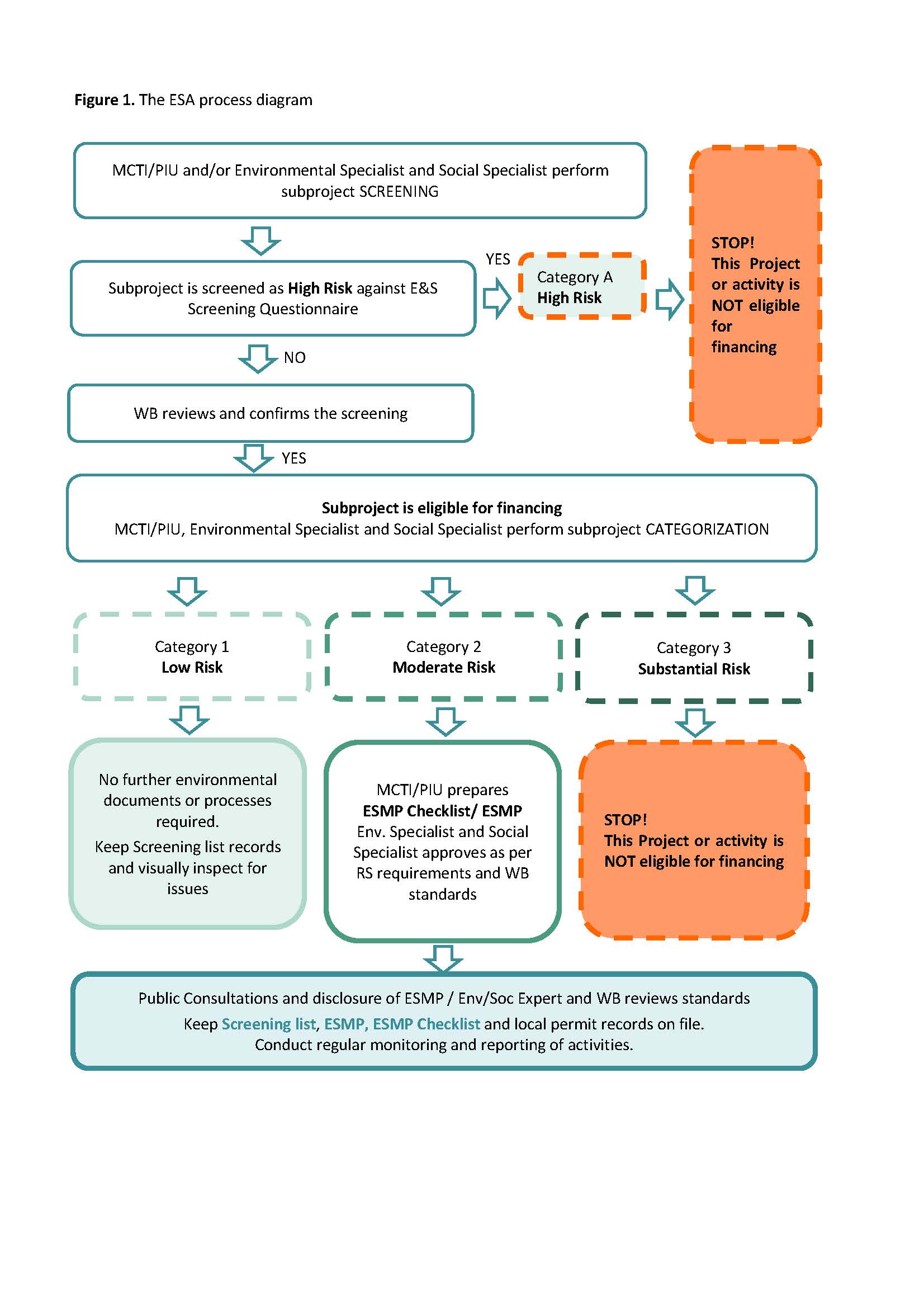
|  |  |  |
| --- | --- | --- |
| Category | Risk level | Decision |
| 1 | Low Risk – negligible environmental and social impacts/ environmental impact assessment not needed | Eligible for financing. No additional environmental and social assessment needed. |
| 2 | Moderate Risk – environmental and social impacts are expected to be manageable, easy to envisage, temporary and local | Eligible for financing. The MCTI/PIU is responsible to develop the ESMP checklist or the ESMP. Consultations are mandatory. |
| 3 | Substantial risk – possible significant and adverse impacts to human health and the environment can be expected, but the magnitude of impacts cannot be determined in the project identification phase | Not eligible for financing. |
| 4 | High Risk – expected to have highly significant, diverse and/or long-term adverse impacts to human health and the environment. It can be expected that magnitudes of these impacts are such that they may also affect an area broader that the infrastructure investment sites. Measures for mitigating such environmental impacts could be complex and costly. | Not eligible for financing. |
| 5 | Ongoing and/or completed works, including financing of  works’ continuation | This also is subject to risk rating.  Risk category and eligibility for financing will be determined based on E&S audit that needs to be undertaken. |

### E&S Performance, Supervision, Monitoring and Reporting

Implementation of mitigation measures and environmental and social monitoring is an obligation of the Contractor compliant to the ESMP and the ESMP Checklist. The Supervision Engineer (compliant to the Standard conditions of contract (i.e. the FIDIC Yellow book and the FIDIC Red Book or the MDBH Harmonized edition (Pink book) and (ii) the PIU specialists, alongside other routine activities, shall supervise the Contractor`s Environmental and Social performance and verify compliance with E&S Instruments. The overall implementation and compliance responsibilities lie with the MCTI. The PIU (Environmental specialist and Social Safeguard and CE specialist) will report on ESA implementation and E&S (ESF, national regulation, and EHSG) compliance to Bank in Progress Reports, while infrastructure investment ESAs implementation reporting will be quarterly, unless differently agreed with the Bank’s specialists.

The ESA process diagram is given in the Figure 4.

Figure 4. The ESA process diagram[[8]](#footnote-9)



### Environmental and Social Audit for Activities Already Commenced

For infrastructure investment projects the Bank intends to finance as a subsequent phase of works, where construction in previous phases has been completed, an assessment of compliance with the Bank’s ESF ESSs, EHS Guidelines, national legislation and good practices will be conducted. The ToR of the E&S Audit shall be prepared by the PIU and endorsed by the Bank. Subject to approval the Audit may be carried out internally by the PIU staff or in absence of such agreement the PIU will procure an independent third party. The Audit report shall identify areas of major non-compliance with the ESF requirement, and propose relevant remedial measures, either though developments of remedial management instruments or individual actions. ESAs prepared for the commenced infrastructure investment projects will be reviewed and revised for the part financed by the Bank and assess whether the ESA is compliant to the ESF requirements.

### Social screening of Infrastructure Investments for Land Acquisition, Restriction on Land Use and Involuntary Resettlement Impacts

The PIU will receive preliminary information from the LSGs once the locations of proposed infrastructure investments are known. The required information shall include a description of the nature, scope and location of the proposed infrastructure investment, accompanied by location maps and any other details as may be required. By using the resettlement screening checklist provided in Annex 8 of the RPF, the Social Safeguard and CE specialist retained by the PIU will verify on site the information provided in cooperation with local authorities, to confirm whether the project has potential involuntary resettlement impacts. Screening of activities will be carried out by the PIU’s Social Safeguard and CE. The screening reports will be endorsed by the Head of the PIU and submitted to the Bank. The screening will rely on the following criteria and will aim to faithfully identify whether the proposed infrastructure investments will have adverse impacts on:

* loss of shelter, physical displacement;
* assets/resources or access to assets/resources;
* loss of income sources or means of livelihood;
* loss of, or loss of access to, land;
* loss of business both permanent and temporary;
* loss of access to education and health of the community;
* loss of community recourse;
* vulnerable persons and households.

The Social screening will identify persons with formal rights to land and assets (including customary and traditional rights recognized under the laws of the country). The screening will also identify persons who do not have formal rights to land but have a claim to such land and assets. It will not rely only on the use and analysis of secondary data that is readily available, but will also require a walk-over survey to validate that the secondary data provides a true, reliable and accurate accounting of the social environment. In cases where no conclusive decisions can be drawn from the walkover survey, further efforts will be made to acquire and verify information through key informant interviews, focus group discussions and other adequate methodology. If the screening finds that such impacts as described above are present on infrastructure investment affected land, a RAP applicable will be prepared based on the principles and guidance provided by the RPF.

Covid-19 consideration - Since the current Covid-19 pandemics could take unpredictable turns site visits and travels might not be allowed. Depending on the severity on non-pharmaceutical interventions and measures imposed by the public authorities and the GoS, the Social analysis will be adapted to acceptable telephone surveys, census and surveys conducted through appropriately trained local representatives who will have received adequate training from the PIUs Public Communications, Social and CE Specialist to be hired under the project.

## Monitoring and Reporting

The PIUs will report on ESA implementation and E&S (ESF, national regulation, and EHSG) compliance to the Bank in Progress Reports, while infrastructure investment ESAs implementation reporting will be quarterly, unless differently agreed with the Bank’s E&S specialists. The PIU would report on regular basis to the Bank on infrastructure investments screening, approval and monitoring results.

# FINANCIAL MANAGEMENT

## Financial Management

In line with Financial Management Manual (FMM) and other relevant Bank’s guidelines, the financial management risk has been assessed as substantial. Appropriate financial management arrangements have been instituted for planning and budgeting; flow of funds; internal controls; accounting and reporting; and external audit. There is sufficient implementation capacity for financial management on the side of the implementing entities.

The Project will follow traditional financial management (FM) arrangements. FM of the Project will be the responsibility of the CFU, already established in the MoF. The CFU will be responsible for the establishment and maintenance, during the Project lifetime, of the Financial Management System (FMS) acceptable to the Bank and the AFD, which includes: (i) proper accounting system, (ii) financial reporting system, (iii) internal control system and (iv) financial procedures.

## Accounting System

Acceptable accounting software is in place and administered by the CFU, and it will be used for the Project accounting and reporting. Accounting records should include appropriate analytics of expenditures per contract and each specific payment. The Project will follow cash basis of accounting (cash based IPSAS), recording transactions when actual payment is done, rather than when they are incurred. Transactions should be accounted for within eight days after incurring. There should be appropriate back up of accounting records on external drives, as well as appropriate security regulation with regard to access and editing rights of the financial information. The accounting system will be maintained and performed by the CFU Financial Management Specialist.

The CFU Financial Management Specialist will be responsible to ensure that following fundamental principles are respected:

* A true and fair view of financial position and financial performance presented by the financial statements,
* Financial statements should contain full disclosure of all material information and should be accompanied by supplementary notes to explain or qualify various accounts,
* Full disclosure of the accounting principles and financial policies adopted, as well as disclosure of any subsequent changes in either existing accounting practices or financial policies should be included in the notes to the financial statement,
* Financial statements should be fair presentation of the Project's financial position.

In order to ensure that accounting practices are followed consistently from one period to another, so that financial statements are comparable, following accounting principles shall be respected:

* Regularity - All accounting records are conformed to enforce national rules and laws;
* Consistency - Once fixed method for the accounting treatment of an item, will apply and enter exactly in the same way as all similar items that follows;
* Complete - All appropriate transactions have been recorded in accordance with the accounting procedures set in FMM and other relevant Bank guidelines
* Relevant - Accounting information is relevant when accounting transactions are recorded and reported in timely fashion;
* All accounts should be updated and reconciled regularly, no less frequently than monthly.
* Reliable - It means that information is free from material error and it is neutral, respectively, it is free from bias, accurately presents the facts and faithfully represents what is supposed to represent;
* Comparable - Enables the CFU and the PIU to compare financial reports of the Project and specific activity over time in order to identify trends in the Project financial position and performance;
* Understandable - Accounting records provide all needed information;
* Acceptable to the outside world - especially to the MCTI and the Bank.

Considering that the Project will be implemented by the MCTI, and assisted with the CFU for financial issues, the Financial Department in the MCTI will be responsible for opening and maintaining of the Project record account in RSD. This Project Account should be separated from the other operation accounts of the MCTI.

Since subject of this Project are investments in the infrastructure, vehicles, machinery, equipment, etc., where final beneficiaries are the LSGs, who will be also responsible for future management and maintenance, recording of investments will be done in compliance with the relevant provision of the GA to be signed by the MCTI and the LSGs.

## Financial Reporting

The CFU must prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports (IFR) for the Project covering the quarter. The CFU Financial Specialist will submit a full set of interim IFRs consolidated for all Project components and subcomponents for each calendar quarter throughout the life of the Project. IFRs will be made available to the AFD through the Bank. IFRs will be prepared in line with cash basis of accounting. The CFU Financial Specialist will be responsible for the preparation of the IFRs, as well as for annual Project financial statements. The reporting currency will be EUR, as the currency of the Loan. IFRs are intended to comprise the following reports (i) Cash Receipts and Payments, including comparison of budgeted versus actual amounts, (ii) Uses of Funds by Activity, (iii) two segregated Das statements (iv) Accounting policies and explanatory notes, and (v) the Grants Breakdown Summary report

The IFRs also serve as basis for the annual audited financial statements. The supporting documentation of the Project financial statements shall be maintained by the CFU Financial Management Specialist and the MCTI and made easily accessible to the Bank’s and the AFD’s supervision missions and to the external auditors.

LSG will furnish to the PIU not later than 25 days after the end of each calendar quarter quarterly Financial Reports documenting the use of Grant proceeds, in RSD currency. These Financial Reports (template will be given by PIU as Annex to GA) will be used as the basis for preparation of Grant Summary Report, in RSD currency, that will be prepared by the PIU and submitted to the CFU no later than 30 days after the end of each calendar quarter. Grant Summary Report (template given in Annex 12 to this document) will be used as the basis for preparation of Breakdown of Grants Summary Report as part of the quarterly IFRs as well as Statement of Expenditure (SOE) for Grants.

## Financial Control

The importance of financial control is to ensure that implementation of the Project is running in smooth, accountable and consistent way, as well as in transparent way. During the implementation period, two types of financial control will be performed: internal and external.

A system of internal financial control is established to ensure that transactions amounts are protected from theft or embezzlement, and it will be responsibility of the CFU and the PIU. External financial control will be responsibility of an independent auditor.

The PIU, with the support of the CFU, will be responsible for:

* Determining of the budgets for the Project activities,
* Monitoring of these budgets against expenditures,
* Managing of these budgets within the limits set,
* Opening, maintenance and controlling/monitoring of special account at the National Bank of Serbia
* Opening, maintenance and controlling/monitoring of the Project record account in the MCTI,
* Supervision of all transactions
* The MCTI cash flow statements reflecting the Payments to the contractors/consultants,
* The LSGs cash flow statements reflecting the Payments to the contractor/consultant.

All transactions must be reflected by supporting documentation. The CFU Financial Management Specialist will monitor transaction balances to ensure that the PIU follows all legal requirements in concordance with the LA and the CFA.

## Internal Control

The PIU and the CFU will create an internal control system with task to guard the integrity of the Project, and in which, all persons that are dealing with it are instructed on the requirements to ensure the compliance. Beside this, the persons involved are aware of their responsibility. The final responsibility for the implementation of internal control system lies with the Head of the PIU and the CFU Head of Operations. Internal Control System will be able to ensure that financial records are reliable and complete, operations under the Project are effective and efficient, and that conditions from the LA and the CFA are met. In particular, the Internal Control System will ensure proper recording and safeguarding of data, as well as transaction control and will be designed to:

* Safeguard the assets,
* Ensure that all transactions are recorded and that all recorded transactions are legitimate, and
* Ensure the effective and efficient usage of the Loan funds.

To achieve above mentioned, adequate procedures and controls are developed and will be applied. Key internal controls, which are to be applied for the Project include, but are not, limited on:

* Appropriate authorizations and approvals,
* Segregation of duties,
* Different persons being responsible for different phases of the transactions,
* Reconciliations between records and actual balances should be performed on regular basis,
* Adequate documentation – complete original documentation exists and archiving in order to support the Project transactions (scanned copies of original documents will be accepted temporarily, during the Covid-19 situation),
* Clear description of preconditions for contracts,
* Procedures relating to the evaluation and selection of contractors/consultants, including determining and describing responsibilities for these processes,
* Procedures and processes of monitoring of the Loan usage, implementation, liabilities, including reporting back,
* Flow of the Loan funding.

## Financial Audit

Each audit of the Financial Statements must cover the period of one fiscal year of the Republic of Serbia, commencing with the fiscal year in which the first withdrawal was made. The audited Financial Statements for each such period must be furnished to the Bank and the AFD not later than six (6) months after the end of such period.

The annual audit of the Project financial statements will be conducted by a private audit firm acceptable to the Bank and in line with the ToR to be agreed between the CFU and the Bank. Costs of audit will be financed from the Loan.

The audit will review compliance with procedures laid out in this Manual and will be conducted in line with International Standards on Auditing. The Project financial statements to be audited annually include: (i) sources and uses of funds by disbursement category and Project component; (ii) Statement of Expenditures; (iii) Statements of DA; (iv) notes to the financial statements and (v) Grants Breakdown Summary on a sample basis. The audit of the Project financial statements shall include: (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of the Project-financed assets; (b) a determination as to whether the MCTI and the CFU have maintained adequate documentation on all relevant transactions; (c) verification that expenditures submitted to the Bank and the AFD are eligible for financing, and identification of any ineligible expenditures; (d) a separate opinion for the Statement of Expenditures against which disbursements have been made. The auditor will be selected from the short-listed firms pre-qualified to audit Bank funded projects in Serbia. The auditor will be engaged not less than two months prior to the end of the fiscal year.

The audited project financial statements will be posted by the MCTI on its web-site within two (2) weeks upon the audit report being accepted by the Bank and the AFD.

In addition, pursuant to the provision of Clause 3.4.3, item “h” of the CFA, the AFD may, during the Drawdown Period, carry out, or procure that a third party carries out on its behalf and at the cost of the Borrower, random inspections rather than systematic control of documentary evidence.

## Financial Procedures

This part of the Manual describes Financial Procedures of the Project, which are set up in line with the LA and the CFA, as the Project financing documents, national legislation and regulation and the MCTI internal documents.

The LA, the CFA and contracts signed with selected contractors/suppliers/consultants shall constitute the basic documents for accounting of liabilities and disbursement.

## Financial Plan

Preparation of Financial Plan (FP) is a first step in the Loan spending. The PIU with support of the CFU will prepare quarterly FP, based on the Project Implementation Plan (PIP) and the Procurement Plan (PP).

Realistic and good financial planning is of essential importance for smooth implementation.

Initial budget for the Project activities is defined by the value of goods, works and services and was agreed during the Appraisal Mission conducted by the Bank in December 2021. This value will be probably revised following completion of the procurement procedure and contract signing. Thus, actual budget for each activity will be the accepted contract amount with the contractor/supplier/consultant. The estimated cost for any activity can be increased. Additional cost during implementation as a result of variations claims etc. may affect the budget. However, this will require prior “No Objection” from the MCTI, the Bank.

Therefore, the FP will be prepared taking into account level of readiness for implementation of each specific activity, respectively foreseen dynamic of works/goods/services specified in the signed contract.

## Disbursement

The Project will be disbursed in line with the *Disbursement Guidelines for Investment Project Financing,* dated February 2017 (“Disbursement Guidelines”), available at the Bank’s public website https://www.worldbank.org and its secure website “Client Connection” at https://clientconnection.worldbank.org. https://clientconnection.worldbank.orgThe Disbursement Guidelines are an integral part of the LA and its Disbursement and Financial Information Letter (DFIL). The manner in which the provisions in the Disbursement Guidelines apply to the Loan is specified below.

The table in Schedule 1 of the DFIL sets out the disbursement methods which may be used for disbursement of funds, and conditions, information on registration of authorized signatures, processing of withdrawal applications (including minimum value of applications and processing of advances), instructions on supporting documentation, and frequency of reporting on the two segregated DAs.

Respecting the provisions of the LA and the CFA, total approved Loan in amount of USD 300 mil is to be disbursed in several tranches, where the minimum value of applications for Reimbursement and Direct Payment is Euro 200,000 equivalent.

Two segregated DAs will be opened by the Republic of Serbia, one for the Bank Loan and another for the AFD Loan (DA-A for IBRD \_\_\_\_\_YF, DA-B for COFN \_\_\_\_\_ YF). The DA for the Bank Loan will have a ceiling set to Euro 10 million and the DA for the AFD Loan will have a ceiling set to Euro 20 million. Each disbursement will be done at pari-passu 1/3 from the IBRD part of the Loan and 2/3 from the AFD part of the Loan.

Before disbursement of first tranche, following preconditions should be fulfilled:

* Project registration in the Client Connection Platform[[9]](#footnote-10)
* Opening of two segregated DAs (EUR) in the National Bank of Serbia (the control environment in the NBS is considered to be acceptable)
* Opening of the Project record account (RSD) with the Treasury Administration,
* Nomination of authorized signatories for tranche disbursement and the DA management of the IBRD funds. The form for Authorized Signatories Letter (ASL), should be furnished to the Bank at the address: *The World Bank, Radnicka cesta 80, 9th floor, Zagreb, HR-10000, Croatia, Attention: Loan Department (WFACS)*
* Submission of Authorized List of Signatories to the AFD;
* The CFA has become effective upon the satisfaction of the conditions stipulated in the Part II of the Schedule 4 of the CFA;
* Confirmation that the IBRD Loan Agreement has become effective and that the conditions precedent to the first disbursement in respect of such loan have been fulfilled;
* The Co-Financing Agreement between the AFD and the IBRD has been executed;
* Delivery to the AFD of a duly executed legal opinion, in form and substance satisfactory to the AFD, of a reputable law firm who are legal advisers in the jurisdiction of the Republic of Serbia;
* Payment by the Republic of Serbia to the AFD of all fees and expenses due and payable under the CFA;

Notwithstanding the provisions above, no withdrawal shall be made[:]

* for payments made prior to the Signature Date[.]; or
* under Categories 2 and 3 until the Republic of Serbia, through the MCTI, has developed and adopted a POGM, to the Bank’s satisfaction.

In addition, due to the measures adopted by the GoS caused by the pandemic Covid-19, each disbursement request should obtain previous consent of the MoF.

The PIU with support of the CFU is responsible for the coordination of the above listed activities and obtaining required approval(s).

***(ii)*** **Electronic Delivery.** Section 10.01 (c) of the General Conditions.

The Republic of Serbia will deliver Withdrawal Applications (with supporting documents) electronically through the Bank’s web-based portal “Client Connection”https://clientconnection.worldbank.org. This option will be effective after the officials designated in writing by the Republic of Serbia who are authorized to sign and deliver Withdrawal Applications have registered as users of “Client Connection”. The designated officials will deliver Applications electronically by completing the Form 2380, which is accessible through “Client Connection”. By signing the Authorized Signatory Letter, the Republic of Serbia confirms that it is authorizing such persons to accept Secure Identification Credentials (SIDC) and to deliver the Applications and supporting documents to the Bank by electronic means. The Republic of Serbia may exercise the option of preparing and delivering Withdrawal Applications in paper form on exceptional cases (including those where the Borrower encounters legal limitations), and which were previously agreed with the Bank. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Republic of Serbia confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation, available in the Bank's public website at <https://worldbank.org> https://www.worldbank.org/en/home and “Client Connection”; and (b) to cause such official to abide by those terms and conditions.

Electronic Application for withdrawal will be prepared by the CFU Financial Specialist based on the inputs provided by the PIU, and amount to be disbursed should be enough to cover at least 6-month Project financing. For this purpose, Disbursement and Financial Information Letter (DFIL) template will be used. The Application will be signed electronically by the authorized signatory and submitted to the Bank together with supporting documents (Statement of Expenditures **(**SoE), appropriate bank statement). Pursuant to the Clause 3, item 3.2 of the CFA, an electronic copy of the Drawdown Request duly completed and signed, together with all the supporting documents required for the relevant conditions precedent fulfilment, shall at first be submitted to the IBRD, simultaneously with submission of the relevant Withdrawal Application under the IBRD loan in accordance with the conditions and terms of the LA; and, shall be submitted to the AFD. A hard copy of the duly completed and signed Disbursement request shall be delivered by mail to the AFD Office Director at the address specified in Clause 16.1 of the CFA. Payments will be made in accordance with the instructions in the DFIL, updated if necessary, issued by the IBRD. Unless an exception is granted by the AFD, each Drawdown Request shall be made concurrently with a Withdrawal Application under the IBRD LA for respective amounts to meet the financing ratio indicated in the CFA.

In application of the Co-Financing Agreement, once the IBRD has received a Withdrawal Application and the relevant supporting documents IBRD, on behalf and in the name of the AFD, will:

* assess all these supporting documents submitted, in compliance with the its applicable internal rules and procedures; and
* verify that the amount requested in the Drawdown Request complies with the co-financing requirements under the Co-Financing Agreement.

If the result of the assessment and the verification mentioned above is satisfactory to the IBRD, the latter will notify the AFD in writing of such result through a disbursement notice. Subject to Clause 14.7 of the CFA (Payment Systems Disruption), if each of the conditions set out in Clause 2.4(b) (Conditions precedent) of the CFA has been met, the AFD shall make the requested Drawdown available to the MCTI not later than the Drawdown Date[[10]](#footnote-11).

Disbursed amount will be withdrawn on the two segregated DAs and denominated in EUR, as currency of the Loan. Amounts estimated for financing of three-months expenditures in local, RSD currency, will be withdrawn from the two segregated DAs, converted in RSD and denominated into the Project record account in the MCTI.

Compliance with the CFA, deadline for Drawdown of the Loan under the CFA is April 30, 2028, and deadline for use of funds is the date of expiration of a twelve (12) month period starting on the payment date of the last Advance.

Although the Loan Closing Date is set as November 30, 2028, the Bank may decide, without formally extending this date, to disburse or approve the use of proceeds of the Loan under withdrawal applications received within four months after the Loan Closing Date for payments made or payments due for eligible expenditures incurred prior to the Loan Closing Date. Exceptionally, and upon the MCTI’s request, the Bank may decide to extend the period for receipt of such withdrawal applications.

## Payments

Respecting the provisions of the signed LA and the CFA, the Loan funds will be used for financing of the following:

Table 5 Categories of the eligible expenditures under the IBRD LA[[11]](#footnote-12)

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan**  **Allocated (expressed in USD)** | **Percentage of Expenditures  to be financed  [(excluded of Taxes)]** |
| (1) Goods, works, non-consulting services, and consulting services for the Project and Opearting Cost and training | *For details of budget and items please refer to the Loan Agreement* | 33 percent Project Expenditures |
| (2) Grants | *For details of budget and items please refer to the Loan Agreement* | 33 percent Project Expenditures |
| [(3)] Front-end Fee | *For details of budget and items please refer to the Loan Agreement* | Amount payable pursuant to the Section 2.03 of the LA in accordance with the Section 2.07 (b) of the General Conditions |
| [(4)] Interest Rate Cap or Interest Rate Collar premium | *For details of budget and items pease refer to the Loan Agreement* | Amount due pursuant to the Section 4.05 (c) of the General Conditions |
| [(5)] | *For details of budget and items please refer to the Loan Agreement* | [Amount due pursuant to the Section 2.07 (c) of the General Conditions] |
| TOTAL AMOUNT | 100,000,000 |  |

For the purpose of this table 5 above: the term “Project Expenditures” means the Eligible Expenditures to be jointly financed by the Loan and by the Co-financing to cover the total cost of the Project activities, which is estimated to be the equivalent of [EUR \_\_\_\_\_\_\_].]

Table 6: Categories of the eligible expenditures under CFA

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan**  **Allocated**  **(expressed in [EUR])** | **Percentage of Expenditures to be financed** |
| (1) Goods, works, non-consulting services, consulting services, Training and Operating Costs for the Project | *For details of budget and items please refer to the finance contract* | percent (inclusive of Taxes other than Value Added Tax and Customs Duties for works, goods and non-consulting services) |
| **TOTAL AMOUNT** |  |  |

Allowed methods of disbursement will be advances to the two seggregated DAs, one for each Loan - the Bank and the AFD respectively, direct payments, and reimbursements.

Payments will be done from (i) the Bank and the AFD – either as an advance, via two segregated DAs opened in the NBS, which will be replenished under transaction based disbursement method, or (ii) by direct payments on the basis of direct payment withdrawal applications (direct payments to the contractors/suppliers/service providers).

To facilitate the implementation of the joint financing arrangement with the AFD, two segregated DAs to receive proceeds for the IBRD Loan and the AFD Loan will be established. They will be opened in foreign currency in the NBS for the purpose of the Project implementation and will be managed by the MCTI, with assistance from the CFU, funded with advances from the Bank and the ADF Loans and used exclusively to cover the Project eligible expenditures (other than direct payments). Currency for denominating of the Loan funds on two segregated DAs will be EUR, as the Loan currency. Pursuant to the Clause 3.4.3 items b, c and d, advance from the AFD Loan can be initial, additional and final, and their use should be justified as defined by the provision of Clause 3.4.3, item e) in the CFA.

All payments to contractors/suppliers/consultants will be done in foreign currency in case that they are not local. In case they are local, the payments for implemented works, delivered services and/or purchased equipment will be according to the national legislation done in local currency, respectively RSD. For direct payments and/or payments from the DA in the NBS, the MCTI Financial Department with support of the CFU Financial Specialist will prepare a notification for the Treasury Administration. This account will be replenished by disbursements from the two segregated DAs opened in the NBS. Before invoicing for such payments, exchange rate will be provided to the relevant legal entity/ entrepreneur. Before payment, subject legal entity/ entrepreneur is obliged to register the invoice in the Central Invoice Register and inform the PIU/MCTI Financial department on the register number, regardless whether the payment is done from DA in the NBS or from the record account. Further, pursuant to the MCTI's internal procedures[[12]](#footnote-13), all payment to be done from the record account shall be accompanied with Internal Payment Order. The MCTI Financial Department will distribute to the CFU and the PIU statement for each account change.

### Payment of services

Payment for the service contracts shall be conducted considering the provisions of contract(s) and relevant ToR(s), respectively agreed payment schedule based on delivered and approved outputs.

Invoices shall be subject of approval of the PIU before submission to the CFU for payments approval.

Payment procedure is the same as for the invoices issued for the works.

### Payment of goods

Payment for supply contracts shall be conducted considering the provisions of contract(s) and relevant technical specifications, respectively agreed payment schedule based on delivered and accepted equipment/goods.

Payment procedure is same as for the invoices issued for the works.

### Payments for Infrastructure investment projects implemented by the LSG

The flow of funds for the strictly targeted grants will be based on downstream agreements signed between the MCTI and those LSGs with infrastructure investments accepted as eligible. The downstream agreements will take the form of Grant Agreements and the flow of funds will follow the national procedures for transfer of grants.

Funds related to infrastructure investments will be transferred from the respective DAs to separate accounts/sub-accounts in RSD held by the respective LSGs within local Consolidated Treasury Account to meet eligible project expenditures, provided that transactions and balances in these accounts are included in all Project financial reports.

The Grant under the Grant Agreement shall be (a) made on a non-reimbursable basis; and (b) disbursed by the PIU to the LSG in two tranches. The PIU shall disburse a (a) 50 percent advance upon the parties’ signing the GA; and (b) the remaining 50 percent upon the PIU’s and the CFU’s verification that (i) the Grant proceeds of the first tranche were used for intended purposes; and (ii) at least 80 percent of the first tranche was spent. The PIU and the CFU shall conduct the verification based on (a) the review of the Project financial reports prepared by the LSG; and (b) any additional terms and conditions set forth under this Manual.

Notwithstanding the formula reflected in the Manual to establish Grant amounts, the maximum amount: (i) of all Grants to a single LSG shall not exceed the equivalent of twenty-five million Dollars ($25,000,000); and (ii) of each Grant for a Subproject shall not be less than fifty thousand Dollars $50,000 or more than $10,000,000.

The LSGs will execute all payments to Contractors once IPCs have been approved and verified.

There shall be no payments for works executed prior signature of Supervision contract. Respectively, only after the Supervision Engineer signs the contract, implementation of signed contracts with contractors can commence. After procurement procedure is completed and contract with selected contractor is signed, the contractor is obliged to submit relevant documentation, such as performance security, advance payment security, retention money security, etc. Payment for works may occur only after the Supervision Engineer verifies that all required documents are submitted.

When invoicing, the contractor will calculate VAT separately on the pro-forma invoice and will issue pro-forma invoice in 5 (five) copies (one for each - the Supervision Engineer, the Tax Administration, the PIU/MCTI, the CFU and the Contractor). Exemption from the VAT will be done based on pro-forma invoice.

All invoices will be approved and signed by the Supervision Engineer before payments can be executed. The LSG will be responsible to monitor whether quality and quantity of executed works complies with the signed contract. The LSG will check completeness and accuracy of documents, their compliance with contract provisions, eligibility for payments from the Loan and will prepare payment order. The CFU and the PIU will assist the LSG in checking the eligibility and accuracy of the prepared payment order and completeness of submitted documents before its approved for payments.

# PROCUREMENT

## General

Efficient procurement in Bank financed projects is a prerequisite for the attainment of project objectives and timely disbursement of loan funds.

The procurement actions under different expenditure categories are described in general below. For each contract to be financed under the LA, the various procurement or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the Republic of Serbia and the Bank in the respective Procurement Plan (PP). The PP will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. A General Procurement Notice (GPN) will be published through STEP after approval of the LIID Project and prior to effectiveness in United Nations Development Business (UNDB) on-line and on the electronic system for public procurement hosted by the Public Procurement Bureau. Specific Procurement Notices (SPNs) will be published for all RFB-local market procurement and consulting contracts per Procurement Regulations for IPF Borrowers, as the corresponding bidding documents and requests for proposals (RFPs) become ready and available. Procurement notices for contracts following national market approach will be published in the electronic system for public procurement, hosted by the Public Procurement Bureau, and on the website of the MCTI, on the website of the respective municipality with regard to the infrastructure investments, and/or national newspapers with wide daily circulation.

The most recent Standard Procurement Documents applicable to the Procurement Regulations, available on the external Bank website at www.worldbank.org/procurement/standarddocuments shall be used for all the procurements under the Project, irrespective of their value. In exceptional cases and for small value procurements, altered bidding documents can be used based on prior approval from the Bank.

The rights and obligations of the Implementing Agency, the MCTI, and the providers of works, goods, non-consulting and consulting services for IPF operations are governed by the relevant request for bids/request for proposals document and by the contracts signed by the Implementing Agency and the providers of works, goods, non-consulting and consulting services, and not by the Procurement Regulations or the Loan Agreement.

The Bank will exercise its procurement oversight through a risk-based approach comprising prior and post review and independent procurement reviews, as appropriate. The post reviews in accordance with the applicable thresholds and review arrangements in the PP will be conducted on the procurement processes undertaken to determine whether they comply with the requirements of the LA.

Procurement will be carried out in accordance with the Bank’s “Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing Goods, Works, Non‐Consulting and Consulting Services”, dated November 2020. A Project Procurement for Strategy Development (PPSD) based on market analysis has been prepared with the help of the Bank. A detailed PP will be prepared for the first 18 (eighteen) months of the project based on the PPSD’s outcome before negotiations. All procurement documentation will be standardized according to the new policies and regulations which cater to open competition and transparent selection of contractors and individuals. The Project procurement communication and PP implementation will be performed through the Systematic Tracking of Exchanges in Procurement (STEP) system.

Procurement for works under the Subcomponent 1.1 for Investment in Climate Smart Mobility will be conducted based on a standardized template Bidding document for works, based on national contracts works adapted to meet the Bank Procurement regulations for IPF Borrowers. Procurement under this component will be the responsibility of each LSG with hands-on support from the Procurement Capacity Development Consultant to be recruited by the PIU and advice and guidance of the CFU.

The PIU, with the support of the CFU, is responsible for overall procurement quality assurance and is considered as the Implementing Agency. The PIU with the support of the CFU will conduct procurement of consultancy services and goods for the Project. Works and consultancy services (supervision and design) for the LSGs’ subprojects procurement will be conducted by respective LSG with necessary review and clearance by the PIU/CFU. The LSGs will be responsible for preparing the PP, bidding documents, bid evaluation report, contract award, and contract implementation including payment for services and works The PIU, with the support of the CFU, will approve bidding documents, bid evaluation report, and the amendment to the contract submitted by each of the LSGs. After necessary approval from the PIU on a specific procurement document (such as bidding document, bid evaluation, or contract amendment), respective LSG may proceed to the next procurement step or sign the amendment to the contract. The CFU will be strengthened with minimum two full-time specialists.

Bidding documents: The main procurement under this Project will be moderate value works (below USD 5 million) which will follow national procedure. The LSGs will be responsible for this procurement and will follow the model bidding document approved by the Bank. Model bidding document has been be prepared based on the Serbian standard works bidding document with necessary customization to make it consistent with the Bank’s Core Procurement Principles and to ensure that the Bank’s Anti-Corruption Guidelines and Sanctions Framework. Model Bidding Document for works has been prepared. The Model Bidding Document is given in Annex 5. CFU and PIU have only approval/control role.

For goods and consultancy (except design and supervision of works) for the Project components that are not to be procured by the LSGs, the PIU/CFU will be responsible for procurement and will use the Bank’s model bidding documents. The LSGs may use Project funds for design and supervision of works. In such a scenario, the LSGs will follow Bank’s Procurement Regulations for consulting services. The PIU will provide technical specifications to the CFU to develop procurement documents. The PIU, with the support of the CFU, will evaluate proposals.

Procurement of goods, works, and non-consulting services. Goods may be procured using procedures and methods (Request for Proposals, Request for Bids, Request for Quotations and Direct Selection) in accordance with the Section VI[[13]](#footnote-14).

Approved Selection Methods: Goods, Works and Non-Consulting Services of the Regulations. The PIU and the LSGs will provide technical support to the CFU to develop procurement documents.

### General Procurement Notice (GPN).

The GPN will be prepared by the CFU and submitted to the Bank after negotiations. The Bank will arrange for its publication in the UNDB online and on the Bank’s external website. The GPN will contain information concerning the Borrower (Republic of Serbia); amount and purpose of the financing; scope of procurement reflecting the PP; the contact point; if available, the address of a free-access website where the subsequent SPNs will be posted and; if known, an indication of the scheduled dates for the specific procurement opportunities.

### Major procurement categories under the Project.

The Project’s total value for is US$300 million. Under the Project works will total US$277 million, followed by goods and non-consulting services in the amount of US$5 million and consultancy services in the amount of US$18 million.

### The Client and the PIU Capability Assessment.

The works procurement is planned to be conducted by the LSGs with necessary fiduciary review and approval by the PIU, supported by the CFU, which will be responsible for all procurements under the Project.

If the LSGs decide to use Grant proceeds for project design and/or supervision, these will have to follow Bank procurement rules. The PIU will conduct goods and consultancy procurement centrally. It is the first time the LSGs in Serbia will follow the Bank’s Procurement Regulations. Although the model bidding document will be prepared based on Serbian standard bidding documents with necessary customizations, the LSGs capacity needs to be enhanced to manage the procurement appropriately.

The LSG will be primarily responsible for the Project execution, ensuring that the Project development objectives are met and that financial resources are budgeted, disbursed, expended, accounted and audited. In addition, the engagement of full-time Environmental specialists and Social Safeguard and CE specialist are envisaged for the Project. Currently, in the WBTTF Project, the selection process of the ESCE Expert is ongoing (part-time engagement). In addition, the PIU team of consultants for the Project will ensure support to the planning, coordination, implementation and monitoring of the Project performance.

The CFU will carry out the overall coordination, management, implementation and oversight of procurement and finance. It will be responsible for financial management; review and approval of procurement documents including bid evaluation reports; and assistance in capacity building support to the LSGs on fiduciary issues. The CFU was established to provide fiduciary support (procurement and financial management activities) to all Bank-supported projects in Serbia. It is currently comprised the following staff: the Director, the Head of Operations, 23 Procurement Specialists and 23 Financial Management Specialists. In addition, the MoF provides office and equipment for the CFU staff, and their salary is paid against operating costs of the investment projects it supports based on a rotation model. In addition, the CFU staff will be financed from the Project. The CFU has an Operation Manual, which was finalized on November 9, 2018.

### Procurement Risk

The Project will be highly decentralized, aiming at a sustainable increase of the LSG capacities in procurement. The procurement risk is assessed as "Substantial," considering decentralized procurement and its associated risks.

Procurement Risk Mitigation Measures:

To mitigate the procurement risk following measures are planned: (i) Use Serbian e-GP in phased approach; (ii) Introduce the Key Procurement Performance Indicator (KPPIs) for decentralized procurement managed by the LSGs; (iii) The CFU will be strengthened with one procurement specialists and one financial management specialist, (iv) Conduct customized procurement training, including fraud and corruption, to the LSGs’ procurement staff; (v) Introduce remote supervision using electronic tools/devices; (vi) Monthly reporting on contract monitoring following the format agreed with the PIU.

### Use of Serbian electronic Government Procurement

The LSGs may use the Serbian e-GP with necessary customization to make it consistent with the Bank's Core Procurement Principles. Customization of the e-GP needs some time; hence once the e-GP portal is ready to use activities under Bank-funded projects, then activities under this Project may use the e-GP system. The Project fund could be used to enhance this module to use for Bank-funded project procurements.

### Procurement KPIs for the LSGs Procurement

The following procurement KPIs will be monitored for the works procurement implemented by the LSGs.

|  |  |  |
| --- | --- | --- |
| SL | Procurement Steps / Subjects | Indicators |
| 1 | Receipt, evaluation, and contract award | Percentage of cases where the procurement process has been followed according to the approved procedures  Average number of bids per bidding process  Average number of days from advertisement to contract award |
| 2 | Delivery within the original schedule | Percentage of works completed within the original deadline as stated in the agreement/work order |
| 3 | Payments | Average number of days taken to release payment |
| 4 | Green Procurement | Percentage of cases Green Procurement aspect was considered in bidding document and contract agreement |
| 5 | Asset Tracking | Percentage of cases where assets are purchased/developed as per requirement and are in appropriate place |

### Procurement thresholds and prior review thresholds.

The PP sets forth those contracts which shall be subject to the Bank’s prior review. All other contracts shall be subject to post review. Draft PP is enclosed as Annex 6 of this Manual.

For the most part, the risks for selection of consulting services are low, since there is a robust market for the services required and they are not high value contracts. However, there are several high value contracts (> US$1 million) related to the selection of a firm. The firms will be selected using QCBS subject to prior review.

A significant consultancy (US$3.9 million) will involve contracting of TA for pilot development of missing SUMPS across Serbia by taking into consideration women, vulnerable groups, active mobility, and public transport and establishment of CoP and interactive guidelines. An assessment needs to be undertaken to decide whether the ToR will be prepared for one or more contracts in which case the risk may be reduced.

Individual consultants whose selection is currently underway under the Serbia Railway Sector Modernization (SRSM) Project are to continue their engagement under the LIID Project through Direct Selection (DS) as they will be selected on a competitive basis. These individual consultants include the following: the Head of PIU and the Deputy Head of the PIU. Moreover, M&E specialist to be competitively selected under SRSM as a part time consultant may be additionally hired for the LIID Project through DS.

## Procurement Planning

### Project Procurement Strategy for Development

The Project Procurement Strategy for Development (PPSD) and the PP (Annex 6) is developed by the MCTI. The PPSD is an ongoing appropriate procurement strategy for the procurement and could be updated as needed, at least after the Loan effectiveness. As a result of the PPSD, initial procurement plan for the MCTI is prepared. Then for each contract to be financed under the Project, the different selection methods for procurement, market approach, the need for pre-qualification, contracting arrangement, estimated costs, prior/post review requirements and time frame will be agreed by the Bank and listed in the PP. The PP was approved by the Bank taking into consideration the items needed, prevailing market conditions, activity level risk etc.

### STEP

The Systematic Tracking of Exchanges in Procurement system (STEP) is introduced to prepare and manage PP and procurement transactions under the Project, including preparing, updating and clearing its PP, and seeking and receiving the Bank’s review and No-objection to procurement actions as required.

Detailed PP for the Project has been prepared and uploaded in the STEP and is given in the Annex 6. The MCTI will use the STEP to create and publish all procurement notices under the Project, including the General and Specific Procurement Notices, Requests for Expression of Interest and Contract Award Notices, where required. The PP in agreement with the Bank Project team will be updated by the PIU at least annually to reflect the actual project implementation needs. The update of the PP should be based on the readiness of the selected LSGs infrastructure investments for implementation upon assessment of the quality and readiness by the PIU. The Bank shall approve such updated PP, and any bidding to select contractors, consultants or suppliers shall be implemented in accordance with the agreed PP or which has been agreed in writing with the Bank prior to the formal update of the PP in which this item/activity should be reflected. Only activities included in the PP agreed with the Bank may be procured and financed from the Loan proceeds.

### Procurement Arrangements and Management

The PIU, with the support of the CFU, is responsible for overall procurement quality assurance and is considered the Implementing Agency. The PIU with the support of the CFU will conduct consultancy services and procurement of goods for the Project. Works and consultancy services (supervision and design) for LSGs’ projects procurement will be conducted by respective LSG with critical review and clearance by the PIU/CFU. The LSGs will prepare the PP, bidding documents, bid evaluation report, contract award, and contract implementation. The PIU, with the support of the CFU, will approve bidding documents, bid evaluation reports, and the amendment to the contract submitted by each of the participating LSGs. After necessary approval from the PIU on a specific procurement document (such as bidding document, bid evaluation, or contract amendment), the respective LSG may proceed to the next procurement step or sign the amendment to the contract. In addition, the CFU will be strengthened with minimum 2 full-time specialists.

Bidding documents: The main procurement under this Project will be moderate value works (below USD 5 million), following national procedure. The LSGs will be responsible for this procurement and will follow the model bidding document approved by the Bank. Model bidding document has been prepared based on the Serbian standard works bidding document with necessary customization to make it consistent with the Bank’s Core Procurement Principles and ensure that the Bank’s Anti-Corruption Guidelines and Sanctions Framework. Model Bidding Document for works will be prepared by the Appraisal and shared with the MCTI. For goods and consultancy (except design and supervision of works) for the Project components that are not to be procured by the LSGs, the PIU/CFU will be responsible for procurement and use the Bank’s model bidding documents. In addition, LSGs may use Project funds for the design and supervision of works. In such a scenario, the LSGs will follow Bank Procurement Regulations for consulting services (supervision and design). In addition, the PIU will provide technical specifications to the CFU to develop procurement documents. The PIU, with the support of the CFU, will evaluate proposals.

## Procurement Methods

### Approved Selection Methods: Goods, Works and Non-consulting Services

#### Approved Selection Methods

Goods may be procured using procedures and methods (Request for Proposals, Request for Bids, Request for Quotations and Direct Selection) following the Section VI. Approved Selection Methods: Goods, Works and Non-Consulting Services of the Regulations. The PIU and the LSGs will provide technical support to the CFU to develop procurement documents.

The Bank defines the following as approved selection methods for goods, works and non-consulting services:

* + 1. Request for Proposals (RFP);
    2. Request for Bids (RFB);
    3. Request for Quotations (RFQ); and
    4. Direct Selection.

##### Request for Proposals

A RFP is a competitive method for the solicitation of Proposals. It should be used when, because of the nature and complexity of the goods, works and non-consulting services to be procured, the Borrower’s business needs are better met by allowing Proposers to offer customized solutions or Proposals that may vary in the manner in which they meet or exceed the requirement of the request for proposals document.

An RFP is normally conducted in a multi-stage process. To allow an evaluation of the degree to which Proposals meet the requirements of the request for proposals document the evaluation normally includes rated type criteria and an evaluation methodology.

##### Request for Bids

A RFB is a competitive method for the solicitation of Bids. It should be used when, because of the nature of the goods, works and non-consulting services to be provided, the Borrower is able to specify detailed requirements to which Bidders respond in offering Bids.

Procurement under this method is conducted in a single-stage process. Qualifying criteria (minimum requirements normally evaluated on a pass/fail basis) are normally used with RFB. Rated-type evaluation criteria are normally not used with RFB.

##### Request for Quotations

A RFQ is a competitive method that is based on comparing price quotations from firms. This method may be more efficient than the more complex methods for procuring limited quantities of readily available off-the-shelf goods or non-consulting services, standard specification commodities, or simple civil works of small value.

##### Direct Selection

Proportional, fit-for-purpose, and Value for Money (VfM) considerations may require a direct selection approach: that is, approaching and negotiating with only one firm. This selection method may be appropriate when there is only one suitable firm or there is justification to use a preferred firm.

Direct selection may be appropriate under the following circumstances:

* + 1. an existing contract, including a contract not originally financed by the Bank, for goods, works, or non-consulting services, awarded in accordance with procedures acceptable to the Bank, may be extended for additional goods, works, or non-consulting services of a similar nature, if:
       1. it is properly justified;
       2. no advantage could be obtained through competition; and
       3. the prices on the extended contract are reasonable;
    2. there is a justifiable requirement to re-engage a firm that has previously completed a contract, within the last 12 (twelve) months, with the Borrower to perform a similar type of contract. The justification shall show that:
       1. the firm performed satisfactorily in the previous contract;
       2. no advantage may be obtained by competition; and
       3. the prices for the direct contracting are reasonable;
    3. the procurement is of both very low value and low risk, as agreed in the PP;
    4. the case is exceptional, for example, in response to Emergency Situations;
    5. standardization of goods that need to be compatible with existing goods may justify additional purchases from the original firm, if the advantages and disadvantages of another brand or source of equipment have been considered on grounds acceptable to the Bank;
    6. the required equipment is proprietary and obtainable from only one source;
    7. the procurement of certain goods from a particular firm is essential to achieve the required performance or functional guarantee of an equipment, plant, or facility;
    8. the goods, works, or non-consulting services provided in Serbia by an state owned enterprise, university, research center or institution of the Republic of Serbia are of a unique and exceptional nature; or
    9. direct selection of the United Nations Agencies.

In all instances of direct selection, the Republic of Serbia, as the Borrower, shall ensure that:

* + 1. the prices are reasonable and consistent with the market rates for items of a similar nature; and
    2. the required goods, works, or non-consulting services are not split into smaller-sized procurement to avoid competitive processes.

#### Market Approach Options

##### Open Competition

An open competitive approach to market is the Bank’s preferred approach as it provides all eligible prospective Bidders/Proposers with timely and adequate advertisement of a Borrower’s requirements and an equal opportunity to bid/propose for the required goods, works, or non-consulting services. Any approach, other than open competition, shall be justified by the Borrower. Any such approach shall be stated in the PP.

##### Limited Competition

A limited competitive approach to market is by invitation only, without advertisement. It may be an appropriate method of selection where there are only a limited number of firms or there are other exceptional reasons that justify departure from open competitive procurement approaches.

##### Approaching the International Market

Approaching the international market (international competitive procurement), is appropriate when the participation of foreign firms will increase competition and may assure the achievement of best VfM and fit-for-purpose results.

Open international competitive procurement, for which international advertisement is required in accordance with these Procurement Regulations, is the preferred approach for complex, high-risk, and/or high-value contracts. The Bank has set specific thresholds for this purpose. (see Guidance on Country Thresholds[[14]](#footnote-15))

##### Approaching the National Market

As agreed in the PP, approaching the national market may be appropriate when the procurement is unlikely to attract foreign competition because of:

* + 1. the size and conditions of the market;
    2. the value of the contract;
    3. activities that are scattered geographically, spread over time, or are labor- intensive; or
    4. the goods, works, or non-consulting services are available locally at prices below the international market.

Approaching the national market may also be appropriate when the advantages of approaching the international market are clearly outweighed by the administrative or financial burden involved.

If foreign firms wish to participate in open national competitive procurement, they are allowed to do so on the terms and conditions that apply to national firms.

When approaching the national market, the country’s own procurement procedures may be used.

##### Prequalification and Initial Selection

Goods, and Non-consulting Services

Prequalification and Initial Selection are processes used to shortlist applicants in the procurement of goods, and non-consulting services. These processes ensure that only those with appropriate and adequate capacity, capability and resources are invited to submit Bids/Proposals. In undertaking a Prequalification or Initial Selection the Borrower shall use the Bank’s Standard Prequalification document/Initial Selection document.

Prequalification or Initial Selection is appropriate for large or complex contracts, or in other circumstances, such as: the need for custom-designed equipment, plant, specialized services, some complex information and technology, procurement under turnkey, design and build, or management contracting in which the high costs of preparing detailed Bids/Proposals could discourage competition.

The assessment of an Applicant’s qualifications shall not take into consideration the qualifications of other firms such as its subsidiaries, parent entities, affiliates, subcontractors (other than specialized subcontractors if permitted in the Prequalification/Initial Selection document), or any other firm different from the firm that submitted the Prequalification/Initial Selection Application.

When the time elapsed between the Borrower’s decision on the list of prequalified/ initially selected Applicants and the issuance of request for bids/request for proposals documents is longer than twelve (12) months, the Bank may require that a new Prequalification/Initial Selection process is conducted through re-advertisement.

##### Prequalification

Prequalification is normally used with Requests for Bids and is optional depending on the nature and complexity of the goods, or non-consulting services. In Prequalification, minimum requirements are normally assessed on a pass/fail basis against such criteria as: eligibility, experience, technical capability and financial resources. These take into account objective and measurable factors such as: experience, satisfactory past performance, successful completion of similar contracts over a given period, capability of construction and/or manufacturing facilities, financial situation, and eligibility. All Applicants that substantially meet the minimum qualification requirements are invited to submit a Bid.

At the end of the Prequalification process, the Borrower shall inform all Applicants of the results of the Prequalification. The invitation to submit a Bid to a prequalified Applicant shall include the names of all prequalified Applicants.

##### Initial Selection

Initial Selection shall normally be used with Request for Proposals and shall be used for all Competitive Dialogue processes. It enables the Borrower to invite only the highest ranked Applicants to submit Proposals. Initial selection involves a two-step process. The first step is similar to the Prequalification process described above. This establishes the long-list of Applicants. Long-listed Applicants are then evaluated against rated criteria. After ranking the combined rated criteria scores the Borrower selects the highest ranked Applicants to submit Proposals. The Borrower shall state in the initial selection document, the range of Applicants that may be Initially Selected.

At the end of the Initial Selection process, the Borrower shall inform all Applicants of the results of the Initial Selection. The invitation to submit a Proposal to an Initially Selected Applicant shall include the names of all Initially Selected Applicants.

##### Post-Qualification

If Bidders/Proposers have not been prequalified/ initially selected, the Borrower shall specify appropriate qualification requirements in the request for bids/request for proposals document to verify that a Bidder/Proposer that would be recommended for contract award has the capability and resources to effectively carry out the contract. The assessment of a firm’s qualifications shall not take into consideration the qualifications of other firms such as its subsidiaries, parent entities, affiliates, subcontractors (other than specialized subcontractors if permitted in the request for bids/request for proposals document), or any other firm different from the firm that submitted the Bid/Proposal.

##### Single Stage One-Envelope

Single-stage procurement is most appropriate when the specifications and requirements are sufficient to enable submissions of complete Bids/Proposals. Single stage-one envelope procurement requires submission of both technical and financial Bids/Proposals in one envelope.

##### Single Stage Two-Envelope

If appropriate, a two-envelope process may be used in single-stage procurement. The first envelope contains the qualifications and technical part and the second envelope the financial (price) part; the two-envelope are opened and evaluated sequentially.

Use of Rated-type Evaluation Criteria

Rated-type criteria are criteria that are evaluated on merit points as they cannot be fully assessed in monetary terms. The merit points assigned are normally based on the degree to which the Proposal meets or exceeds the requirements detailed in the request for bids/request for proposals document.

#### Particular Types of Contractual Arrangements

### Approved Selection Methods: Consulting Services

Procurement of consulting services will use the Bank standard procurement documents. Selection methods are: Quality Cost Based Selection (QCBS), Fixed Budget Selection, Least Cost Selection (LCS), or Quality Based Selection (QBS) following provisions of Regulations for Borrowers, Section VII. Approved Selection Methods: Consulting Services. Individual consultants are selected from those that expressed interest in response to a REOI or through limited competitive selection. For direct selection of individual consultants, due justifications under the circumstances, as specified in para. 7.39 of Section VII of the Regulations, apply. Subject to prior approval of the Bank, selection of all individual consultants, pursuant PP is envisaged to be conducted through open competitive selection.

#### Approved Selection Methods

The following are approved selection methods for Consulting firm:

* + 1. Quality Cost Based Selection (QCBS);
    2. Fixed Budget Based Selection (FBS);
    3. Least Cost Based Selection (LCS);
    4. Quality Based Selection (QBS);
    5. Consultant’s Qualifications Based Selection (CQS); and,
    6. Direct Selection.

##### Quality and Cost-based Selection

QCBS is a competitive process among shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the Proposal and the cost of the services. The request for proposals document shall specify the minimum score for the technical proposals. The relative weight to be given to the quality and cost depends on the nature of the assignment. Among the proposals that are responsive to the requirements of the request for proposals document and are technically qualified, the proposal with the highest combined (quality and cost) score is considered the Most Advantageous Proposal.

##### Fixed Budget-based Selection

Like QCBS, the FBS is a competitive process among shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the proposal and the cost of the services. In the request for proposals document, the cost of services is specified as a fixed budget that shall not be exceeded. FBS is appropriate when:

* + 1. the type of Consulting Service required is simple and can be precisely defined;
    2. the budget is reasonably estimated and set; and
    3. the budget is sufficient for the firm to perform the assignment.

The request for proposals document specifies the budget and the minimum score for the technical proposals. The proposal with the highest technical score that meets the fixed budget requirement is considered the Most Advantageous Proposal.

##### Least Cost-based Selection

Similar to QCBS, the LCS is a competitive process among shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the proposal and the cost of the services. LCS is generally appropriate for assignments of a standard or routine nature (such as engineering designs of non-complex works), for which well-established practices and standards exist.

The request for proposals document specifies the minimum score for the technical proposals. Among the proposals that score higher than the minimum technical score, the proposal with the lowest evaluated cost is considered the Most Advantageous Proposal.

##### Quality-based Selection

Under the QBS, the Proposal quality is evaluated without using cost as an evaluation criterion. If the request for proposals requests both technical and financial proposals, the financial proposal of only the highest technically qualified firm is opened and evaluated to determine the Most Advantageous Proposal. However, if the request for proposals document requests only technical proposals, the firm with the highest-ranked technical proposal is invited to submit its financial proposals for negotiations.

The QBS is appropriate for the following types of assignments:

* + 1. complex or highly specialized assignments for which it is difficult to define precise ToR and the input required from the firm, and for which the Borrower expects the firm to demonstrate innovation in its proposals;
    2. assignments that have a high downstream impact; and
    3. assignments that can be carried out in substantially different ways, so that proposals will not be comparable.

##### Consultant’s Qualification-based Selection

The Borrower shall request expressions of interest (REoI), by attaching the ToR to the REoI. At least three qualified firms shall be requested to provide information about their relevant experience and qualifications. From the firms that have submitted an EoI, the Borrower selects the firm with the best qualifications and relevant experience and invites it to submit its technical and financial proposals for negotiations. Advertisement of REoIs is not mandatory.

The CQS is appropriate for small assignments or Emergency Situations in which preparing and evaluating competitive proposals is not justified.

##### Direct Selection

Proportional, fit-for-purpose, and VfM considerations may require a direct selection (single-source or sole-source selection), approach, that is: approaching and negotiating with only one firm. This selection method may be appropriate when only one firm is qualified, a firm has experience of exceptional worth for the assignment, or there is justification to use a preferred firm.

Direct selection may be appropriate under the following circumstances:

* + 1. an existing contract for consulting services, including a contract not originally financed by the Bank but awarded in accordance with procedures acceptable to the Bank, may be extended for additional consulting services of a similar nature, if it is properly justified, no advantage may be obtained by competition, and the prices are reasonable;
    2. for tasks that represent a natural continuation of previous work carried out by a Consultant within the last 12 months, where continuity in the technical approach, experience acquired, and continued professional liability of the same Consultant may make continuation with the initial Consultant preferable to a new competition, if performance has been satisfactory in the previous assignment(s);
    3. there is a justifiable requirement to reengage a firm that has previously completed a contract with the Borrower to perform a similar type of consulting service. The justification shows that the firm performed satisfactorily under the previous contract, no advantage may be obtained by competition, and the prices are reasonable;
    4. the procurement is of both very low value and low risk, as agreed in the PP;
    5. in exceptional cases, for example, in response to Emergency Situations;
    6. only one firm is qualified, or one firm has experience of exceptional worth for the assignment;
    7. the consulting services provided in Serbia by an SOE, university, research center, or institution of the Borrower’s country are of a unique and exceptional nature, or
    8. direct selection of the UN Agencies.

In all instances of direct selection, the Borrower shall ensure fairness and equity, and shall have in place procedures to ensure that:

* + 1. the prices are reasonable and consistent with the market rates for services of a similar nature; and
    2. the required consulting services are not split into smaller-size procurements to avoid competitive processes.

#### Selection Procedures for Consulting Firms

##### Shortlist

The preparation of a Shortlist of firms to provide consulting services is required for all selection methods except CQS and Direct Selection. The Borrower prepares the Shortlist of firms that have expressed interest and have the relevant experience and managerial and organizational capabilities for the assignment.

The Shortlist shall include not fewer than five (5) and not more than eight (8) eligible firms. The Bank may agree to Shortlists comprising a smaller number of firms when not enough qualified firms have expressed interest in the assignment, not enough qualified firms could be identified, or the size of the contract or the nature of the assignment does not justify wider competition.

The following is not normally be included in the same Shortlist with private sector firms:

* + 1. The UN Agencies; or
    2. SOEs or institutions and not-for-profit organizations (such as NGOs, and universities), unless they operate as commercial entities.

If such entities are included in the list, the selection should normally be made using QBS or CQS. The Shortlist shall not include individual Consultants.

##### Request for Proposals

The Shortlisted firms are invited to respond to the request for proposals document using one of the approved selection methods. In determining the right selection method for Consultants, quality aspects are particularly critical. Selection based on lowest price only may not deliver the best VfM.

#### Market Approach Options

##### Open Competition

An open competitive approach to market provides all eligible prospective firms or individual Consultants with timely and adequate advertisement of a Borrower’s requirements and an equal opportunity to provide the required Consulting Services. Open, competitive procurement approaches, including the advertisement for EoI, is the preferred approach for Bank-financed selection of Consultants.

##### Limited Competition

Limited competition is competitive selection in which the Borrower prepares a Shortlist without advertisement. It may be appropriate when there are only a limited number of qualified Consultants that can carry out the subject assignment, or other justifiable exceptional reasons. Borrowers shall seek EoIs from a list of potential Consultants that is broad enough to ensure adequate competition.

##### Approaching the International Market

An open international competitive procurement/selection market approach, with mandatory international advertisement in accordance with these Procurement Regulations, is used when the participation of foreign firms is most likely to achieve the best fit-for-purpose and VfM.

##### Approaching the National Market

As agreed in the PP, national selection through advertisement in the national media/press may be used when the nature, scope, and/or value of the Consulting Services is unlikely to attract foreign competition and there are adequate qualified national Consultants to carry out the assignments. If foreign Consultants wish to participate in national selection, they may do so. When approaching the national market, the country’s own procurement procedures may be used.

#### Project Implementation Support Personnel

Project implementation staff, individuals contracted by the Borrower to support Project implementation, other than individual consulting positions identified in the Legal Agreement, may be selected by the Borrower according to its personnel hiring procedures for such activities, as reviewed and found acceptable by the Bank.

#### Approved Selection Methods for Individual Consultants

Individual Consultants are selected for an assignment for which:

* + 1. a team of experts is not required;
    2. no additional home office professional support is required; and
    3. the experience and qualifications of the individual are of paramount requirement.

When coordination, administration, or collective responsibility may become difficult because of the number of individuals, it is advisable to employ a firm. When qualified individual Consultants are unavailable or cannot sign a contract directly with a Borrower because of a prior agreement with a firm, the Borrower may invite firms to provide qualified individual Consultants for the assignment. In all cases, individual Consultants selected to be employed by the Borrower shall be the most experienced and best qualified among the candidates, and shall be fully capable of carrying out the assignment. The evaluation shall be based on the relevant qualifications and experience of the individual Consultant.

##### Open Competitive Selection of Individual Consultants

Advertisement through REoIs is encouraged, particularly when the Borrower does not have knowledge of experienced and qualified individuals, or of their availability, the services are complex, there is potential benefit from wider advertising, or advertising is mandatory under national law.

REoIs shall include complete ToR. Individual Consultants are selected from those that expressed interest in response to a REoI.

##### Limited Competitive Selection of Individual Consultants

When the Borrower has knowledge of experienced and qualified individuals and their availability, instead of issuing a REoI, it may invite those individual Consultants that it deems qualified to provide the required consulting services. The complete ToR shall be sent with the invitation. Individual Consultants shall be selected from those that expressed interest in response to the invitation.

##### Direct Selection of Individual Consultants

Individual Consultants may be selected on direct selection basis, with due justifications, under the following circumstances:

* + 1. tasks that are a continuation of previous work that the individual Consultant has carried out after being selected competitively;
    2. assignments with a total expected duration of less than six months;
    3. urgent situations; or
    4. when an individual Consultant has relevant experience and qualifications of exceptional worth to the assignment.

### Operating costs

These expenditures cover costs associated with the Project implementation as provided in the Loan Agreement. The Procurement Regulations do not apply for these expenditures.

Operating costs also include the CFU billing i.e. the CFU staff salaries in gross amount and reimbursable costs of possible official trips which will be shared between active projects based on defined rotation model agreed with the Bank. Operating costs include training, conferences, study tours and seminars for PIU/CFU staff.

### Post Review Ratio

Contracts not subject to the Bank’s prior review would be subject to post review by the Bank’s procurement specialist. Post review of contracts will be carried out at least once per year.

### Fraud and Corruption

It is the Banks' policy to require that Borrowers (including beneficiaries of Bank loans), bidders, suppliers, contractors and their agents (whether declared or not) subcontractors, sub-consultants, service providers or suppliers, and any personnel thereof, observe the highest standard of ethics during the procurement and execution if Bank-financed contracts. In pursuance of this policy, the Bank may take actions as described in Section III - Fraud and Corruption and in Fraud and Corruption of the World Bank’s Procurement Regulations for IPF Borrowers. Date of applicable Regulations is incorporated in the LA, in Definitions annex, while PP and Anti-Corruption Guidelines are incorporated in the General conditions for the IBRD Investment Projects Financing.

The MCTI shall ensure that the Project is carried out in accordance with the Anti-Corruption Guidelines e.g. The Bank’s Anti-Corruption Guidelines (“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 as of July 1, 2016.

In pursuance of this policy, the Bank defines, for the purposes of this provision, the terms set forth below as follows:

1. “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;
2. “fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;
3. “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
4. “coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;
5. “obstructive practice” is:

* deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or
* act intended to materially impede the exercise of the Bank’s inspection and audit rights.

Additionally, the Bank:

1. Rejects a proposal for award if it determines that the firm or individual recommended for award, any of its personnel, or its agents, or its sub-consultants, sub-contractors, service providers, suppliers and/or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;
2. In addition to the legal remedies set out in the relevant Legal Agreement, may take other appropriate actions, including declaring misprocurement, if the Bank determines at any time that representatives of the Borrower or of a recipient of any part of the proceeds of the loan engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the procurement process, selection and/or execution of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner at the time they knew of the practices;
3. Sanctions, pursuant to the Bank’s Anti-Corruption Guidelines and in accordance with its prevailing sanctions policies and procedures as set forth in the WBG’s Sanctions Framework any firm or individual – determined at any time by the Bank to have engaged in Fraud and Corruption in connection with the procurement process, selection and/or execution of a Bank-financed contract;
4. Requires that a clause be included in request for bids/request for proposals documents and in contracts financed by a Bank loan, requiring bidders (applicants/proposers), consultants, contractors, and suppliers; and their sub-contractors, sub-consultants, agents, personnel, consultants, service providers or suppliers, permit the Bank to inspect1 all accounts, records and other documents relating to the procurement process, selection and/or contract execution, and to have them audited by auditors appointed by the Bank;
5. Requires that, for Bank-financed operations to be implemented utilizing national procurement arrangements, as well as PPPs, agreed by the Bank, bidders (applicants/proposers) and consultants submitting bids/proposals will be required to accept the application of, and agree to comply with, the Anti-Corruption Guidelines during the procurement process, selection and/or contract execution, including the Bank’s right to sanction as set forth in paragraph 2.2 d of said Guidelines, and the Bank’s inspection and audit rights as set forth in paragraph 2.2 e. Borrowers shall consult and apply the WBG’s lists of firms and individuals suspended or debarred. In the event a Borrower signs a contract with a firm or an individual suspended or debarred by the WBG, the Bank does not finance the related expenditures and may apply other remedies as appropriate; and
6. Requires that, when a Borrower selects a UN agency to provide goods, works, non-consulting services and technical assistance services in accordance with paragraphs 6.47-6.48 and 7.27-7.28 of Bank’s Procurement Regulations under an agreement signed between the Borrower and the UN agency, the above provisions of paragraph 2 of this annex regarding sanctions on Fraud and Corruption shall apply in their entirety to all contractors, consultants, sub-contractors, sub-consultants, service providers, suppliers, and their employees, that signed contracts with the UN agency. As an exception to the foregoing, paragraphs 2.2 d. and 2.2 e. do not apply to the UN agency and its employees, and paragraph 2.2 e. does not apply to the contracts between the UN agency and its service providers and suppliers. In such cases, the UN agency applies its own rules and regulations for investigating allegations of Fraud and Corruption, subject to such terms and conditions as the Bank and the UN agency may agree, including an obligation to periodically inform the Bank of the decisions and actions taken. The Bank retains the right to require the Borrower to invoke remedies such as suspension or termination. UN agencies shall consult the World Bank Group’s lists of firms and individuals suspended or debarred. In the event a UN agency signs a contract or purchase order with a firm or an individual suspended or debarred by the WBG, the Bank does not finance the related expenditures and may apply other remedies as appropriate.

With the specific agreement of the Bank, a Borrower may introduce in to the request for bids/request for proposals document for contracts financed by the Bank, a requirement that the bidder or consultant include in the bid or proposal an undertaking of the bidder or consultant to observe, in the Procurement Process, the country’s laws against fraud and corruption (including bribery) as such laws have been identified in the request for bids/request for proposals documents. The Bank will accept the introduction of such a requirement at the request of the Borrower, provided the arrangements governing the undertaking are satisfactory to the Bank.

The following measures will be applied to mitigate governance and corruption risks:

* Training of fiduciary staff starting from project launch and periodically thereafter; training will be customized to the procedures and methods required for the next 12-month periods. The relevant project staff shall attend relevant Regional Procurement Workshops periodically organized by the Bank.
* Prior review: There will be close implementation support by the Bank’s operational and procurement accredited staff. This will include but is not limited to technical prior review of ToR, technical documentation for the first set of buildings to be retrofitted under the Project, all civil works contract amendments introducing new items or quality of materials, as well as other aspects, as reflected in the Governance and Accountability Action Plan and/or agreed with the Bank team during implementation of the project.
* Publication of Advertisements and Contracts: All publications for advertisements and contract awards will be published in local newspaper and on the MCTI’s external website.
* Debarred Firms: Appropriate attention will be given to ensuring that debarred firms or individuals (to be verified from the Bank’s external website) are not given opportunities to compete for Bank-financed contracts.
* Temporarily suspended firms: Appropriate attention will be given to ensuring that temporarily suspended firms or individuals (to be verified through Client Connection) are not given opportunities to compete for Bank-financed contracts.
* Complaints: All complaints by bidders will be handled. A special protocol will be developed for the purpose of establishing and operating the Committee. The protocol, once agreed with the Bank and adopted by the MCTI is an integral part of this Manual.
* Monitoring of contract awards: All contracts are required to be signed within the validity of the bids/proposals and, in case of contracts subject to prior review, promptly after the Bank’s “no objection” is issued. The PP format will include information on actual dates (of “no objections” and award) and will be monitored for undue delay which will be reviewed on a case-by-case basis to identify the reasons. The PIU/CFU will maintain up-to-date procurement records available to the Bank staff and auditors.
* Monitoring of payment against physical progress: Monitoring reports prepared for the Bank will be customized to include a form to monitor physical progress compared to payment instalments.
* Timeliness of payments: Payment to contractors, suppliers and consultants will be monitored through semi-annual Interim un-audited financial reports to ensure timely payments. The PIU/CFU will maintain a system/database (acceptable to the Bank) covering procurement, contract administration and financial management to (a) monitor all commitments and unpaid obligations, (b) ensure sufficiency of uncommitted funds before entering into obligations, (c) track payments to ensure that payments to suppliers and contractors are paid without delay according to the conditions of the contract.

As mentioned above a firm or an individual sanctioned in accordance with Fraud and Corruption of the World Bank’s Procurement Regulations for IPF Borrowers or in accordance with the WBG anti-corruption policies and as per sanctions procedures shall be ineligible to be awarded a Bank-financed contract, or to benefit from a Bank-financed contract, financially or in any other manner, during such period of time as the Bank shall determine. The supplier, contractor, consultant (firm or individual) selected following the procedure will be checked at list of temporarily sanctioned firms in the client connection and list of debarred firms at Bank’s external website <http://www.worldbank.org/html/opr/procure/debarr.html>

The CFU and the LSGs will observe the Bank’s anti-corruption measures and will not engage services of firms and individuals debarred by the Bank.

### Eligibility and Mitigation of Conflict of Interest

Bank policy addresses eligibility (Section III) and noncompliance (Section III), as a basis for ineligibility, in the Bank’s Procurement Regulations for IPF Borrowers.

Each person serving as a member of the evaluation committee, or who is otherwise involved in a procurement process, shall disclose to the Head of the PIU if they, or any of their immediate family members, are related or otherwise connected to any of the members of the boards of directors or commissioners of the bidders and/or consultants participating in any of the procurement packages (“Interested Member”). Any Interested Member shall exempt himself or herself from further participation in the evaluation process, and any Interested Member who is an official shall refuse himself or herself from any decisions relating to the evaluation process or contract award.

Each Member of the Evaluation Committee before the evaluation process starts, will sign a Declaration of Impartiality and Confidentiality.

### Retention of Procurement and Record Keeping

The PIU shall maintain the procurement documentation depending on the procurement method, as following: copies of all public advertisements, pre-qualification documents (if used), evaluation reports, bidding documents, bid opening minutes, evaluation report (that shall include a detailed record of the reasons used to accept or reject each bid, original Bids/Proposals; all documents and correspondence related to the procurement and execution of the contract, including those in support of the evaluation of Bids/Proposals; and the recommendation for award made, complaints against procedures or recommendation for award, signed copy of the contract and all subsequent amendments or addenda, securities, payment invoices or certificates, as well as the certificates for the inspection, delivery, completion, and acceptance of goods, works, and non-consulting services, for contracts awarded on the basis of direct procurement (the documentation shall include justifications for using the method etc.).

The CFU **shall** maintain systematically the records of the entire procurement process. The documentation with respect to each contract not subject to prior review during Project implementation and up to two years after the closing date of the Project should be kept on file. This documentation would include: (i) signed original of each contract and all subsequent amendments or addendums; (ii) all documents and correspondence related to the procurement and implementation of the contract; and (iii) payment invoices or certificates, as well as the certificates for the inspection, delivery, completion and acceptance of goods, works, and non-consulting services etc. All valuable documents i.e. all kinds of securities, financial proposals, etc. shall be kept in secured place.

The LSGs **shall** maintain systematically the records of the entire procurement process related to infrastructure investments and service contracts (if relevant). The documentation with respect to each contract not subject to prior review during Project implementation and up to two years after the closing date of the Project should be kept on file. This documentation would include: (i) signed original of each contract and all subsequent amendments or addendums; (ii) all documents and correspondence related to the procurement and implementation of the contract; and (iii) payment invoices or certificates, as well as the certificates for the inspection, delivery, completion and acceptance of goods, works, and non-consulting services etc. All valuable documents i.e. all kinds of securities, financial proposals, etc. shall be kept in secure places.

### Advertisements

For international procedures, the procurement notices will be published automatically through the STEP on the Bank’s external website and the UNDB, as well as locally on the MCTI’s website.

### Evaluation Committees

The PIU (under the guidance of the CFU) needs to ensure that qualified bid/proposal evaluation committees are formed in a manner acceptable to the Bank. The LSGs will ensure the same for infrastructure investments/civil works and works related service contracts.

The Evaluation Committee of the LSGs is responsible for evaluation of bids for civil works and EoIs for services respectively, including technical and financial proposals for consultant services and preparing recommendations on contract award for the best evaluated bid or proposal. The Evaluation Committees established by the PIU will be responsible for evaluation of bids for goods and EoIs for services, including technical and financial proposals for consultant services and preparing recommendations on contract award for the best evaluated bid or proposal. The CFU will support the PIU in approving the LSG procurements, bidding documents, bid evaluation reports, and amendments to the contracts submitted by the LSGs.

The Evaluation Committee will consist of three to five (odd number due to the voting rights) qualified members, depending on the size and complexity of assignment, including a chairperson. Each Committee will include at least one deputy member who can replace any absent voting member.

If required, the Bank will review qualifications and experience of proposed members of Evaluation Committee to avoid nomination of unqualified or biased candidates. Once an activity has commenced all information is considered confidential and no communication with interested consultants, contractors may take place. Prior to commencing the selection process/bidding process each Committee member is expected to sign Declaration of Confidentiality and Impartiality. The process of evaluation of proposals in selection of consultant's services as well as evaluation of bids in procurement of goods shall be confidential and will be conducted in accordance to Evaluation Criteria of the World Bank’s Procurement Regulations for IPF Borrowers. If the MCTI lacks the expertise to carry out the evaluation, it may hire an independent consultant to assist the Evaluation Committee.

Evaluation reports and award recommendations made by the Evaluation Committee shall be furnished to the Bank for no objection if the contract is subject to its prior review, or for review and award for contract subject to post review. Subsequently the designated decision-making authority, the PIU will sign contracts for procurement of goods and services. The LSGU will sign contracts for procurement of works and works related services.

In case of rebidding, the call for bids in a repeated procurement process shall be made only after obtaining the Bank’s approval. Any act of nonconformity by any of the parties participating in the process shall be regulated in accordance with the respective provisions of the World Bank’s Procurement Regulations for IPF Borrowers.

.

## Complaints management and dispute resolution systems

Procedure for administration and handling procurement complaints shall be in accordance with Procurement-related Complains of the Applicable Procurement Regulations.

## Misprocurement

Misprocurement, if occurred, may be declared in accordance to Section–Noncompliance.

## The World Bank standard sample Procurement Documents

The most recent Standard procurement documents applicable to the Procurement regulations, available on its external website at [www.worldbank.org/procurement/standarddocuments](http://www.worldbank.org/procurement/standarddocuments) www.worldbank.org/procurement/standarddocuments shall be used for all the procurements under the Project, except for civil works, irrespective of their value. For civil works a model bidding document (BDs) will be used. These are BDs used in the country with 3 additional clauses from the bank on anticorruption, audit, and ESHS. In exceptional cases and for small value procurements, altered bidding documents can be used based on prior approval from the World Bank.

# STAKEHOLDER ENGAGEMENT AND GRIEVANCE MANAGEMENT

For the Project a Standalone Stakeholder Engagement Plan (SEP) has been adopted. The objective of this SEP is to identify different stakeholder groups and provide a strategic framework for their engagement throughout the Project lifecycle. A specific SEP, that will propose concrete action plans for each project activity will be prepared as soon as details of the activities are available.

The SEP thus presents how the PIU plans to communicate with stakeholders who may be affected by or will be interested in the Project throughout its whole life cycle. It also describes a grievance mechanism, which is a process stakeholder may use to raise any concerns about the Project providing their opinions that may influence the Project implementation and its results.

The purpose of the Project-level SEP is, therefore, to enhance stakeholder engagement throughout the Project, and lay out a framework which will enable stakeholder engagement in line with the laws of the Republic of Serbia, as well as the requirements of the Bank.

## Project Grievance Mechanism

A Project level Grievance Mechanism (GM) shall be established by the MCTI/PIU, consisting of Central Feedback Desk (CFD) administered by the PIU and sub-project specific Local Grievance Admission Desks (LGAD) (collectively referred to as Grievance Mechanism (GM)).

The Central Feedback Desk (CFD) shall be established prior to commencement of any activities under the Project to manage and appropriately answer complaints during its different phases while the LGAD shall be effective upon decision on each new subproject has been taken. The CFD shall be responsible for overall grievance administration, while the LGAD shall serve as local admission point for uptake of grievances and acknowledgment of grievance receipt through the local avenues, established and administered by the local governments with representatives from the key stakeholders (i.e. the PIU representative, LSG’s representative and the representative of the local communities). In addition to the GM, legal remedies available under the national legislation are also available (courts, inspections, administrative authorities etc.).

To ensure GM access, communities, and other stakeholders may submit grievances through channels as outlined below. The GM will provide the opportunity for continued feedback on the subprojects and resolution of individual grievances during implementation. Procedures related to complaints handling will be posted on the MCTI website to ensure full transparency.

The GM shall serve as both the Project level information centre and grievance mechanism, available to those affected by implementation of all Project subcomponents and be applicable to all Project activities and relevant to all local communities affected by project activities. The GM shall be responsible for receiving and responding to grievances and comments of the following groups:

* A person/legal entity directly affected by the Project,
* A person/legal entity directly affected by the Project through land acquisition and resettlement,
* People interested in the Project, and
* Residents/communities interested in and/or affected by Project activities.

The MCTI/PIU will cooperate with the LSGs in joint efforts to establishing functioning GM and informing stakeholders about the GM role and function, the contact persons, admission channels, and the procedures to submit a complaint in the affected areas. Information on the GM will be available:

* On the website of the MCTI (http://www.mgsi.gov.rs/)
* On the notice boards and websites of the LSGs
* Through social media campaigns.

Although the Project’s Sexual Exploitation and Abuse/Sexual Harassment risk was assessed as low (because of (i) the expected local employment and (ii) expected low number of workers on construction sites) the GM will, on a precautionary base, be enabled to recognize SEA/SH grievances. Such grievances will be managed separately by a trained expert, but will use the same process value chain and timeframes. The necessary training for the appointed staff member who is to deal with such grievances will be provided.

## World Bank Grievance Redress Services

Communities and individuals who believe that they are adversely affected by a Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the Bank’s non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and the Bank Management has been given an opportunity to respond. The information on how to submit complaints to the Bank’s corporate Grievance Redress Service (GRS), is available at: <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. The information on how to submit complaints to the Bank Inspection Panel is available at: [www.inspectionpanel.org](http://www.inspectionpanel.org/).

# Document Management System

## Type of Documents

Records must be accurate, authentic, reliable, complete, and accessible, and they must have integrity if they are to perform their role in documenting the Performance of the Project, inclusive of decisions, processes, activities and transaction and in serving as a trusted source of information to support future decision making.

Documents in the meaning as assigned in this Manual can be:

* Paper records,
* Electronic records
* Social Media Records.

During Project implementation different types of the documents will be produced, which can fall in either of the above three main categories:

* Technical documents - includes but is not limited to: ESA, Screening reports, studies, designs, ToRs, tender documents, tender evaluation reports, drawings, etc.;
* Contractual documents – include but are not limited to: Contracts for Construction works, Consultancy Contracts, FA and GA, Project workers contracts
* Monitoring documents - they are result of the PIU activities and include: project progress reports, project monitoring reports and completion report. The main purpose of this type of document is to inform the IBRD, the AFD, the MCTI and the Steering Committee as well as other interested parties, about the Project progress.
* Meeting documents - minutes of the meeting, as well as agenda, should be prepared and submitted to all participants, for all meetings-either regular meeting or ad hoc meetings, the Steering Committee sessions, etc. This type of documents also includes: trainings, workshops, slide shows and other means of presentation prepared for such meetings;
* Data - during project preparation and implementation a number of data will be collected and processed. In that context it is recommended to the PIU to organize a sort of Project library where all these collected data, either raw or processed, will be kept;
* Project management documents - during the Project implementation different documents for project management will be produced, such as: financial plans, financial reports, procurement strategy, procurement plan, procurement reports, project implementation plans, budgets, accounts, contracts and contract amendments, if any, invoices, disbursement requests, payment requests, etc.
* Communication documents - includes correspondence and mails;
* Quality management documents - POGM, and its annexes, if any, audits, etc.;
* Visibility - includes newsletter, press releases, web news;

The person authorized by the Head of the PIU will be responsible for ensuring the backup copies of all above mentioned documents which shall be stored in a safe place outside the Project office, and he/she will be responsible for weekly backup, which should be done on Friday on a reliable media (e.g., a separate hard disc).

## Identification of Documents

Paper records must be placed physically in the appropriate folder within a shared-unit paper filing system. Units should contact the Archives if they need help in structuring their filing systems. In order to facilitate easy and unique identification of all documents and versions of documents relating to the Project, the following guidelines should be followed:

Documents classification building blocks:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| LIIDS P 174251 | Number Given in the PP | Defines the document as per classification below | short description of the document and it should be an intuitive description, which clearly describes the content of the document; | Issue Number - distinguish between the different versions of the same document. Files containing final version of the documents which are officially submitted will be identified by the numbers (1, 2, 3...). Zero ("0"), Letters will be used for the different version of same documents (0a, 0b, 0c,) | EN English  SRB Serbian |

|  |  |
| --- | --- |
| Abbreviation | Document Type |
| TEC | Technical reports |
| CD | Contractual documents |
| MON | Monitoring reports |
| MEET | Meeting documents |
| DATA | Data |
| PM | Project management documents |
| COM | Communication documents |
| QM | Quality Management |
| VD | Visibility document |

## Registration and Distribution of Reports and Minutes

The person appointed by the Head of the PIU will be responsible for filing and distribution of the documents.

## Handling of Communication Documents

Communication documents cover:

* Correspondence, defined as formal written communication with other stakeholders,

and

* Mail, which covers internal communication documents exchanged between members of the PIU, as well as informal documents between the members of the PIU and other Project stakeholders.

All communication documents will be in English and/or Serbian, wherever required by the PIU.

The responsibility for recording and referencing including labelling of the incoming and outgoing correspondence by numbering them is the responsibility of the Administrative Assistant.

## Handling of Visibility Documents

Public communication, social and citizen engagement specialist will ensure the visibility of the Project documents with aim to disseminate information about the Project activities, outputs, etc. to wide audience. The visibility of the documents may be in printed form and/or in the form of information posted on the MCTI/Project web site.

Having in mind this, it is recommended to the MCTI/PIU to establish the Project web site, and nominate the person responsible for its keeping and updating, in order to ensure informing and announcing of the interested parties regarding:

* Project (general information),
* Tender awards,
* Progress of the Project,
* And other important information regarding the Project.

# PROJECT MONITORING, REPORTING AND EVALUATION

## Project Result Monitoring and Evaluation Arrangements

Project results monitoring and evaluation will be carried out by the PIU, which will be ultimately responsible for all Project data collection.

**The monitoring procedure**

Once the project document is approved, an operational plan for the entire Project period must be elaborated. By this is meant that activities necessary for achieving expected results are outlined indicating the sequence and timing of and defining dates when stated results are to be achieved. The M&E Specialist will be hired to develop, in collaboration with the MCTI, a detailed M&E mechanism for each of the Project components including the infrastructure investments based on the Project Results Framework.

The M&E plan should address the expected results level, i.e., when, whether or to what extent expected results are being achieved. At the task and the activity levels, performance will be checked against the calendar of activities and the budget. No other indicators are needed. The monitoring plan will plan, manage and document the data collection process. It ensures that comparable data will be collected on a regular and timely basis. It identifies the indicators to be tracked, specifies the source, method and schedule of data collection and assigns responsibilities. The plan will help keeping the monitoring system on track and ensure that data are reported regularly to project management. The elaboration of such plan should preferably be undertaken with participation of all the stakeholders of the Project, especially representatives of the LSGs, and shall be submitted to the Bank for information.

The following elements should be included in the monitoring plan:

• Performance indicators and their definitions

• Baseline data

• Performance targets

• Data Source

• Method of data collection

• Frequency and Schedule of data collection

• Responsibilities for acquiring data

• Data analysis plans

• Identifying needs for complementary evaluation

• Plans for communication and using monitoring information

Each one of these elements is explained below and some advice offered.

Good indicators start with a clear statement of objectives or expected results. Each indicator needs a detailed definition specifying quantity, quality and time.

When selecting indicators, the most important characteristics are the following:

• Validity – that the indicator actually measures what is purported to measure,

• Reliability – that repeated measurements will give the same results,

• Sensibility – that the indicator will be responsive to changes, and

• Specificity – that the indicator measures only those changes related to the project intervention in question.

For infrastructure investments the LSGs will be responsible to provide the required data and information to the PIU. The LSGs will collaborate with the PIU by sharing information to monitor the project outcomes. The M&E system will be designed to ensure that the Project is implemented in accordance with its objectives and expected results, including provisions to mitigate the Covid-19 impact on the project. The Bank team will maintain regular interactions with the PIU and carry out field visits (subject these are allowed given the fluidity of the Covid-19 pandemic). This will allow the Bank to undertake continuous monitoring and verification over and above its periodic formal implementation support missions.

The PIU will regularly monitor, assess, and report on the Project’s implementation progress and results by delivering four quarterly implementation reports each year and one comprehensive annual monitoring and evaluation report. Quarterly reports will summarize progress and issues related to procurement, FM, implementation of activities, social and environmental risk and impact management, and results monitoring. The focus of the quarterly reports is to enable communication that supports problem identification and resolution. The format of the quarterly reports will be defined by the PIU and will include updates on project results indicators and further updates when such information is readily available. The PIU will file an annual progress review report (a) outlining yearly implementation progress of the project and whether project implementation progress is satisfactory; (b) identifying risks, lessons, and changes to improve implementation; (c) summarizing progress toward achievement of the Results Framework and PDOs; (d) outlining a prospective view of the likelihood of achieving the outcomes and PDOs by the Project closing; and (e) outlining steps to improve the Project’s impact and sustainability.

The Monitoring and Evaluation Plan of PDO indicators is given as the Annex 2.

## Monitoring of Works Contracts

### Possession of Site

Before signing of the works contract, the MCTI (PIU) and the Participating LSGs have to take all necessary measures in order to ensure the possession and the access to the site for the Contractor. The output of these activities is Title Deed, proofing the legal ownership over the construction land.

### Supervising engineer

Before the signature of the works contract, at least one month before the commencement date, the MCTI (PIU) has to ensure the existence of a service contract with a Consultancy firm, which acts as supervising engineer, supervising the activities performed by the civil works Contractor.

The civil works Contractor will be informed in written about the name of the Consultant, acting as supervising engineer.

### Responsible Persons at the LSG Level

The LSG (as defined in the GA) has to nominate a number of experts to be responsible for the monitoring of the works and supervision of the contract’s implementation.

### Site visit check

The Site Visit check is comprised of the following activities:

* Checking the works/activities status from a quantitative and qualitative point of view against the works and supervising contracts;
* Checking the existence of appropriate documentation;
* Checking the engagement of the staff, equipment, machinery and plant accordingly to the contract;
* Checking the implementation of a contract against the approved Work Plan and the performance of staff equipment, machinery and plant involved in implementation.
* Checking of implementation of environmental and social commitment plans
* Checking the quality of works

Site visit checks are to be initiated in the following ways:

***a) Site visit checks by the PIU***

The PIU Expert shall perform random site visit checks on a regular basis, deciding on the exact locations and frequency based on site progress. The attendees on these on spot-checks are: the PIU Expert, the LSG’s representatives, Supervising Engineer and the Contractor. The PIU Expert shall prepare a Site visit Report after each site visit check with photo documentation. These checks among others include:

* Checking the Construction Book and Site Diary (daily report) on sample basis for the period in question. The checking shall be on sample basis up to 25 percent of the documentation presented during the checking;
* The quantity and quality of the of the executed work and their compliance with the Technical Specification and Bill of Quantity as well, on sample basis as previously mentioned;
* The level of engagement of the staff, equipment, machinery and plant against the contract;
* the estimated contract value of the permanent works executed up to the end of the period in question;
* an amount to be withheld by way of retention monies;
* an amount to be deducted for the repayment of pre-financing;
* any credit and/ or debit for the period in question in respect of plant and materials on site intended for, but not yet incorporated in, the permanent works in the amount;
* any other sum to which the Contractor may be entitled under the contract;
* Checking the performance of the Supervising Engineer on the site.
* That environmental and social plans are properly implemented
* That quality of works performed is in accordance with designs

Health and safety on site

***b) Site visit checks by the municipal supervising engineer***

The LSG (represented by the LSG supervising engineer) shall perform regular Site Visit checks. LSG’s supervision should be carried out to monitor and control the performance of the works contractor and works supervision contractor in terms of quality and quantity check. The LSG supervising engineer shall prepare Site visit weekly Report with photo documentation. These checks among others include:

* Random check of the Construction Book and Construction Diary up to date;
* Random check of the quantity and quality of the of the executed work and their compliance with the Technical Specification and Bill of Quantity as well;
* Engagement of the staff, equipment, machinery and plant against the contract;
* An amount to be withheld by way of retention monies in the respective IPC;
* An amount to be deducted for the repayment of pre-financing in the respective IPC;
* Any credit and/or debit for the period in question in respect of plant and materials on site intended for, but not yet incorporated in;
* Any other sum to which the Contractor may be entitled under the contract;
* Performance of the Supervising engineer on the site.
* Environmental and social
* Quality of works
* Health and safety on site.

***The organization of Site Visits Checks***

The PIU Expert before the site visit is performed, prepares a Site Visit Plan that is approved by the Head of the PIU. It states the purpose of the visit, field data to be collected, the date and scope of the check. After approval, he/she informs the LSG about the date and scope of visit and may ask preliminary information and documents that could be requested in relation to the scope of the check.

In some particular cases, if a serious problem in Project implementation occurred, the PIU Expert, the Head of the PIU could initiate ad-hoc checks without prior notification of the structures. In these particular cases joint visits may be organized by representative of the PIU MCTI and the LSG. In such a case Site Visit Report is prepared by all parties.

The checking takes place at the contract implementation place: on the site.

***Who is checked?***

* Participating LSG as per GA;
* Supervising engineer as per Contract;
* Contractor as per Contract and other reports.

***What is checked?***

* the staff of the Participating LSG, Engineer, Contractor;
* the organizational scheme on-the-site;
* the equipment of the Contractor as per last report of the supervising engineer;
* the works declared as completed;
* the encumbrances reported;
* the status of the works in progress;
* the Construction Diary and the Construction Book;
* the materials on the site;
* the Supervising engineer/laboratory;
* the implementation of the quality assurance plan;
* the publicity measures on the site if required;
* the IGAs against the Contractor application for payment in order to the check the verification performed by the supervising engineer;
* the cash flow forecast included in the last supervising engineer report against the up-dated work programme;
* the eligibility status of all the categories of works completed or ongoing as per LA;
* payment documents.

**The general objectives of all the site visit checks** are:

* Verification of an adequate implementation system and procedure at the level of the LSG (as per GA);
* Verification of the eligibility of the payments certified by the Supervising engineer and approved by the LSG (as per GA and the Contract);
* Verification of the contractors’ performance against the Contract provisions (as per contracts).

After a site visit check is performed, the PIU Expert and the municipal supervising engineer have to prepare Site visit Report as per the relevant attachment to this Manual. Pictures from the site, copies of the verified documents, MoM if organized (signed by all the participants) and any other relevant documents should be attached to the report. The Site visit Reports should be presented to the Head of the PIU.

After the approval of the Site visit Report, the PIU Expert has to send written recommendations to each of the verified structures in order to address the situation. The recommendations are checked and approved by the Head of the PIU. If necessary and in accordance with the contractual terms and conditions, the PIU may issue Notice to Correct and Notice to Termination.

***Role of the Supervision Engineer***

Consultancy Supervision firm for implementation of civil works will be engaged order to supervise the Implementation of the construction works. Detailed description of the tasks and responsibilities of the supervising engineer will be provided in ToR for Consultancy Supervision. Consultancy Supervision will provide day to day supervision of the construction works in terms of:

* Quality control
* Quantity surveillance
* Financial oversight ensuring the works remain within the budget or early warning the Employer in case of risk for exceeding the budget
* Verify the Variation Orders
* Verify the expenditures of the works Contractor
* Verify and check all necessary documents for taking over
* Complete the works within time, scope and budget
* Health and Safety
* Environmental and Social
* Reporting

# Annex 1: PDO Key Indicators

| **Indicator Name** | **PBC** | **Baseline** | **End Target** |
| --- | --- | --- | --- |
| **Capacity to manage sustainable infrastructure services** | | | |
| LSGs with developed annual and multi-annual budgets corresponding to development plans and asset management systems (Number) |  | 0.00 | 15.00 |
| LSGs utilizing simple road asset management methods developed under the project (Percentage) |  | 0.00 | 50.00 |
| Citizens reporting satisfaction with process of infrastructure service delivery, gender disaggregated (Percentage) |  | 0.00 | 70.00 |
| **Access to economic opportunities and social services** | | | |
| Commercial and social services connected by improved, safe and resilient transport network (Number) |  | 0.00 | 420.00 |
| **Climate aware investments** | | | |
| Subprojects supporting climate adaptation and/or mitigation actions (Percentage) |  | 0.00 | 100.00 |

**Intermediate Results Indicators by Components**

| **Indicator Name** | **PBC** | **Baseline** | **End Target** |
| --- | --- | --- | --- |
| **Component 1. Climate Smart Mobility** | | | |
| SUMPs and Action Plans adopted by LSGs (Number) |  | 9.00 | 34.00 |
| Smart mobility pilots implemented (Number) |  | 0.00 | 5.00 |
| LSGs with road safety interventions for children identified and budgeted (Number) |  | 0.00 | 15.00 |
| FAs signed between LSGs and central government (Number) |  | 0.00 | 145.00 |
| Share of investments dedicated to non motorized transport (Percentage) |  | 0.00 | 20.00 |
| **Component 2 Strengthening capacity for infrastructure service delivery** | | | |
| LSGs piloted enhanced strategic participatory planning approaches (Number) |  | 0.00 | 10.00 |
| Roadmap for improved access to financing developed (Yes/No) |  | No | Yes |
| Database for public investments at the local level, compatible to central level PIMIS developed (Yes/No) |  | No | Yes |
| Increase in number of works contracts finished within planned time (Percentage) |  | 0.00 | 50.00 |
| Pipeline of urban development and municipal infrastructure projects prepared (Number) |  | 0.00 | 10.00 |
| Number of internships completed, with women making at least 70 percent (Number) |  | 0.00 | 40.00 |
| **Component 3: Project** Management and Awareness Raising | | | |
| Awareness campaigns on greening of infrastructure and sustainable mobility delivered (Number) |  | 0.00 | 10.00 |

# Annex 2: Monitoring & Evaluation Plan: PDO Indicators

| **Monitoring & Evaluation Plan: PDO Indicators** | | | | | |
| --- | --- | --- | --- | --- | --- |
| **Indicator Name** | **Definition/Description** | **Frequency** | **Datasource** | **Methodology for Data Collection** | **Responsibility for Data Collection** |
| LSGs with developed annual and multi-annual budgets corresponding to development plans and asset management systems | Number LSGs with annual and multi-annual budgets informed development plans and developed through the project. At later stage of the project, when road asset management is in place, the plans should be based on outputs from the asset management systems. | Annualy | PIU annual progress reports and consultant report on improvement of LSG strategic participatory planning. | Consultant working on strategic participatory planning activity will deliver annual report with review of the status of the planning and budgeting document at LSG level. In addition, LSGs will deliver status of their documentation on annual basis. The PIU will consolidate received information and include in the annual reports | PIU and LSG |
| LSGs utilizing simple road asset management methods developed under the project | Percentage of municiaplities that regularly use the road asset management methods that will be developed under the Project | Annually | PIU annual progress reports | LSGs to provide information on the road asset management method which they are utilizing. PIU will consolidate received information and include in the annual reports. | PIU and LSGs |
| Citizens reporting satisfaction with process of infrastructure service delivery, gender disaggregated | Percentage of citizens that are satisfied with the infrastructure service delivered through the investments of this project. Data will be disaggregated by gender. | Annually | PIU annual progress reports and separate reports from a consultant | A consultant will be hired to perform annual citizen satisfaction surveys. Surveys can be implemented through various instruments like for example targeted questionnaires, interviews, project web site, workshops. Output of the consultant will be incorporated in PIUs annual report. | PIU |
| Commercial and social services connected by improved, safe and resilient transport network | Number of social and commercial services within 50m vicinity from the infrastructure investment. Under social service the following is considered – schools, kindergartens, universities, hospitals, health centers, cultural centers, elderly homes, etc. Under commercial the following is considered - major business areas, markets, shopping areas, touristic areas, cultural areas, etc. | Annualy | PIU annual progress reports | For each investment, LSG will report on number of social and commercial services in 50m vicinity of implemented investments. PIU will consolidate received information and include in the annual reports. | LSGs |
| Subprojects supporting climate adaptation and/or mitigation actions | Percentage of subprojects financed through subcomponent 1.1. that incorporated climate mitigation/adaptation measures in their design | Annualy | PIU annual progress reports | PIU will use their records on approved investments and climate adaption / mitigation features incorporated in the design together with the inputs from supervision and LSG coordinators, if the subprojects have been implemented as per the design. | PIU |

| **Monitoring & Evaluation Plan: Intermediate Results Indicators** | | | | | |
| --- | --- | --- | --- | --- | --- |
| **Indicator Name** | **Definition/Description** | **Frequency** | **Datasource** | **Methodology for Data Collection** | **Responsibility for Data Collection** |
| SUMPs and Action Plans adopted by LSGs | Number of SUMPs with belonging Action Plans that are adopted by LSGs | Annually | PIU annual progress report | PIU will monitor implementation of SUMPs within the project and if they are accompanied by adopted action plans. This data will be presented in the annual progress report. | PIU |
| Smart mobility pilots implemented | Smart mobility pilots implemented (Number) | Annually | PIU annual progress reports | The call for smart mobility pilots published and 5 pilots with highest potential of scale up selected, implemented, and tested. Results of test recorded and published. PIU will collect information from pilots and include them in annual progress reports. The same report will include information if report on contractual modalities for smart mobility solutions is delivered and accepted. | PIU |
| LSGs with road safety interventions for children identified and budgeted | Number of LSGs that included safety interventions identified in the project in their strategic sectoral plans and annual and mid-term budgets | Annually | PIU Annual Progress reports and LSG reports on planned and budgeted road safety interventions | LSGs will deliver annually information on planned and budgeted road safety interventions, which PIU will summarize and include in annual progress reports. | LSG/PIU |
| Framework Agreements signed between LSGs and central government | Number of FAs between the LSGs and GoS signed | Annually | PIU quarterly and annual progress reports | PIU will collect information on signed FAs from the MCTI and include this in the quarterly reports | MCTI/PIU |
| Share of investments dedicated to non motorized transport | Percentage of value of investments that financed active mobility infrastructure | Annually | PIU annual progress reports | For each subproject the PIU will calculate what percentage of overall investment was used to finance active mobility infrastructure/facilities. This data will be summarized and presented in the annual report | PIU |
| LSGs piloted enhanced strategic participatory planning approaches | Enhanced participatory planning approaches applied in development of selected planning documents. | Annually | PIU annual progress reports and report from the consultant working on participatory planning. | Consultants that will be working on participatory strategic planning activities and on participatory manuals will include in their reports number of advanced integrated and participatory approaches applied across LSGs. PIU will include this information in annual progress reports. | PIU |
| Roadmap for improved access to financing developed | Report on potentials for improved access to infrastructure financing for LSGs, addressing fiscal decentralization, commercial financing, green fund and municipal fund and including recommendations and roadmap delivered and accepted by the MoF. | Annually | PIU annual progress report | PIU will collect the information and include it in the annual progress reports. | PIU |
| Database for public investments at the local level, compatible to central level PIMIS developed | Database for local public investments, compatible to central level PIMIS delivered and passed acceptance tests. | Annually | PIU annual progress reports | PIU will confirm that the delivered database satisfies the ToR and that acceptance test confirmed requested performances. This information will be included in the annual progress reports. | PIU |
| Increase in number of works contracts finished within planned time | Percentage of works contract implemented within the planned time compared to the current percentage (baseline). If any force major (e.g. floods) that impacted the implementation schedule, this will be calculated as acceptable extension and that the contract is still completed within the contracted time. | Annually | PIU annual Progress reports | The PIU will collect the data from the LSGs and the CFU will access the information through the Systematic Tracking of Exchanges in Procurement (STEP) system. PIU will include the information in annual progress reports. | CFU/PIU |
| Pipeline of urban development and municipal infrastructure projects prepared | Number of identified new urban development and municipal infrastructure projects with preliminary viability analysis | Annually | PIU annual progress report | PIU will collect information from the LSGs and consultants working on preliminary analysis of potential pipeline projects and include this in the annual progress reports. | PIU/LSG |
| Number of internships completed, with women making at least 70 percent | Number of internships completed, with women making at least 70 percent | Annually | PIU annual progress report | PIU will record the number of internships that have been financed through the project and successfully completed. The target is that 70 percent of all internships is given to women candidates. This will be recorded in the PIU annual progress reports. | PIU |
| Awareness campaigns on greening of infrastructure and sustainable mobility delivered | Number of delivered awareness raising campaigns on the topic of greening of infrastructure, citizen participation and importance of safe mobility systems coupled with targeted trainings to civil society sector. | Annually | PIU annual progress reports | PIU will engage a consultant that will deliver this awareness raising campaigns and trainings. Based on the consultant outputs the PIU will update the annual progress reports. | PIU |

# Annex 3: Template of the Framework Agreement (FA)

|  |
| --- |
| **Description: Srbija-mali-grb-2**  **Republic of Serbia** |
| **MINISTRY OF CONSTRUCTION,** |
| **TRANSPORT AND INFRASTRUCTURE** |
| Number: XXXXXXXXXX  XX.XX.XXXX |

**LOCAL** **INFRASTRUCTURE AND INSTITUTIONAL DEVELOPMENT (LIID)**

**FRAMEWORK AGREEMENT**

**LOCAL** **INFRASTRUCTURE AND INSTITUTIONAL DEVELOPMENT**

**FRAMEWORK AGREEMENT**

**Between**

**Republic of Serbia**

**Ministry of Construction, Transport and Infrastructure**

**and**

**Municipality/City of \_\_\_\_\_\_\_\_**

**The Ministry of Construction, Transport and Infrastructure**, Nemanjina 22, Beograd, represented by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the Minister (hereinafter referred to as “MCTI”)

and

**the Municipality/City of \_\_\_\_\_\_\_\_\_\_\_\_\_\_** (hereinafter referred to as “Local Self Government” or “LSG”), hereinafter jointly referred to as the “Parties”,

CONSIDERING the need for the cooperation between the Parties for the implementation of the Local Infrastructure and Institutional Development (hereinafter referred to as “LIID”) Project pursuant to the Loan Agreement signed on XX.XX.XXXX. between the Republic of Serbia, Ministry of Finance, and the International Bank for Reconstruction and Development - World Bank (hereinafter referred to as “Bank”), and the Loan Agreement signed on XX.XX.XXXX. between the Republic of Serbia, Ministry of Finance, and the Agence Française de Développement (hereinafter referred to as “AFD”), hereinafter jointly referred to as the “Loan Agreements”,

in accordance with the Law on the Ratification of the Loan Agreement between the Republic of Serbia and the World Bank for the Local Infrastructure and Institutional Development Project ("Official Gazette of the Republic of Serbia" No. …/22), and the Law on the Ratification of the Loan Agreement between the Republic of Serbia and the AFD for the Local Infrastructure and Institutional Development Project ("Official Gazette of the Republic of Serbia" No. …/22),

and in compliance with the LIID Project Operations and Grant Manual (hereinafter referred to as “POMG”)

RECOGNIZING THE NEED for growth of cooperation and partnership for strengthening the capacity of the Municipality/City of \_\_\_\_\_\_\_\_\_\_\_ and the Government of the Republic of Serbia in the process of enhancing the management of local infrastructure and the capacities of local institutions;

HAVING MUTUAL INTEREST for supporting safe and resilient local infrastructure as a part of wider urban development activities in the Republic of Serbia based on the Sustainable Urban Development Strategy (SUDS), and with a focus on improving mobility in a sustainable manner,

HAVE REACHED the following understanding for cooperation:

1. **OBJECTIVE OF COOPERATION**

The Objective of Cooperation is to implement the LIID Project by establishing the relationship between the Parties aimed at enhancing capacity to sustainably manage infrastructure at the local level and to improve access to economic and social opportunities in a climate aware manner.

**2. FINANCING**

The LIID Project is financially supported by the MCTI through the Bank and the AFD loans.

The total available funding amount for the LSG’s project(s) is defined according to the Loan Agreements and the POGM.

**3. AREAS OF COOPERATION**

The LIID Project consists of the following parts:

**Part 1. Climate Smart Mobility**

* 1. Improve transport and associated infrastructure by, *inter alia*: (a) providing Grants to the LSGs to finance projects in local transport infrastructure rehabilitation and reconstruction and minor greenfield investments (“Sub‑projects”); and (b) providing technical assistance for the preparation of documents related to the LIID sub-projects, including (i) design and supervision documents, (ii) environmental and social safeguard documents, (iii) independent technical audit, and (iv) road safety audit.
  2. Strengthen the LSGs’ capacity to manage local roads by, *inter alia*: (a) developing a local roads management framework, which may include institutional arrangements and standards with regard to maintenance contracts, resilience and road safety (including children’s safety); (b) developing a simplified Road Asset Management System (RAMS) for maintenance and rehabilitation planning and supporting selected data collection needs; (c) developing gender-aware Sustainable Urban Mobility Plans (SUMPs) and provision of Trainings to Participating LSG’s staff on SUMPs implementation; and (d) designing a smart mobility research center and piloting up to five (5) smart solutions through digital technologies.

**Part 2. Strengthening Capacity for Infrastructure Service Delivery**

* 1. Improve selected LSGs’ strategic participatory planning and investment preparation capacities by, inter alia: (a) improving planning at the local level including through reviewing current planning and strategic frameworks and developing planning documents; (b) linking improved local planning to budgeting processes; (c) introducing innovative approaches to participatory planning; (d) enhancing the eGovernment portal to mainstream the participatory approach; and (e) providing technical assistance on the identification and preparation of urban development and municipal infrastructure projects.
  2. Improve LSGs’ infrastructure service delivery and promote sustainability by, inter alia: (a) assessing the current local infrastructure financing framework; (b) providing technical assistance and Trainings to enhance their access to finance capabilities; (c) reviewing current institutions’ structures and providing recommendations for consolidated approaches and process simplification to enable existing staff to work efficiently and meet national and local requirements; (d) developing public investment management system database and project management tools; (e) designing and implementing an Internship Program; (f) developing

prioritized approaches to staff expansion and Training and building staff capacity in green procurement, public financial management and public investment management, contract management, and social and environmental management; and (g) facilitating inter LSG cooperation and knowledge exchange.

**Part 3. Project Management and Awareness Raising**

Support to the Republic of Serbia in the areas of Project management, coordination, supervision, financial management, reporting, communication and outreach, awareness raising, monitoring and evaluation, procurement, environmental and social safeguards, and supervision of implementation of the Environmental and Social Commitment Plan (ESCP) and establishing of online supervision platform and web page for the Project.

The LSG will submit to the MCTI, in the scope of the Project Component 1, project proposal(s) for financing local infrastructure (including, if necessary, for design preparation and the supervision of works), according to the eligibility and compliance criteria defined by the Loan Agreements and the POGM, and following the requirements in the national legislation.

The LSG confirms that the funds to be received through the Project Component 1. will be additional financial resources to its own capital investments, and that the level of LSG’s own infrastructure investments will not decrease due to the receipt of earmarked funds allocated through the LIID Project.

**4. IMPLEMENTATION**

The implementation of this Framework Agreement and all the activities pursuant to it related to the Loan Agreements shall be compliant to the respective Bank’s Procurement Regulations.

The implementation of the LIID Project activities such as project preparation, tendering, technical and financial implementation, and supervision, will be carried out by the LSG and monitored by the LIID Project Implementation Unit at the MCTI (hereinafter referred to as “PIU”), in accordance with the Loan Agreements and the POGM.

The implementation of the activities, organizational, financial, administrative and technical, pursuant to the Project, from the LSG side will be carried out by the nominated representative(s) of the LSG.

Before the implementation of the works starts, the Parties will sign a Grant Agreement for each respective LSG’s project from the Component 1 of the LIID Project, in order to regulate mutual rights and obligations.

As a part of its participation in the LIID Project, the LSG will work on strengthening linkages between its budget and strategic and planning frameworks and on improving its PFM and PIM practices, and will prepare its development and medium-term plans in compliance with legal requirements.

The LSG commits to:

(a) participate in Project Training opportunities and reform activities;

(b) perform investment selection according to planning documents; and

(c) comply with the Bank’s environmental and social framework and policies

(d) use road asset management once developed by the LIID Project.

**5. CONFIDENTIALITY OF INFORMATION**

The Parties accept that neither Party will disclose or distribute any confidential information that is supplied to each other in the course of conduct of cooperative activities under this Framework Agreement to any third party except as and to the extent authorized in writing to do so by the other Party.

Confidential Information shall remain the exclusive property of the disclosing Party. The Parties agree that this Framework Agreement and the disclosure of the Confidential Information do not grant or imply interest or right to the Recipient in respect to any intellectual property right of the other Party.

Unpublished information, whether oral, in writing or otherwise, discovered or conceived by the scientists or technicians and exchanged under the provisions of this Framework Agreement will not be transmitted to a third party, unless otherwise agreed by the Parties.

**6. AMENDMENT AND MODIFICATION**

Either Party may request in writing a revision, modification or amendment of all or any part of this Framework Agreement. Any revision, modification or amendment accepted by the Parties will be reduced in writing and will form part of this Framework Agreement. Such revision, modification or amendment will come into effect on such date as may be determined by the Parties.

**7. INTERPRETATION**

Any differences between the Parties concerning the interpretation and implementation or application of any of the provisions of this Framework Agreement shall be settled amicably through consultation and negotiation between the Parties.

**8. EFFECTIVE DATE, VALIDITY AND TERMINATION**

This Framework Agreement will be effective on the date of its signature by both Parties and shall remain effective for a period of five (5) years, however not before the deadline of the LIID Project.

The period of cooperation under this Framework Agreement will be automatically extended unless either of the Party notifies to the other, in writing, of its intention to terminate this Framework Agreement, at least six (6) months before the desired date of termination.

**PARTIES TO THIS FRAMEWORK AGREEMENT:**

|  |  |
| --- | --- |
| **FOR THE MCTI:**  **Minister**  **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | **FOR THE LSG:**    **Mayor**  **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** |

# Annex 4: Template of the Grant Agreement (GA)

|  |
| --- |
| **Description: Srbija-mali-grb-2**  **Republic of Serbia** |
| **MINISTRY OF CONSTRUCTION,** |
| **TRANSPORT AND INFRASTRUCTURE** |
| Number: XXXXXXXXXX  XX.XX.XXXX |
|  |

Pursuant to the Loan Agreement for the Local Infrastructure and Institutional Development (hereinafter referred to as “LIID”) project signed between the Republic of Serbia and the International Bank for Reconstruction and Development - World Bank (hereinafter referred to as “Bank“), dated XX.XX.2022 and the Loan Agreement for the LIID Project signed between the Republic of Serbia and the Agence Française de Développement (hereinafter referred to as “AFD”), dated XX.XX.2022 (jointly hereinafter referred to as “Loan Agreements”), and in the scope of the implementation of the Project Agreement on the LIID project signed between the Ministry of Construction, Transport and Infrastructure and the Municipality/City of \_\_\_\_\_\_\_, dated XX.XX.XXXX. (Hereinafter referred to as “Project Agreement”), this

**GRANT AGREEMENT**

**FOR THE PROJECT “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_”**

is being signed by THE PARTIES:

**The Ministry of Construction, Transport and Infrastructure**, Nemanjina 22, Beograd, represented by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the Minister (hereinafter referred to as “MCTI”), on one side,

and

**The Municipality/City of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_,** represented by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the President of the Municipality/ the Mayor (hereinafter referred to as “Local Self Government” or “LSG”), on the other side.

**THE PARTIES agree that**:

1. The MCTI provided funds for the local infrastructure investments based on the Loan Agreements and the Article 3 of the Law on the Budget of the Republic of Serbia for 2022 ("Official Gazette of the Republic of Serbia", No. XX/22), Section B – Project and Program Loans, Number I – World Bank, Program 4 – Development of Local Institutions and Green Infrastructure;
2. The Parties signed the LIID Project Agreement, dated XX.XX.2020;
3. The LSG submitted to the MCTI the proposal for the LIID sub-project „\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_­­­­­­­­­­\_\_\_\_\_\_\_\_\_“ (hereinafter referred to as „Project“) following the eligibility, terms, and conditions defined by the Loan Agreements and the LIID Operation and Grant Manual (hereinafter referred to as “POGM”);
4. Upon assessment of eligibility and compliance, the MCTI approved the funding for the Project and the Minister brought the Decision on the Transfer of Earmarked Funds from the LIID Project to the LSG for the Project „\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_“, dated XX.XX.202X.

Article 1

Subject of this Grant Agreement is the regulation of the rights and obligations between the Parties in the implementation of the Project „\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_“, described in detail in Annex 1 to this Grant Agreement.

Article 2

The Parties hereby agree to implement this Grant Agreement in line with:

1. the Project proposal and the accompanying documentation submitted to the MCTI by the LSG for financing the Project, as stated in ANNEX 1 referred to in Article 6; and
2. all applicable provisions of the Loan Agreements as further detailed in the POGM and the LIID Project Agreement, including in the areas of, *inter alia*, procurement, financial management, project planning and preparation, public investment management, road asset management, environmental, social and anti-corruption.

Article 3

This Grant Agreement in its entirety, in terms of the subject of the Grant Agreement, replaces any previous spoken or written communication between the Parties. All terms and conditions are listed in the Agreement and any changes are subject to the Bank’s prior and written authorization, and must be made in writing, by signing a corresponding annex to this Grant Agreement.

Article 4

The MCTI undertakes to pay the LSG earmarked funds in the amount of XXXXXXXXX RSD (in words: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ dinars) to the account number: XXXHHHHH, opened with the Treasury, for the implementation of the Project.

The funds will be disbursed in two tranches, 50 percent advance payment, and 50 percent after verification by the MCTI that the Grant proceeds of the first tranche were used for intended purposes and at least 80 percent of initial amount was spent.  First transfer of resources will happen within 15 days from the date of signing of this Grant Agreement, and in accordance with the liquidity of the Budget of the Republic of Serbia.

The LSG is obliged to submit to the MCTI, as an instrument of financial security:

1. a blank solo bill of exchange, registered in the Register of Bills of Exchange and Authorizations according to the Decision of the National Bank of Serbia, certified and signed by a person authorized to represent the LSG;
2. certified bill of exchange authorization - a letter in favor of the MCTI with the indicated amount from this Grant Agreement, and
3. a copy of the card of deposited signatures of the persons authorized to represent the LSG, issued by the commercial bank specified in the bill of exchange authorization.

The validity period of the bill of exchange from the paragraph 3 of this Article must be 30 (thirty) days longer than the final deadline for the completion of the Parties’ obligations.

Article 5

The LSG undertakes to use the awarded funds exclusively for the Project specified in Article 1 of this Grant Agreement, in accordance with the Project proposal and the documentation submitted to the MCTI, and only in order to achieve the goals defined by the Project.

The LSG is obliged to submit to the MCTI, within 14 days from the day of signing this Grant Agreement, a dynamic plan of activities and a financial plan for spending the funds for approval.

The LSG is obliged to, upon request, provide the MCTI with an insight into the manner and dynamics of the use of funds.

In case of unathorized or illegal spending of allocated funds, the LSG is obliged to return the funds allocated by this Grant Agreement, with the corresponding legal default interest from the day of payment to the day of return of funds, otherwise collateral will be activated.

The control of the authorised and legal use of the approved funds and the undertaking of measures will be performed by the competent state bodies.

Article 6

The following Annexes shall be considered an integral part of this Grant Agreement:

**ANNEX 1**: Detailed description of the Project (*local transport infrastructure rehabilitation and reconstruction and/or minor greenfield investments, and technical assistance for the preparation of documents related to the Project*), including the information on compliance with the selection and eligibility criteria for the LIID Project;

**ANNEX 2**: Planning document or Decision adopted by the Municipality Council, number ХХХХ dated ХХ.ХХ.ХХXХ defining the project as priority investment (“Official Gazette of the Municipality / City of ….., number \_\_\_\_\_\_\_\_ issued ХХ.ХХ.ХXХХ.”);

**ANNEX 3**: Decision adopted by the Municipality Council, number ХХХХ dated ХХ.ХХ.ХХXХ. for the approval and authorization of the Mayor/President of the Municipality to sign the Grant Agreement;

**ANNEX 4**: Construction permit (or other document necessary for the start of the implementation of the Project according to national legislation) no. ХХХХХХХ, dated ХХ.ХХ.XХХХ, issued by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_;

**ANNEX 5:** Appointment by the Mayor of a person from the LSG who shall be responsible for all administrative and technical issues in the course of the Project’s implementation;

**ANNEX 6**: Appointment by the Mayor of a person from the LSG who shall be responsible for environment and social aspects and compliant with the environmental and social standard relevant for the project as set in the Environmental and Social Commitment Plan (ESCP), which is a part of the Loan Agreement with the Bank;

**ANNEX 7**: Communication plan for the communication between the LSG and the MCTI, and the LSG and local communities;

**ANNEX 8**: Decision by the Mayor authorizing supervisor on behalf of the LSG (if required by the legislation).

Article 7

Obligations of the MCTI are to:

* + 1. check and approve interim payment certificates for completed works under the Grant Agreement, in line with its authorizations, and complete the payment;
    2. prepare project Environmental and Social Management Plan (hereinafter referred to as “ESMP”) and Checklists and provide needed support to the LSG in in ensuring compliance with applicable Bank’s Environmental and Social Standards (hereinafter referred to as “ESS”) and ESCP, as provided for in all applicable provisions of the Loan Agreements and the POGM.
    3. provide support, if needed, to the LSG to develop procurement documents, and evaluate proposals.
    4. provide support to the LSGs in selection and preparation of projects, review of the designs, and strengthen supervision.

The MCTI has the rights to protect its interests and those of the Bank, including the right to suspend or terminate the right of the LSG to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the LSG’s failure to perform any of its obligations under this Grant Agreement.

The MCTI will exercise its rights and carry out its obligations under this Grant Agreement in such manner as to protect the interests of the Republic of Serbia and the Bank and to accomplish the purposes of the Project. Except as the Bank shall otherwise agree in writing, the MCTI shall not assign, amend, abrogate or waive this Grant Agreement or any of its provisions.

Article 8

Obligations of the LSG are to:

* + 1. carry out the 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 carrying out the applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP), the Bank’s Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower, the POGM and the Loan Agreements;
    2. provide, promptly as needed, the resources required for the purpose;
    3. procure the works, goods and services to be financed out of the Grant in accordance with the provisions of the Loan Agreement and this Grant Agreement;
    4. maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Project and the achievement of its objectives;
    5. (i) 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 its operations, including the operations, resources and expenditures related to the Project; and (ii) at the Bank’s or the MCTI’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 MCTI and the Bank, and permit the Bank to make such statements as so audited available to the public, along with the Grant Agreement;
    6. enable the MCTI and the Bank to inspect the Project, its operation and any relevant records and documents;
    7. prepare and furnish to the MCTI and the Bank all such information as the MCTI or the Bank shall reasonably request relating to the foregoing; and
    8. comply with additional obligations, as set forth under the POGM, with regard to project planning and budgeting, transparency in procurement, preparation of projects, data delivery, and supervision of works.

Article 9

The deadline for the LSG to fulfill the obligations from this Grant Agreement is XX.XX.2024.

The LSG is obliged to return the unspent funds upon the completion of the project, or after the expiration of the deadline defined in the paragraph 1 of this article, immediately, to the account of the budget of the Republic of Serbia.

The unspent funds from the paragraph 2 of this Article are to be transferred to the account number \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reference \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at the Treasury.

Article 10

The LSG is obliged to submit reports in the defined format to the MCTI on the realization of the Project monthly, no later than the 5th (five) of the month for the previous month, or at the request of the MCTI not later than five days upon the receipt of such a request.

The LSG is obliged to submit to the MCTI a final report on the realization of this Grant Agreement (descriptive - narrative), and a financial report on the use of funds with a specification of costs, within 30 days from the day when it fully uses the funds specified in Article 2 of this Grant Agreement, and no later than 30 days from the date of expiration of the deadline referred to in Article 8 of this Grant Agreement.

The financial report must contain evidence of funds spent, with complete documentation justifying the intended and legal use of the funds received (certified copies of invoices, i.e., temporary and completed situations; proof - statement from the Treasury that payment was made on invoices or situations).

Field control, or any other model of control, by the MCTI may be made at any time of the Grant Agreement duration, to check whether the on-the-spot situation is congruent with the information provided in the LSG’s financial reports.

Article 11

The LSG is obliged to state in written materials, as well as when addressing the public in connection with the realization of the Project, that the MCTI participated as a financier.

**FINAL PROVISIONS**

Article 12

All amendments to this Grant Agreement are subject to the Bank’s prior and written authorization, and must be made in writing, by signing an annex to the Grant Agreement.

Either Party may unilaterally terminate the Grant Agreement in the event that the other Party fails to fulfil or does not timely fulfil its obligations under the Grant Agreement.

The MCTI may unilaterally terminate the Grant Agreement if the LSG uses the funds in contrary to the established purpose and if the LSG does not submit to the MCTI the complete documentation referred to in this Grant Agreement, within the deadlines provided by this Grant Agreement.

The Party to this Grant Agreement is obliged to inform the other Party in writing about its intention to terminate this Grant Agreement.

The Grant Agreement will be considered terminated after the expiration of 15 days from the date of receipt of the written notice.

Article 13

The Parties agree that the provisions of the Law on Obligations (″Official Gazette of the Socialist Federal Republic of Yugoslavia″, Nos. 29/78, 39/85, 45/89 and 57/89, ″Official Gazette of the Federal Republic of Yugoslavia″, No. 31/93, ″Official Gazette of Serbia and Montenegro″, No. 1/03-Constitutional Charter and ″Official Gazette of the Republic of Serbia″, No. 18/20) shall be directly applied to all mutual relations, which are not defined by this Grant Agreement.

Article 14

The Parties agree to resolve any disputes related to this Grant Agreement amicably and in the spirit of good mutual cooperation, otherwise the dispute will be resolved by the competent court in Belgrade.

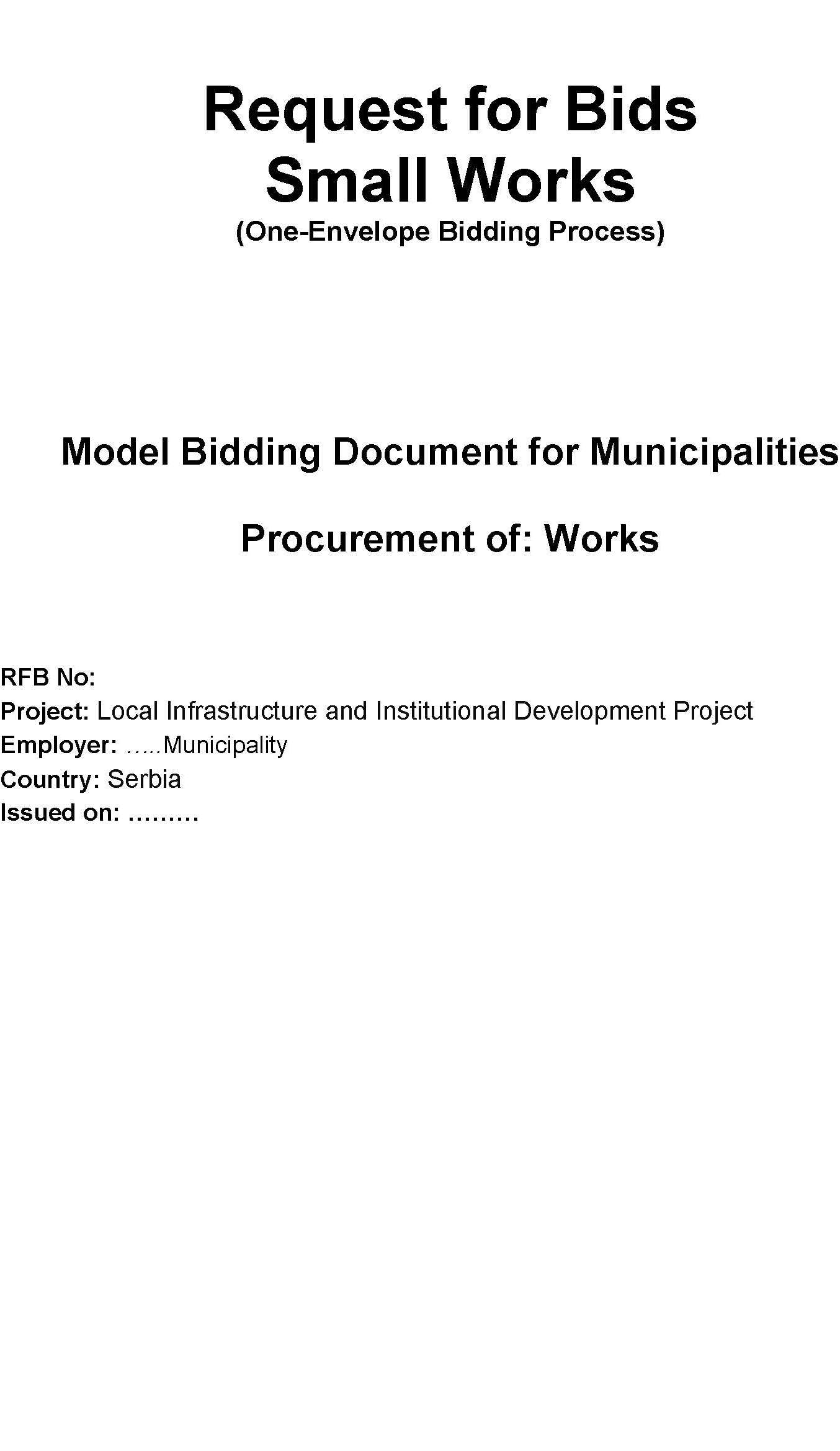
Article 15

This Grant Agreement shall be signed in 4 (four) original copies, 2 (two) originals for the MCTI and 2 (two) originals for the LSG.

**PARTIES TO THIS GRANT AGREEMENT:**

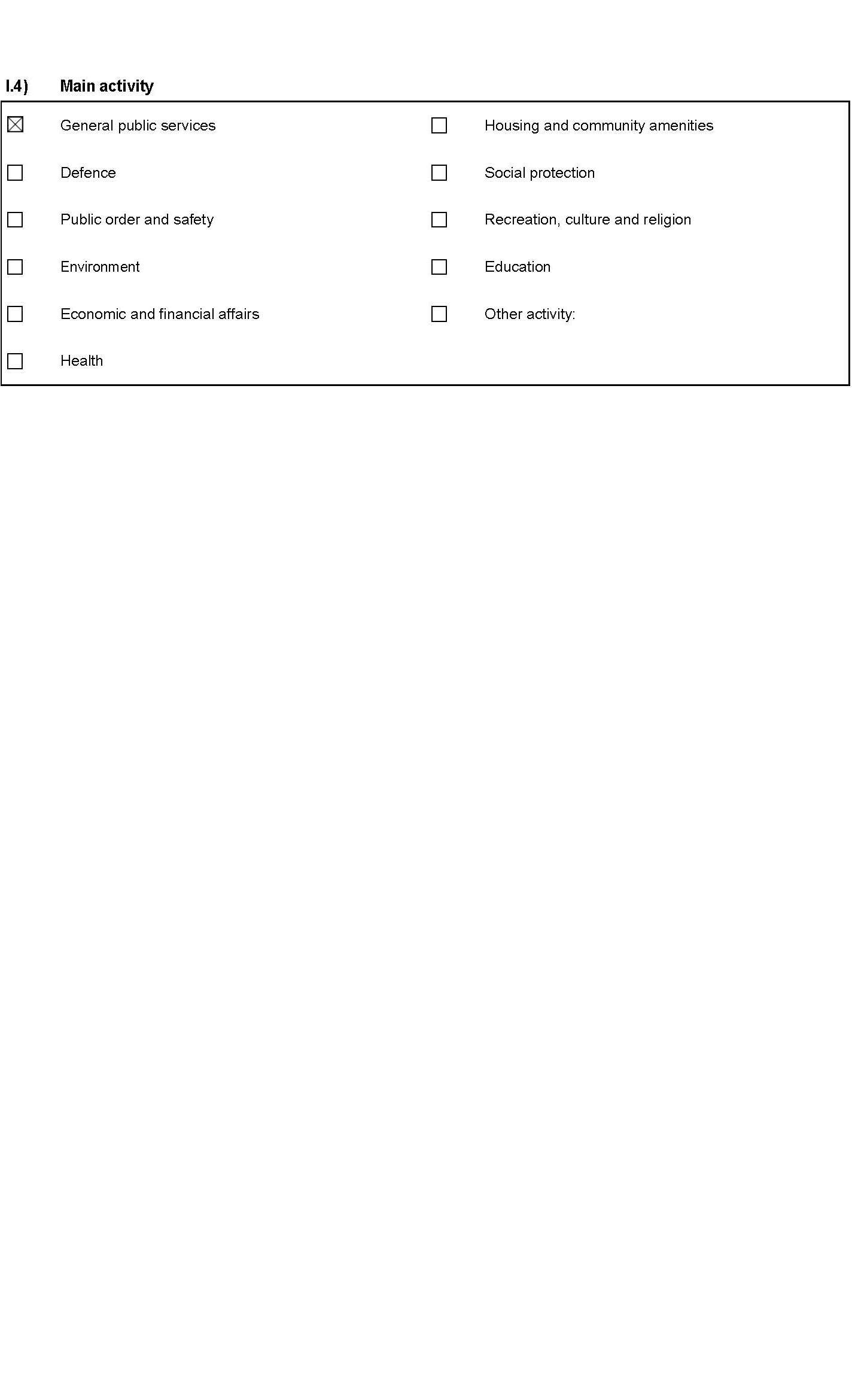
|  |  |
| --- | --- |
| **FOR THE MCTI:**  **Minister**  **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | **FOR THE LSG:**    **Mayor/President of the Municipality**  **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** |
|  |  |

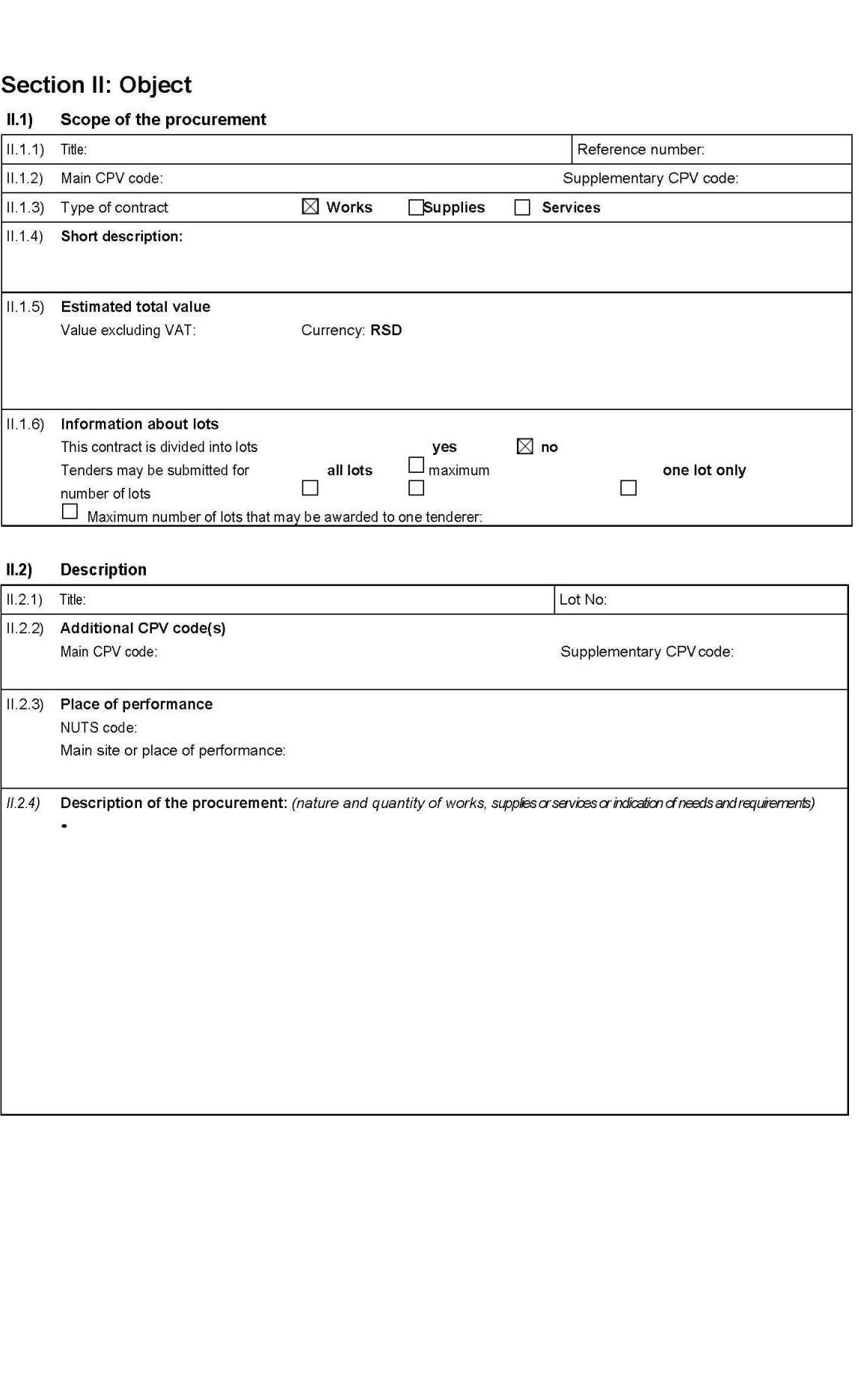
# Annex 5: Model Bidding Document for Works

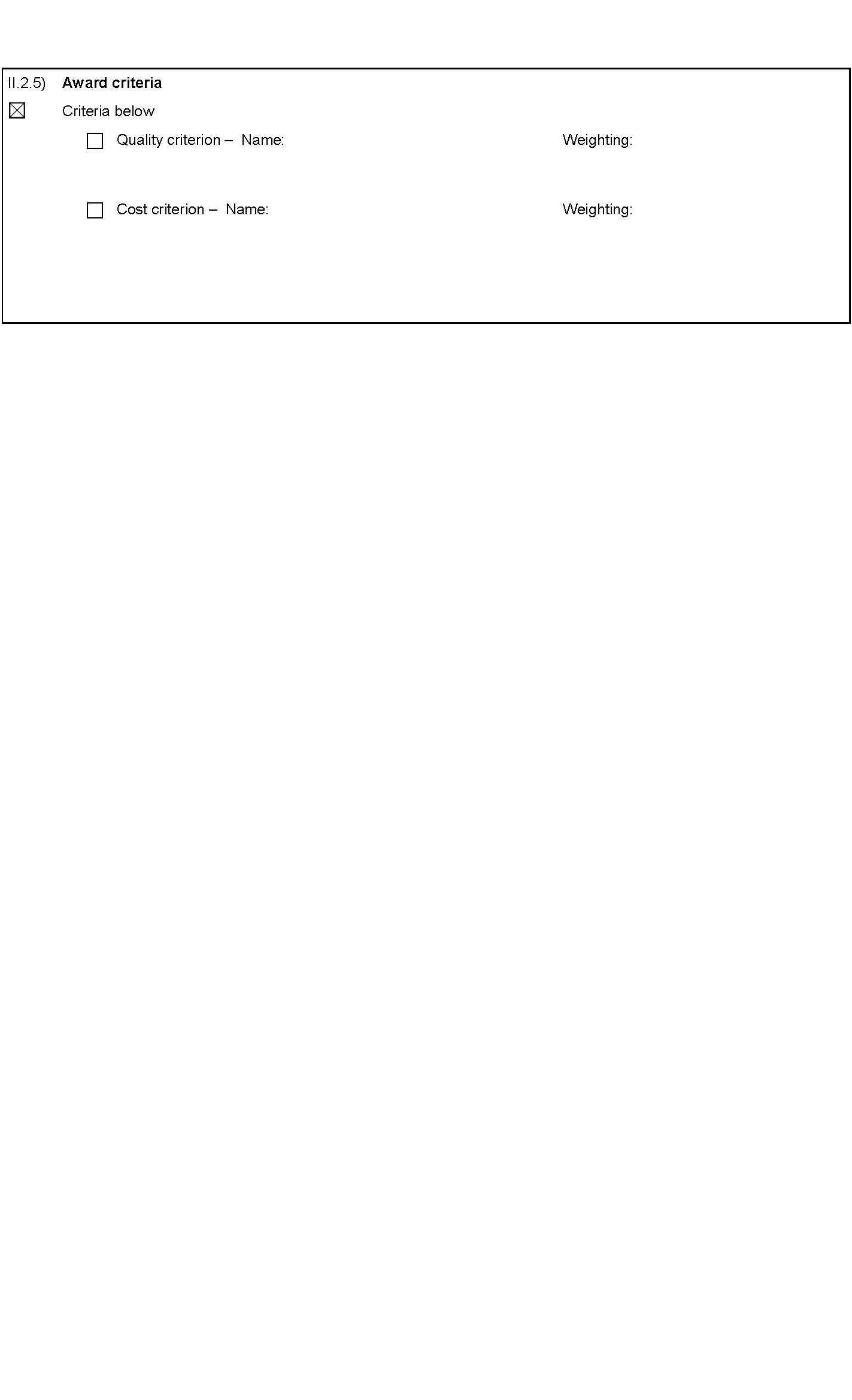


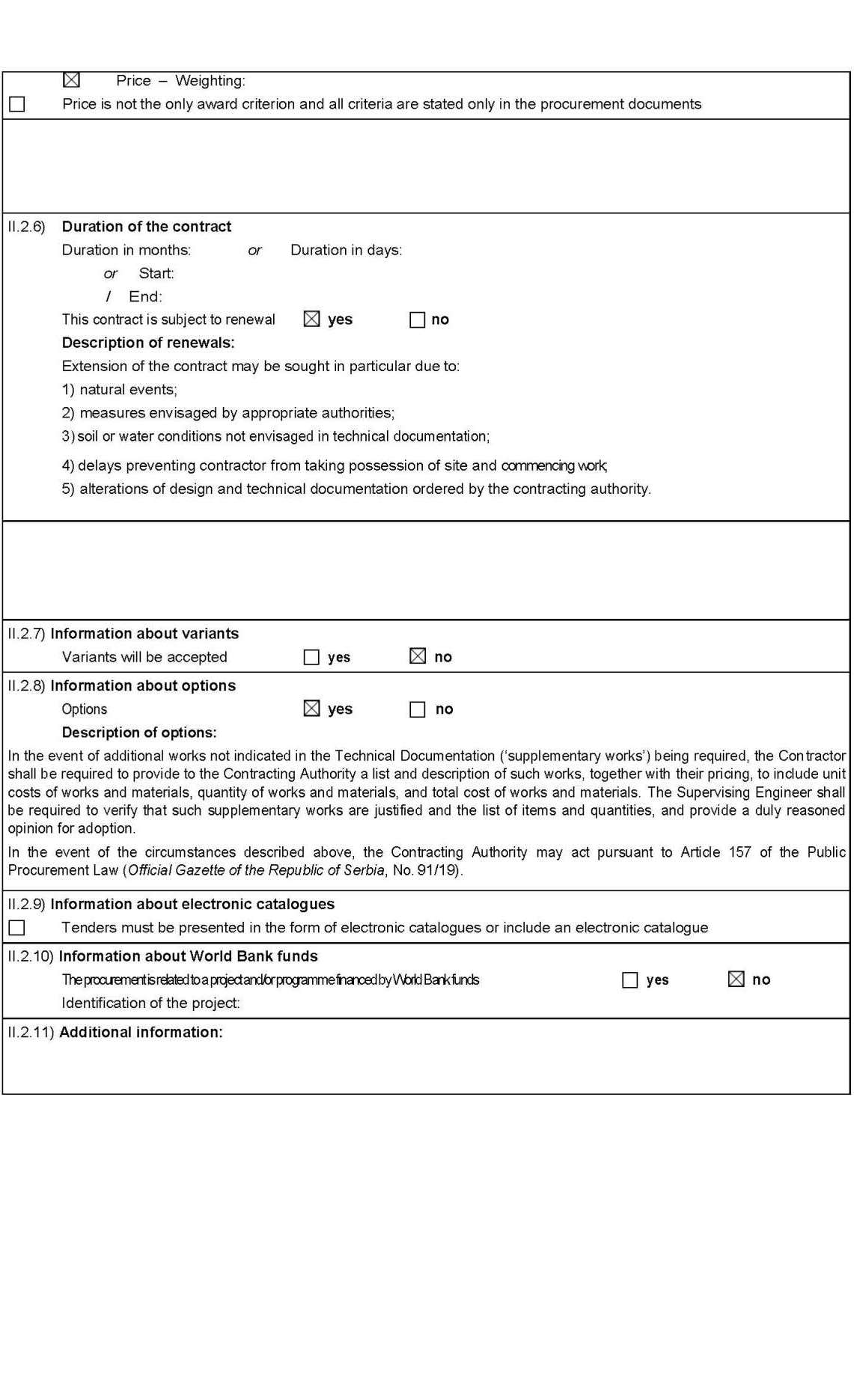


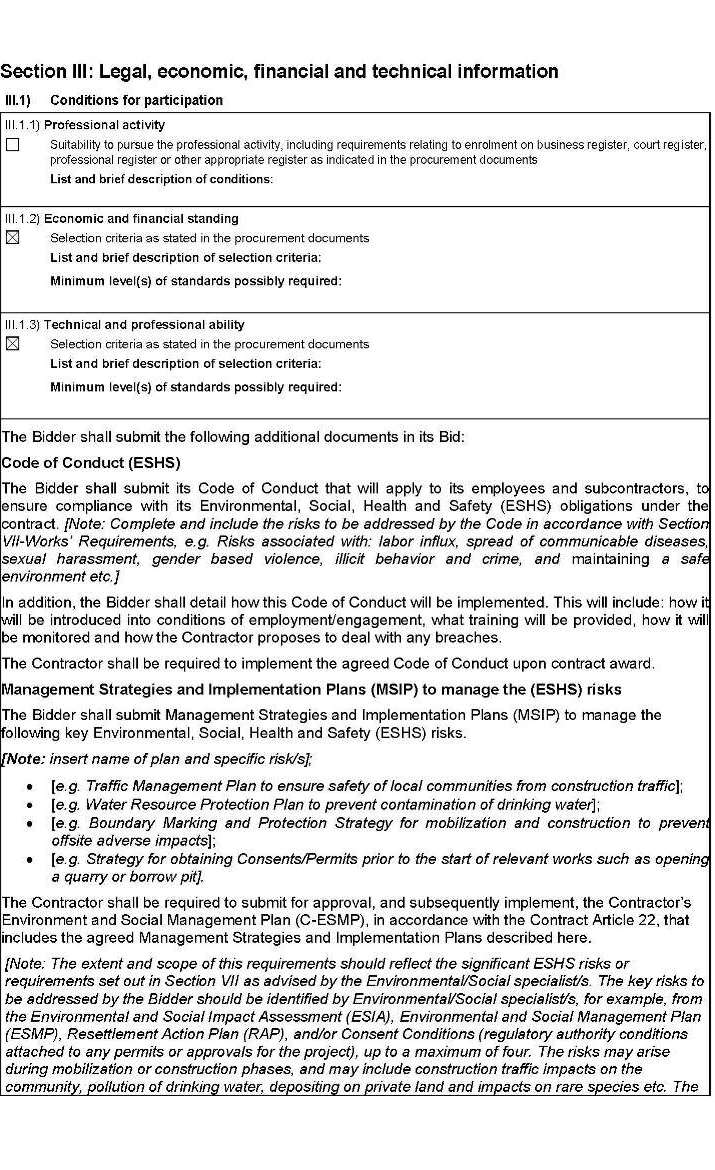




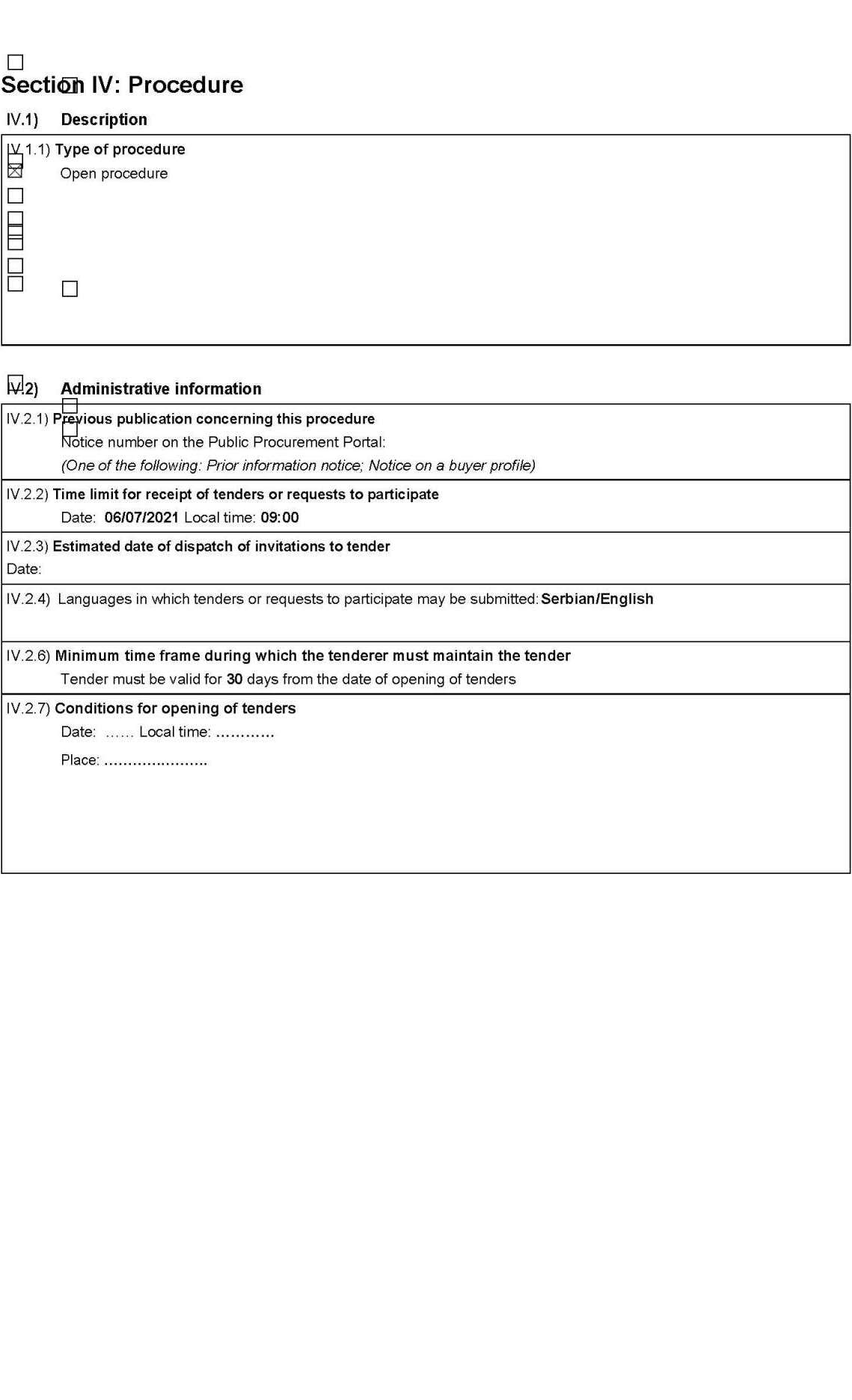


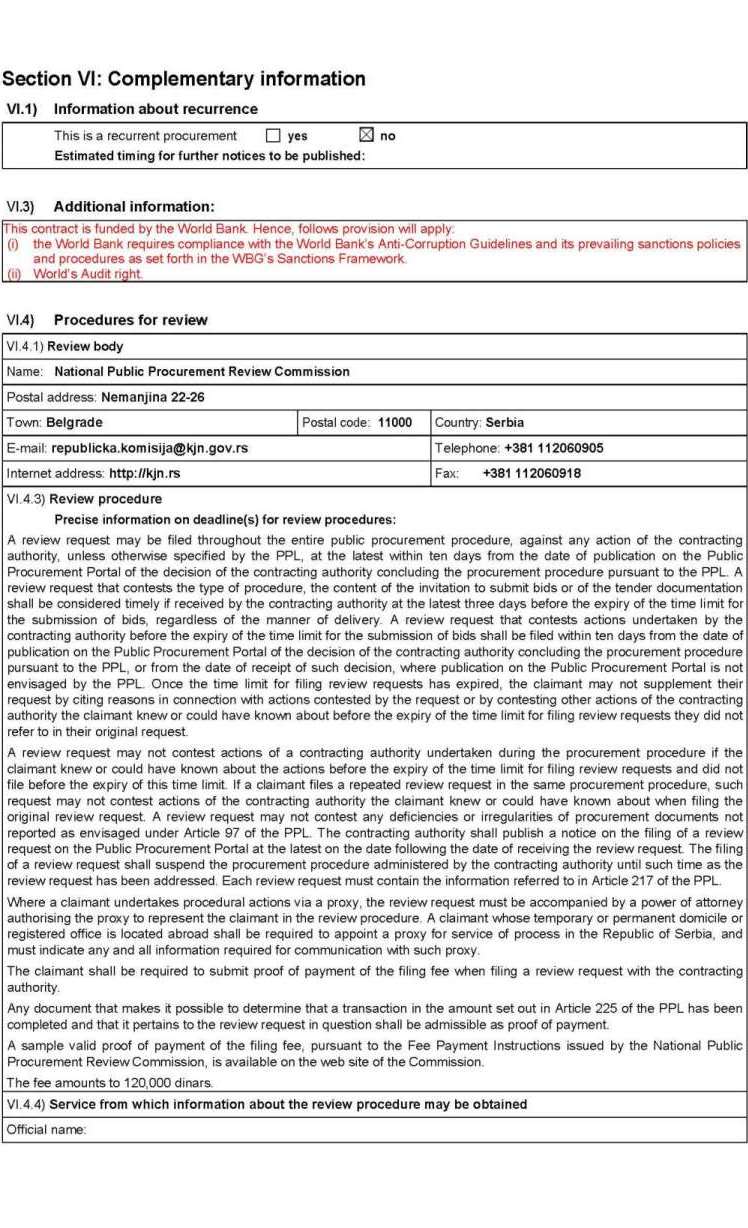


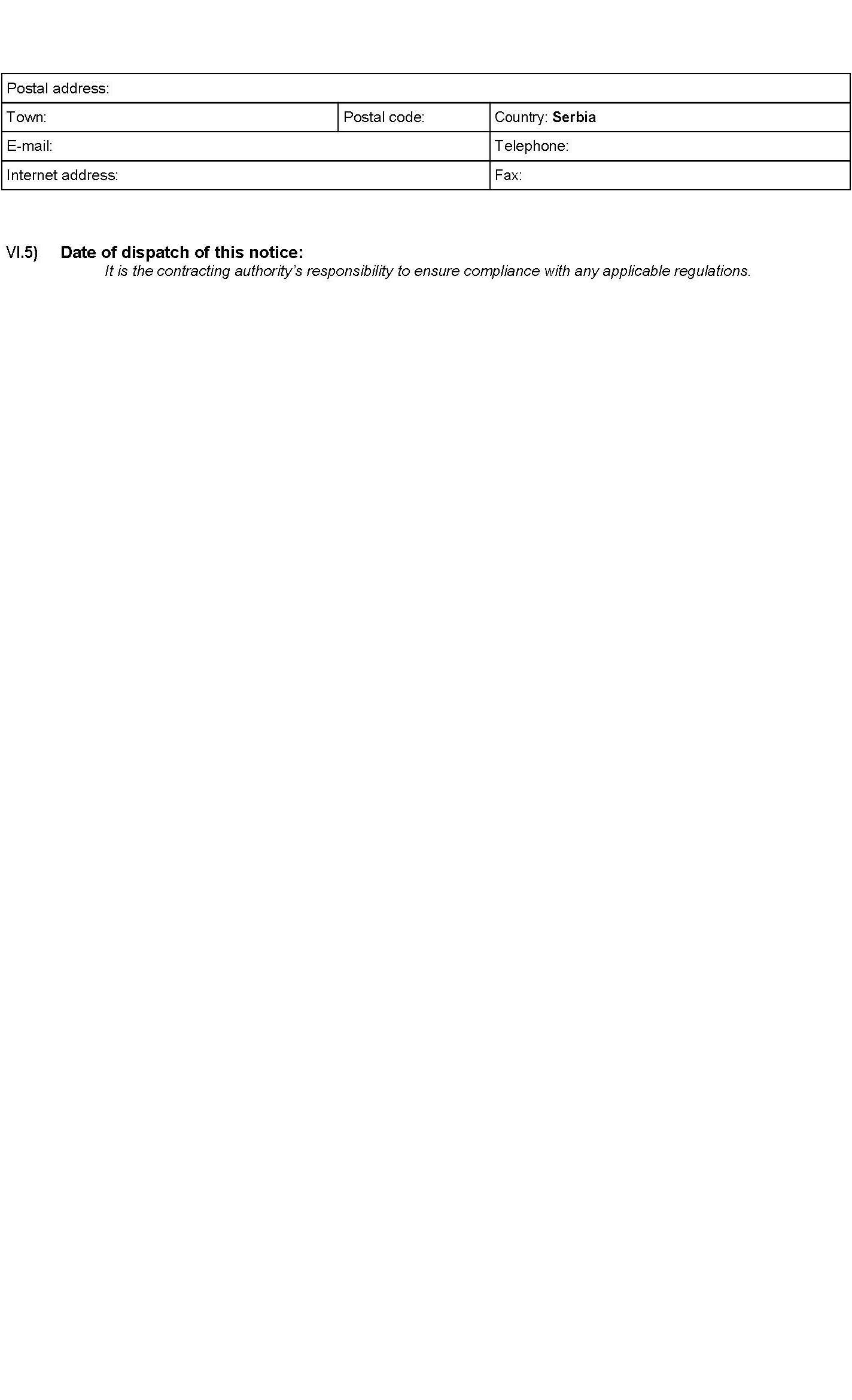


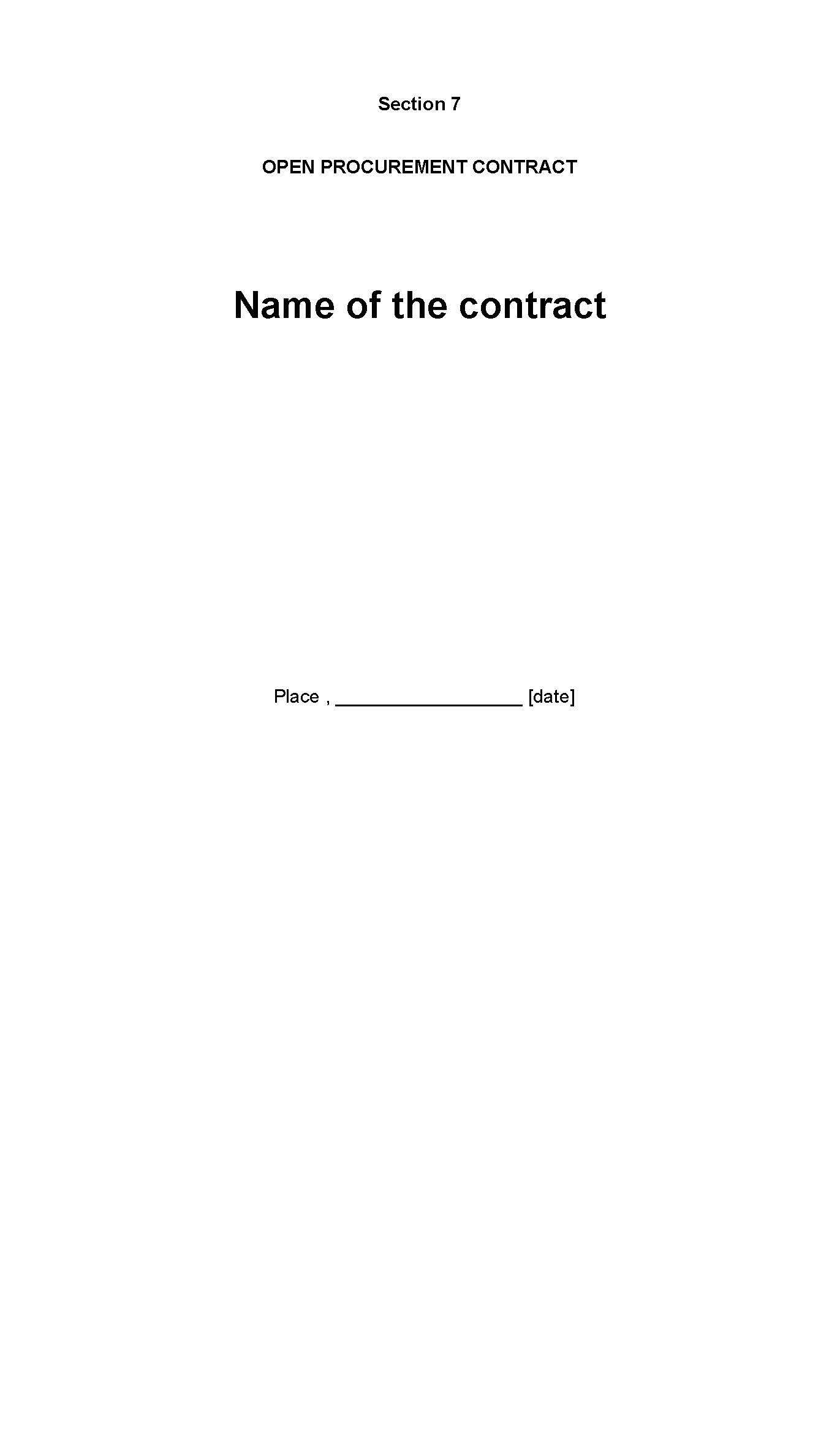


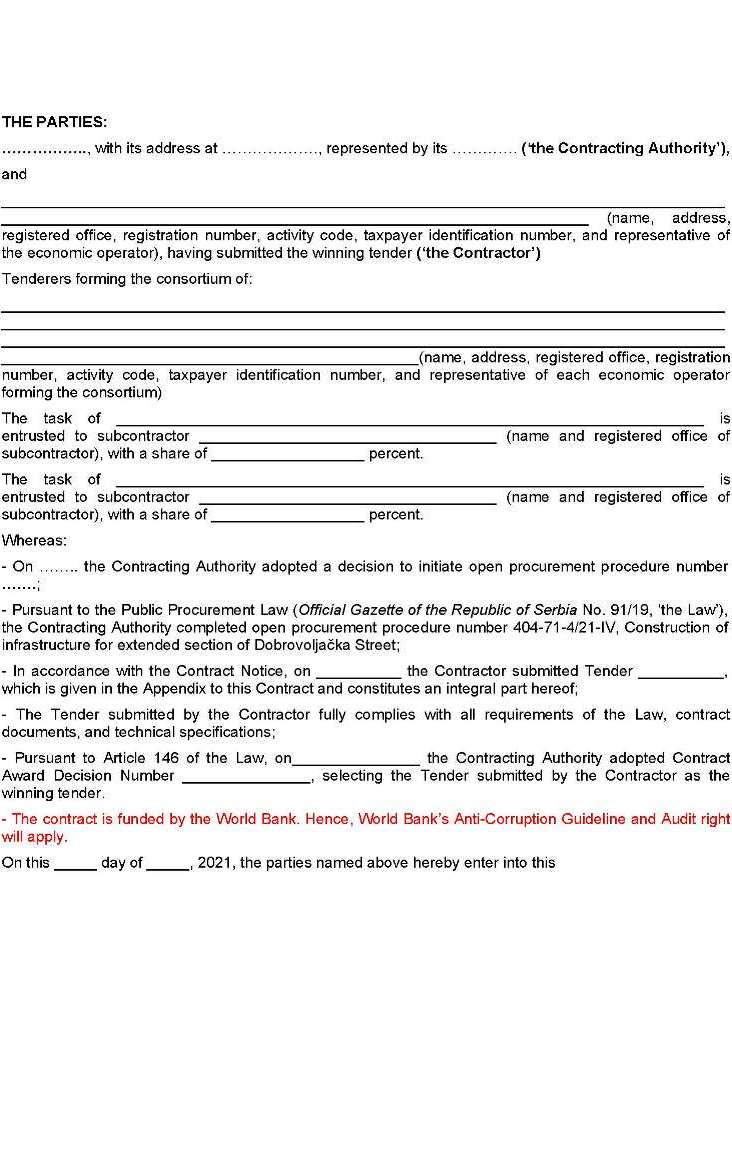


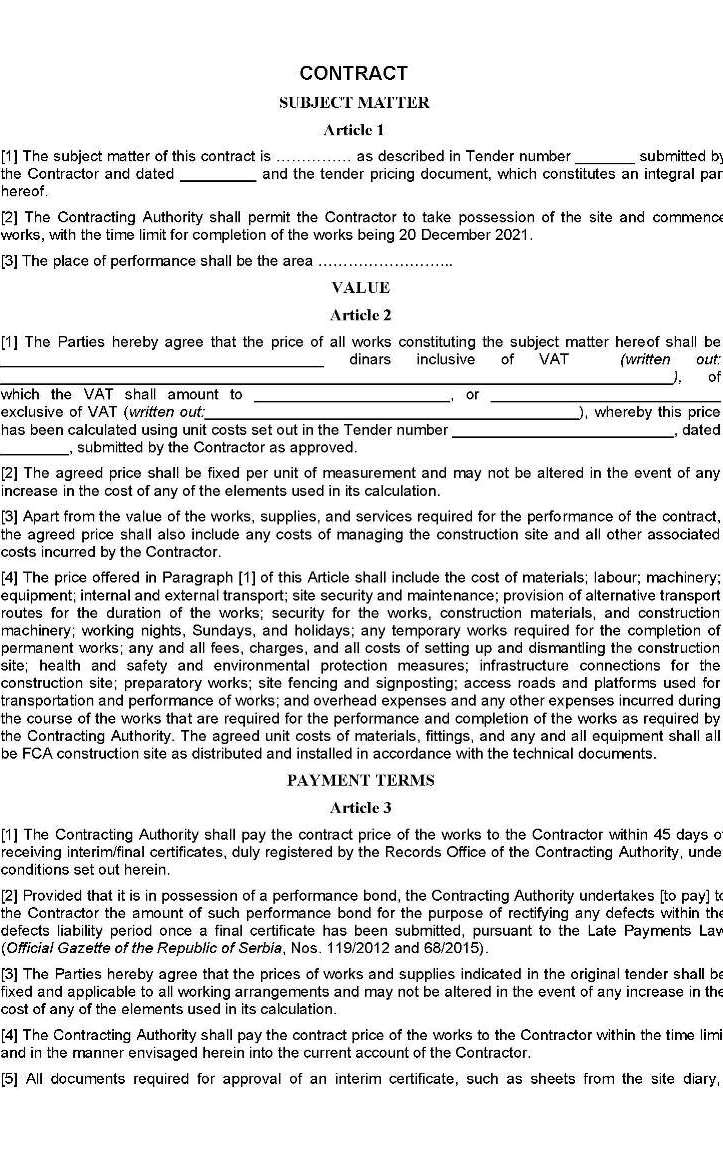


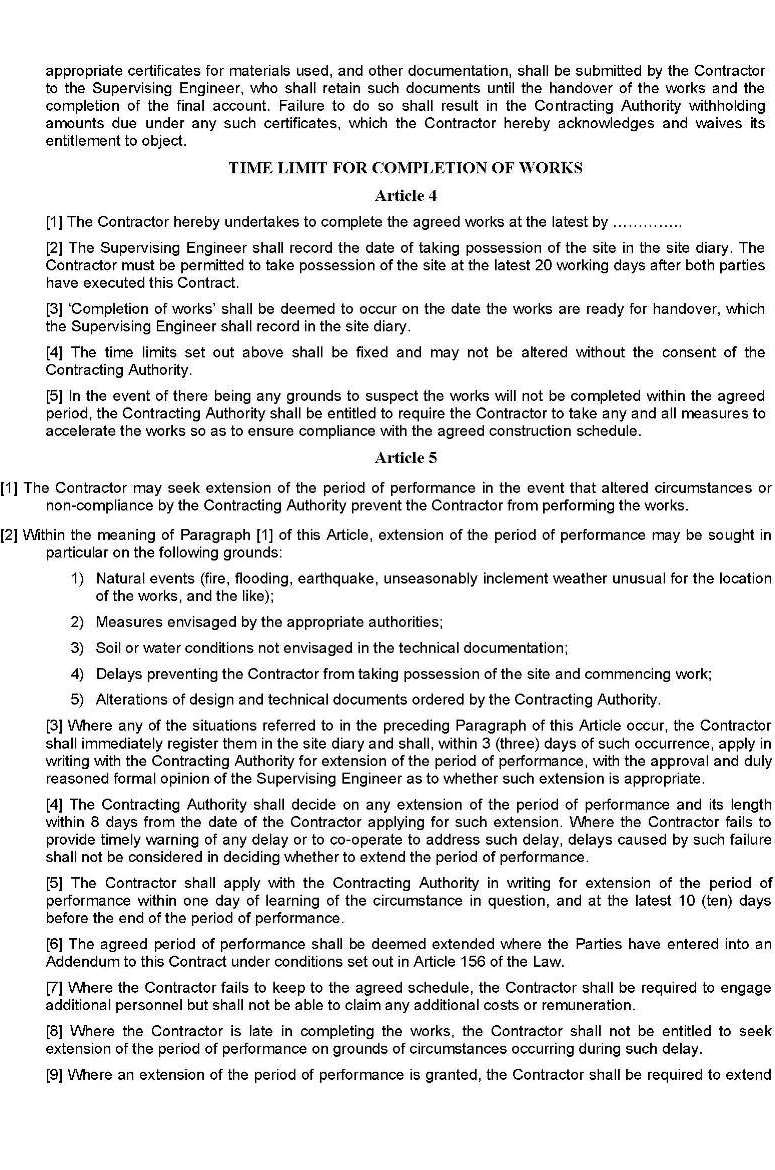


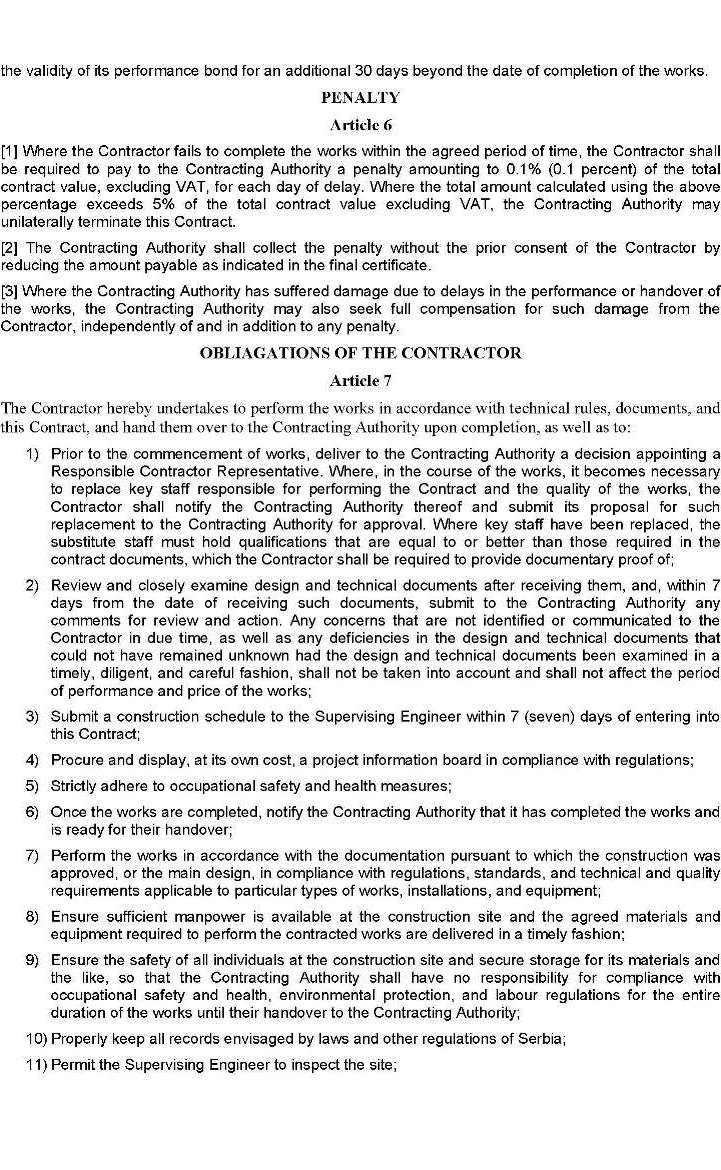


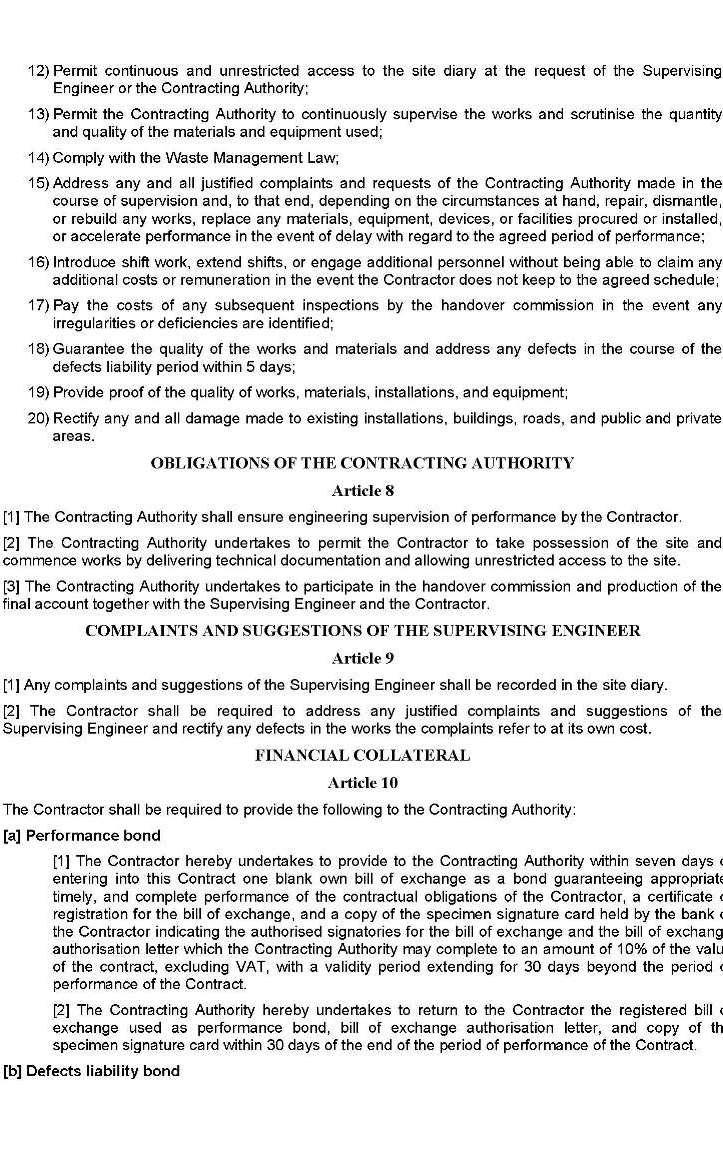


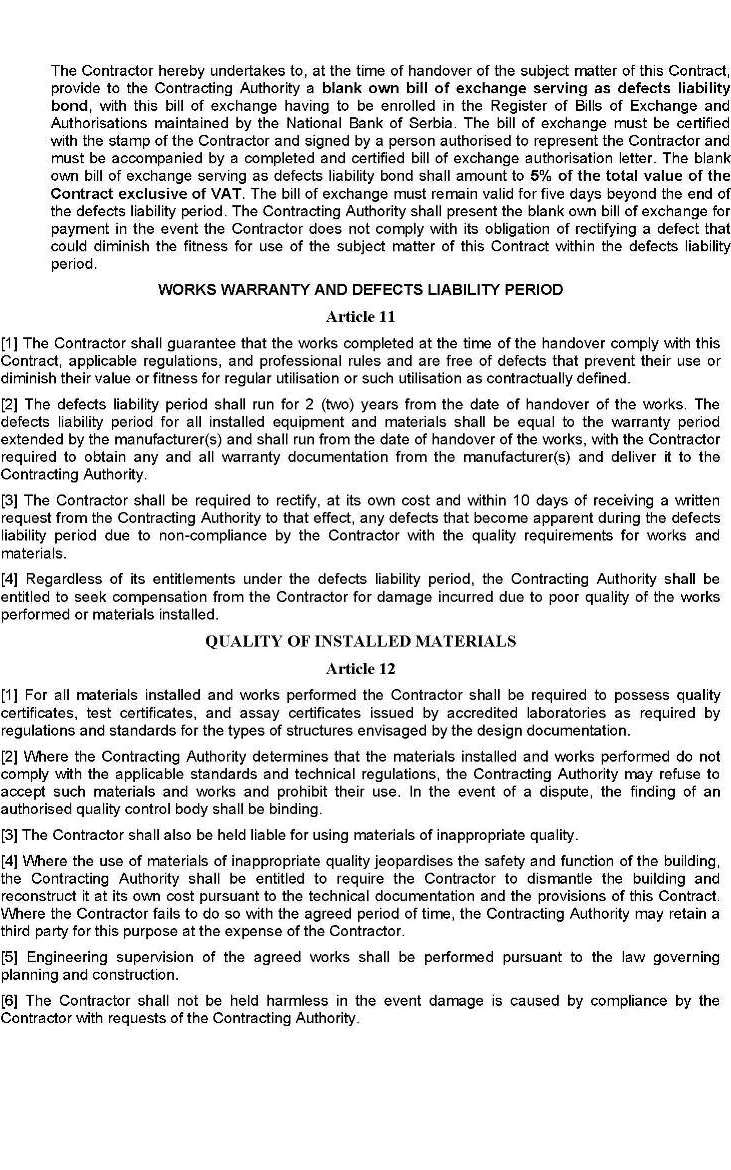


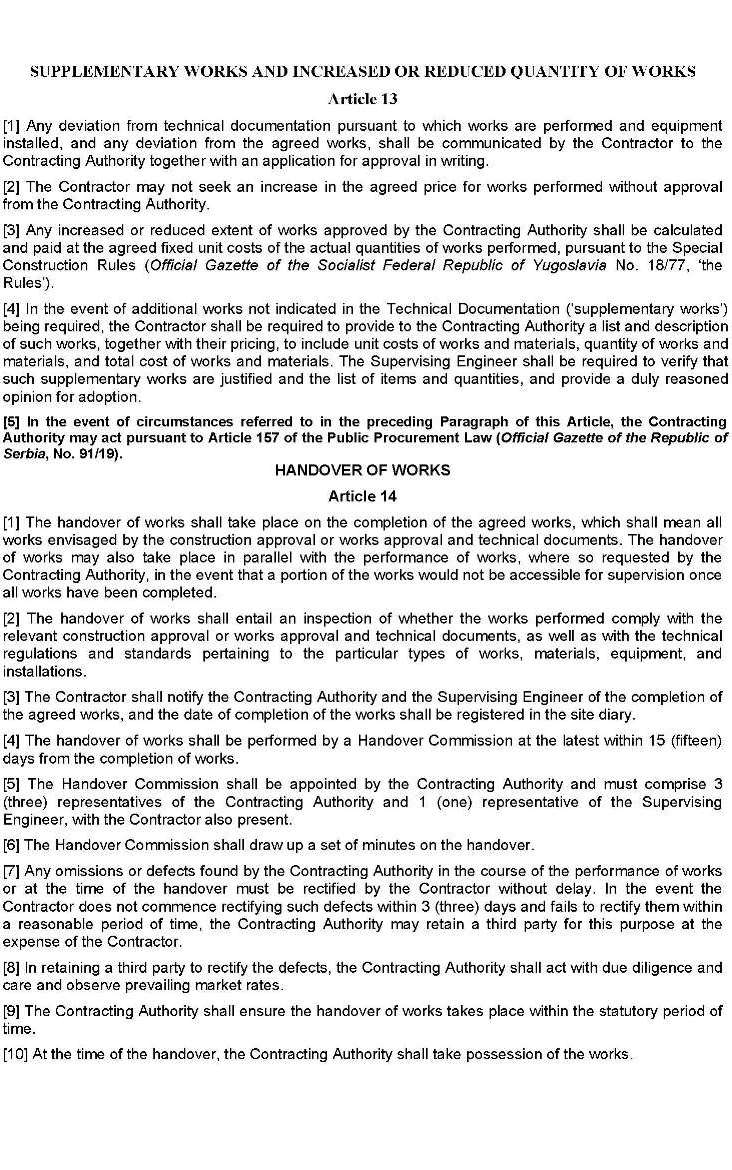


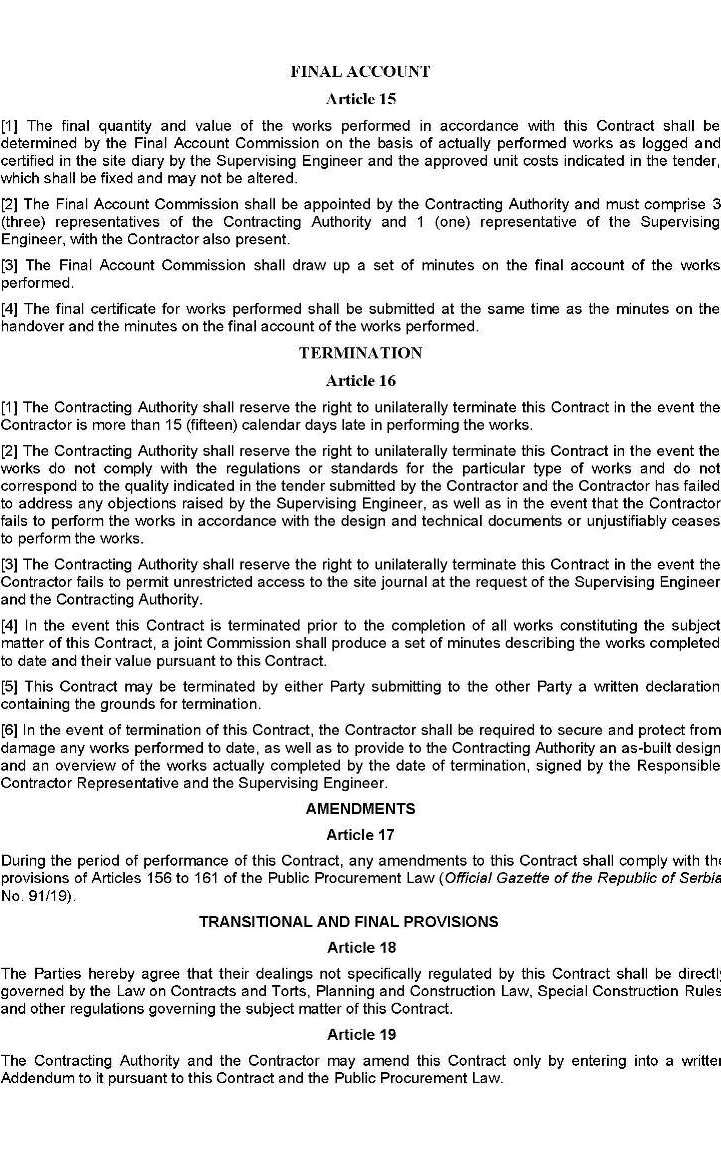


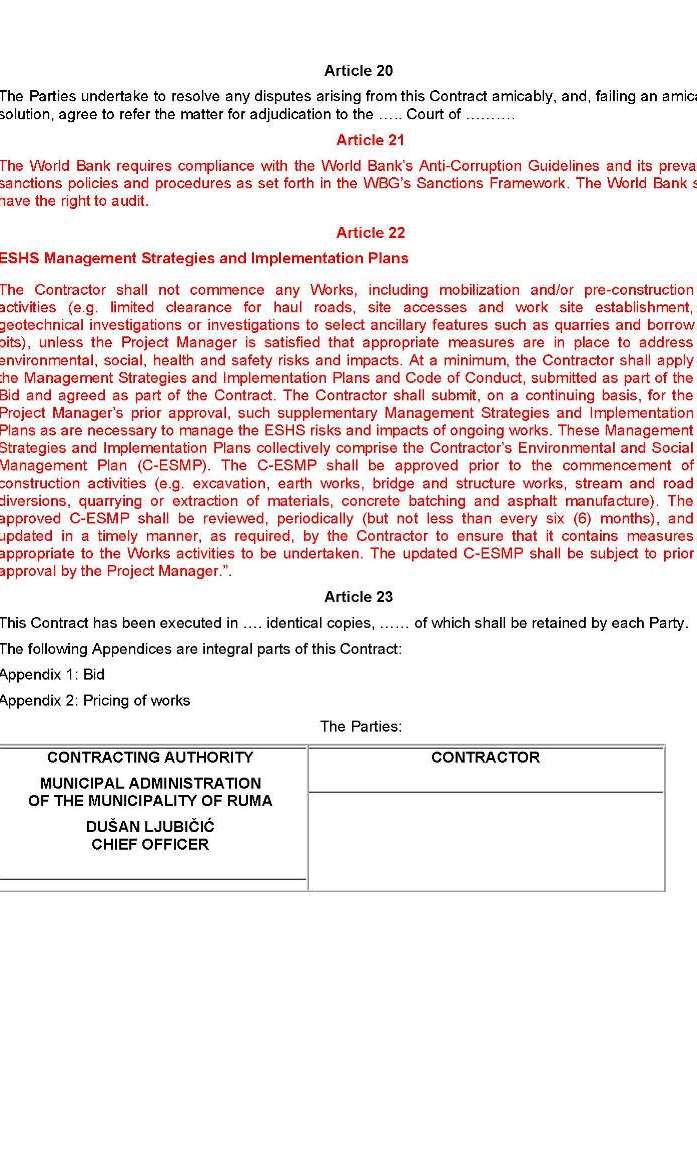












# Annex 6: Draft Procurement Plan

| **Reference** | **Description of contract package** | **Procurement type** | **Procurement method** | **Prior/post review by the Bank** | | **Estimated cost of the project (USD)** | | | **Quarter of tender announcement** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | |  | | |  |
| **Component 1 Climate smart mobility** | |  |  |  | | **281.999.800,00** | | |  |
| **Subcomponent 1.1 Investments in Climate Smart Mobility** | |  |  |  | | **273.424.800,00** | | |  |
| *1.1.1 Infrastructure investments* | |  |  |  | | *272.424.800,00* | | |  |
| 111 | Investments in mobility and resilience infrastructure (rehabilitation, reconstruction, small green fields) | n/a | n/a | n/a | | 272.424.800,00 | | | **2022 Q3** |
| *1.1.2 Investment support activities* | |  |  |  | | *1.000.000,00* | | |  |
| 112A | Technical assistance for carrying out the independent technical audits of civil works on the municipal sub-projects under LIID implementation | CS | CQS | post | | 280.000,00 | | | **2023 Q3** |
| 112B | ESMPs and RAPs plus Trainings to LSG employees in supervision, safeguards ESMP and RAP, and designs | CS | QCBS | post | | 400.000,00 | | | **2022 Q3** |
| 112C | Technical assistance for road safety audit of selected financed projects | CS | QCBS | post | | 320.000,00 | | | **2023 Q3** |
| **Subcomponent 1.2 Sustainable Mobility** | |  |  |  | | *8.500.000,00* | | |  |
| 121 | Technical Advisory for Improvement Local Road Management including development of national policy for management and financing, inventories and RAMS, multiannual infrastructure planning and pipeline identification, and climate vulnerability screening and air pollution and noise monitoring | CS | QCBS | prior | | 3.600.000,00 | | | **2023 Q4** |
| 122 | Technical assistance for improving road safety of children, preparation of intervention action plan, sample BDs for typical situation, and training to the municipal staff | CS | QCBS | post | | 300.000,00 | | | **2023 Q3** |
| 123 | Technical assistance for pilot development of missing Sustainable Urban Mobility Plans (SUMPS) across Serbia by taking into consideration women, vulnerable groups, active mobility, and public transport and establishment of Community of practice (CoP) and interactive guidelines | CS | QCBS | prior | | 3.900.000,00 | | | **2022 Q3** |
| 124 | Call for proposal to finance up to 5(five) smart urban mobility pilots and templates for Smart City contracts, open data where possible | n/a | n/a | n/a | | 700.000,00 | | | **2023 Q4** |
|  |  |  |  |  | |  | | |  |
| **Component 2 Strengthening capacity for infrastructure service delivery** | |  |  |  | | **11.500.000,00** | | |  |
| **Subcomponent 2.1 Enhanced Participatory Planning and Preparation of Pipeline Projects** | |  |  |  | | **6.700.000,00** | | |  |
| 211 | Technical assistance to 15 LSGs to improve local development and capital investment planning, with an emphasis on ensuring stronger citizen engagement, including in terms of women and vulnerable groups. Issues of climate change and resilience to be covered as part of this technical assistance. | CS | QCBS | prior | | 3.700.000,00 | | | **2022 Q4** |
| 212 | Technical assistance to LSGs to support the early identification and preparation of LSG investment sub-projects that go above and beyond the scope of sectors covered under Component 1.1 | CS | QCBS | prior | | 2.800.000,00 | | | **2023 Q1** |
| 213 | Extension of the eGovernment Portal with the service supporting citizen participation | NCS | RFB | post | | 200.000,00 | | | **2023 Q4** |
| **Subcomponent 2.2 Strengthened infrastructure Service Delivery Enablers** | |  |  |  | | **4.800.000,00** | | |  |
| 221 | Technical assistance recommending improvements in access to financing, including addressing fiscal decentralization framework, municipal funds, green financing, donor financing, and attracting commercial financing | CS | QCBS | prior | | 1.000.000,00 | | | **2023 Q1** |
| 222 | Technical assistance to review currently fragmented institutions and human capital and propose consolidated approach to institutional setup and process simplification including role of SOEs and definition of necessary trainings/retraining | CS | QCBS | post | | 800.000,00 | | | **2022 Q4** |
| 223 | Developing PIMS database for LSG, in accordance with central level PIMS | NCS | RFB | post | | 550.000,00 | | | **2023 Q4** |
| 224 | Implementation of the Project Management tool, installation at LSGs, trainings, guidelines | NCS | RFB | post | | 1.200.000,00 | | | **2023 Q1** |
| 225 | 40 paid internships | n/a | n/a | n/a | | 100.000,00 | | | **2022 Q4** |
| 226 | Technical assistance to improve local treasury management and budget execution and accounting, monitoring and reporting practices for local public investments with a special focus on transparency, M&E and reporting on green impacts and SOEs performances with trainings | CS | QCBS | post | | 500.000,00 | | | **2023 Q1** |
| 227 | Technical assistance and capacity building trainings and CoPs for green cities, engineering, procurement, environmental aware design, contract management | CS | QCBS | post | | 650.000,00 | | | **2022 Q4** |
| **Component 3 Project management and awareness raising** | |  |  |  | | **6.500.200,00** | | |  |
| *3.1 PIU* |  |  |  |  | | *4.902.200,00* | | |  |
|  | Head of PIU | CS | IC/DS | Prior | | 264.000,00 | | | **2022 Q1** |
|  | Deputy head of PIU | CS | IC/DS | Prior | | 250.800,00 | | | **2022 Q1** |
|  | Administrative Assistant | CS | IC | Post | | 113.400,00 | | | **2022 Q3** |
|  | Environmental specialist \*2 | CS | IC | Post | | 300.000,00 | | | **2022 Q3** |
|  | Social safeguard specialist and citizen engagement specialist | CS | IC | Post | | 176.400,00 | | | **2022 Q3** |
|  | Human development specialist | CS | IC | Post | | 150.000,00 | | | **2022Q4** |
|  | Urban mobility experts / transport planners/traffic engineers \* 4 | CS | IC | Post | | 696.000,00 | | | **2022 Q3** |
|  | road safety expert | CS | IC | post | | 174.000,00 | | | **2022 Q3** |
|  | Civil engineers \* 5 | CS | IC | Post | | 885.000,00 | | | **2022 Q3** |
|  | Transport economist | CS | IC | Post | | 162.400,00 | | | **2022Q4** |
|  | Urban development specialist \* 3 | CS | IC | Post | | 460.200,00 | | | **2022 Q3** |
|  | disaster risk management specialist | CS | IC | Post | | 168.000,00 | | | **2022Q4** |
|  | Institutional development specialist / policy specialist | CS | IC | Post | | 168.000,00 | | | **2022Q4** |
|  | Investment financing expert, fund raising, fund expert | CS | IC | Post | | 145.000,00 | | | **2022Q4** |
|  | Procurement Capacity Development Specialist | CS | IC | Post | | 145.000,00 | | | **2022Q4** |
|  | Public Financial Management specialist | CS | IC | Post | | 145.000,00 | | | **2022Q4** |
|  | Public communications, awareness campaigns | CS | IC | Post | | 132.000,00 | | | **2022 Q3** |
|  | IT specialist | CS | IC | Post | | 192.000,00 | | | **2022Q4** |
|  | M&E Specialist | CS | IC/DS | Post | | 75.000,00 | | | **2022Q4** |
|  | Occupational, Health and Safety specialist | CS | IC | Post | | 100.000,00 | | | **2022Q4** |
| *3.2 Office equipment, operating costs, awareness raising* | |  |  |  | | *1.598.000,00* | | |  |
| 3.2.1. | IT Equipment | G | RFQ | post | | 75.000,00 | | | **2022 Q3** |
| 3.2.2 | Furniture and consumables for PIU staff office \*multiple | G | RFQ | post | | 180.000,00 | | | **2022 Q3** |
| 3.2.3 | Vehicles for PIU | G | RFQ | post | | 73.000,00 | | | **2022 Q4** |
| *3.2.4* | Audit | CS | QCBS | post | | 100.000,00 | | | **2022 Q4** |
| 325 | web page development, maintenance, administration, repository development | NCS | RfB | post | | 120.000,00 | | | **2022 Q3** |
| *326* | *Operating costs including training (including CFU staff)* | n/a | n/a | n/a | | 550.000,00 | | |  |
| *327* | *Stakeholder engagement and awareness campaigns for civil society* | CS | QCBS | post | | 500.000,00 | | | **2022 Q4** |
| **TOTAL:** |  |  |  |  | | **300.000.000,00** | | |  |
| **Front-end Fee; Deleted from the Table, considering the comments on the meeting. This amount will be included in the Loan Agreement** | | | | | | **75.000,00** | | |  |
|  |  |  | | | **Total** | |  | **300.075.000,00** |  |

# Annex 7: Template of the Environmental Screening Questionnaire

|  |  |  |  |
| --- | --- | --- | --- |
| Local Self Government/Municipality/City/District |  | | |
| Name of the Project / infrastructure investment: |  | | |
| Basic information on proposed project and activities (please describe main features) |  | | |
| Project IF ID: |  | | |
| Location of the infrastructure investment/activity: |  | | |
| Contact email address of responsible person at the location for providing relevant information: |  | | |
| PROJECT ELIGIBILITY CRITERIA | | YES | NO |
| Does the proposed activity require a FULL Environmental Impact Assessment as per the Serbian Law on Environmental Impact Assessment (list of Projects for which full EIA is mandatory/decided)?  (EIA Requirement per se does not classify the activity as high risk) | |  |  |
| Does the existing enterprise need to follow specific Serbian environmental regulations regarding air emissions, water use or wastewater discharge and solid waste management? | |  |  |
| Does the existing enterprise take care about associated facilities (if applicable) relevant environmental and social performance?  If possible, explain the answer | |  |  |
| Are serious adverse cumulative or transboundary impacts:  H: Expected?  S: Expected, but less severe and more readily avoided or mitigated?  M: Not expected? Project impact is site-specific, unlikely to go beyond project footprint?  L: Minimal or negligible? | |  |  |
|  |  |
|  |  |
|  |  |
|  |  |
| Is the area likely to be affected?  H: Sensitive and valuable ecosystems and habitats? Legally protected and internationally recognized high biodiversity value areas? Lands or rights IP or other vulnerable minorities? Intensive or complex resettlement? Impacts on cultural heritage? Densely populated urban areas? History of unrest in Project areas or sector? Significant concerns regarding the activities of security forces? Recognized as a regional or national cultural heritage?  S: Issues such as above are relevant but to a lower extent?  M: Located away from environmentally or socially sensitive areas | |  |  |
|  |  |
|  |  |
|  |  |
| Reversibility of Project risk and impacts. Are the Project social and environmental risk and impacts:  H: Long-term, permanent, and irreversible?  S: Mostly temporary, predictable and/or reversible?  M: Predictable and expected to be temporary and/or reversible?  L: Minimal or negligible? | |  |  |
| Will the activity consume, use or store, produce hazardous materials that are outlawed or banned in EU? | |  |  |
| Has the local population or any NGOs expressed concern about the proposed activity’s environmental aspects or expressed opposition? | |  |  |
| Is there any other aspect of the activity that would – through normal operations or under special conditions – cause a risk or have an impact on the environment, the population or could be considered as a nuisance? | |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Form checked by  The PIU Environmental specialist and Social safeguard and citizen engagement specialist | |  | Form checked by  The Head of the PIU | |
| Project category: H S M L | |  | Project category: H S M L | |
| Date |  |  | Date |  |
| Name |  |  | Name |  |
| Title |  |  | Title |  |
| Signature |  |  | Signature |  |

# Annex 8: Template of the Social Screening Questionnaire

|  |  |  |  |
| --- | --- | --- | --- |
| SOCIAL SCREENING FORM AND TRIGGERS FOR SUBCOMPONENTS | | | |
| Local Self Government/Municipality/City/District |  | | |
| Name of the Project / infrastructure investment: |  | | |
| Basic information on proposed project and activities (please describe main features) |  | | |
| Project IF ID: |  | | |
| Location of the infrastructure investment/activity: |  | | |
| Contact email address of responsible person at the location for providing relevant information: |  | | |
| PROJECT ELIGIBILITY CRITERIA | | YES | NO |
| Screening indicators related to Land acquisition, assets and access to resources | | | | |
|  | | | YES | NO |
| What is the scale of the geographical area or population adversely affected by the Project?  H: Large to very large?  S: Medium to large?  M: Low? Located away from environmentally or socially sensitive areas?  L: Minimal or negligible? | | |  |  |
|  |  |
|  |  |
|  |  |
|  |  |
| Does the Project implementation require land (private) to be acquired (temporarily or permanently)? If yes specify area. | | |  |  |
| Does the Project implementation envisage the use of land that is currently occupied or regularly used for productive purposes (e.g., gardening, farming, pasture, fishing locations, forests)? If yes indicate current land use | | |  |  |
| Specify the number of persons affected by economic displacement?  (if not known at this stage please provide the best estimate and explain what the estimation is based on) | | |  |  |
| Does the subproject require physical displacement of individuals, families or businesses? Specify the number of persons affected by economic displacement?  (if not known at this stage please provide the best estimate and explain what the estimation is based on) | | |  |  |
| Will the subproject implementation result in the temporary or permanent loss of crops, fruit trees or household infrastructure?  (if not known at this stage please provide the best estimate and explain what the estimation is based on) | | |  |  |
| Will the subproject implementation result in the involuntary restriction of access by people to legally designated parks and protected areas? | | |  |  |
| Will the subproject implementation have negative impact to any vulnerable individuals or groups?  (Please specify what the drivers of vulnerability are, how would these be adversely impacted, or the vulnerability exacerbated? Specify or estimate the number of persons /groups and their qualifying characteristics. | | |  |  |
| Will the subproject implementation have negative impact to informal side road shops, traders or any nomadic type of commercial activity | | |  |  |
| Community Health and Safety.  What is the probability of subproject impacts to human health and/or the environment (due to accidents, toxic waste disposal, etc.)?  H: High?  S: Medium to low?  M: Low?  L: Minimal or negligible? | | |  |  |
|  |  |
|  |  |
|  |  |
|  |  |
| Scale of risks and impacts.  What is the scale of the geographical area or population affected by the Project?  H: Large to very large  S: Medium to large  M: Low  L: Minimal or negligible | | |  |  |
|  |  |
|  |  |
|  |  |
|  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Form checked by  PIU Environmental specialist and Social safeguard and citizen engagement specialist | |  | Form checked by  Head of PIU | |
| Project category: H S M L | |  | Project category: H S M L | |
| Date |  |  | Date |  |
| Name |  |  | Name |  |
| Title |  |  | Title |  |
| Signature |  |  | Signature |  |

# Annex 9: Terms of Reference for Financial Audit

**TERMS OF REFERENCE (TOR)**

**FOR THE AUDIT OF THE SERBIA LOCAL INFRASTRUCTURE AND INSTITUTIONAL DEVELOPMENT PROJECT THE YEARS 2022 -2026**

**Background [*OPTIONAL*]**

*The TOR should provide appropriate background information of the project, including:*

*(a) a brief description of the project including information on project sources of funding;*

*(b) a general description of implementation arrangements, including the organizational structure of all implementing entities (if more than one);*

*(c) list the source and total amount of funds for the period subject to audit under this TOR (Bank’s loan/credit, trust funds, counterpart funds, etc).*

**Objective**

The objective of the audit of the project financial statements (PFS) is to enable the auditor to express a professional opinion on the project's financial position as at the end of [AUDIT REFERENCE DATE] and of the income and expenditure for the accounting period ending on that date. The project's books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the project.

**Responsibility for preparation of financial statements**

The responsibility for the preparation of financial statements including adequate disclosure is that of the project’s management. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the project. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

**Scope**

The audit will be conducted in accordance with [International Standards on Auditing](http://www.ifac.org/publications-resources/2012-handbook-international-quality-control-auditing-review-other-assurance-a) (ISA) published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC) [*OR REFER TO RELEVANT NATIONAL STANDARDS OR PRACTICES*]. Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In complying with ISA, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:

1. In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud as required by [International Standard on Auditing 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements](http://www.ifac.org/sites/default/files/publications/files/A013%202012%20IAASB%20Handbook%20ISA%20240.pdf).
2. When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements as required by [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](http://www.ifac.org/sites/default/files/publications/files/A014%202012%20IAASB%20Handbook%20ISA%20250.pdf).
3. The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity as required by [International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance](http://www.ifac.org/sites/default/files/publications/files/A015%202012%20IAASB%20Handbook%20ISA%20260.pdf).
4. The auditor should communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements as required by [International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](http://www.ifac.org/sites/default/files/publications/files/A016%202012%20IAASB%20Handbook%20ISA%20265.pdf).
5. In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level as required by [International Standard on Auditing 330: The Auditor’s Procedures in Response to Assessed Risks](http://www.ifac.org/sites/default/files/publications/files/A020%202012%20IAASB%20Handbook%20ISA%20330.pdf).
6. In instances where certain aspects of an entity’s operations are performed by a third party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process as required by [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization](http://www.ifac.org/sites/default/files/publications/files/A021%202012%20IAASB%20Handbook%20ISA%20402.pdf).
7. As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance as required by [International Standard on Auditing 580: Written Representations](http://www.ifac.org/sites/default/files/publications/files/A033%202012%20IAASB%20Handbook%20ISA%20580.pdf).

In evidencing compliance with agreed project financing arrangements the auditor is expected to carry out tests to confirm that:

1. External funds have been used in accordance with the conditions of the relevant general conditions, relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant general conditions and financing agreements are [CITE RELEVANT GENERAL CONDITIONS AND FINANCING AGREEMENTS];
2. Counterpart funds have been provided and used in accordance with the relevant general conditions, relevant financing agreements, and only for the purposes for which they were provided;
3. Goods and services financed have been procured in accordance with the relevant general conditions and relevant financing agreements[[15]](#footnote-16), including specific provisions of the World Bank Procurement Guidelines;
4. Necessary supporting documents, records, and accounts have been kept in respect of all Project ventures including expenditures reported via Summary Report or Statements of Expenditures (SOEs) (or Interim Un-audited Financial Reports (IFRs)) if used as the basis of disbursement), or two segregated Designated Accounts (DAs). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
5. Where Designated Accounts have been used, they have been maintained in accordance with the provisions of the relevant general conditions and relevant financing agreements;
6. Review the compliance on each of the financial covenants in the [STATE SPECIFIC SECTION OF LOAN/FINANCING AGREEMENT and list, as necessary].
7. Applied procedures with regard to grants are aligned with the GOM including procedures of verification by the implementing entity of the adequacy of financial reports and accompanying documentation delivered by the grant beneficiaries.

**Project Financial Statements prepared under the Cash-basis**

The Project Financial Statements should include as a minimum the information required by the IPSAS “Financial Reporting Under the Cash Basis of Accounting”. These would include

1. A Summary of Funds received, showing the World Bank, Project funds from other donors, and counterpart funds separately.
2. A Summary of Expenditures paid in cash, shown under the main project headings and by main categories of expenditures, both for the current fiscal year and accumulated to-date;
3. Accounting policies and explanatory notes (including additional accounting policies and disclosures), covering
   * a Summary of Summary Reports or SOEs used as the basis for the submission of withdrawal applications in the notes, as appropriate;
   * a Statement of two segregated Designated Accounts in the notes, as appropriate;
   * a Statement of Financial Position showing Accumulated Funds of the Project, bank balances, other assets of the Project, and liabilities, if any; and
4. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.

[*The explanatory notes should include reconciliation between the amounts shown as "received by the project from the World Bank" and that disbursed by the Bank and a summary of movements on the project’s two segregated Designated Accounts.*]

**Summary Reports or Statement of Expenditures**

(Or IFRs if used as the basis of disbursement)

The auditor is required to audit all Summary Reports or SOEs and IFRs submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s).

Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, they should be separately reported.

The Project Financial Statements should include a schedule listing of individual Summary Reports or SOEs (or IFRs used as the basis of disbursement) withdrawal applications by specific reference number and amount.

The auditor should pay particular attention as to whether:

1. the Summary Reports or SOEs (or IFRs) have been prepared in accordance with the provisions of the relevant financing agreement.
2. expenditures have been made wholly and necessarily for the realization of project objectives.
3. information and explanation necessary for the purpose of the audit have been obtained;
4. supporting records and documents necessary for the purpose of the audit have been retained, and
5. the Summary Reports or SOEs (or IFRS) can be relied upon to support the related withdrawal applications.
6. and accompanying documentation.

**Designated Accounts**

During the audit of the project financial statements, the auditor is required to review the activities of the project’s designated account(s). Activities to be examined will include deposits received, payments made, interest earned and reconciliation of period-end balances.

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the two segregated Designated Accounts at the end of the fiscal year and the adequacy of internal controls for this type of disbursement mechanism.

**Audit Reports**

The auditors will issue an audit opinion on the Project Financial Statements. The audit ToR will extend the scope in order to review and provide opinion on the applied procedures with regard to grants are aligned with the GOM including procedures of verification by the implementing entity of the adequacy of financial reports and accompanying documentation delivered by the grant beneficiaries.

In addition to the audit opinion, the auditor will prepare a "management letter," in which the auditor will:

1. provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
2. identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
3. report on instances of non-compliance with the terms of the financial agreement(s);
4. quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or which have been claimed from the World Bank;
5. communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the project;
6. bring to the borrower's attention any other matters that the auditor considers pertinent; and
7. include management's comments in the final management letter.

If none of the above applies, and a management letter is therefore not prepared, the auditor will issue a letter stating that during the audit nothing has come to their attention that the auditor considers pertinent to be brought to the attention of the borrower. The financial statements, including the audit opinion, and management letter should be received by the Project implementing agency, no later than six months after the end of the audited fiscal year. The Project’s implementing agency should then promptly forward two copies of these to the World Bank.

**Public Disclosure**

In accordance with "The World Bank (the Bank) Policy on Access to Information" dated July 1, 2010 for Bank-financed operations for which the invitation to negotiate is issued on or after July 1, 2010, the Bank requires that the borrower makes the audited financial statements publicly available in a timely fashion and manner acceptable to the Bank. **In addition**, following the Bank’s formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.

Management Letters, special audits (i.e., whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be the part of the definition of the audited financial statements for the purposes of disclosure.

Only in exceptional cases the Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required to disclose an abridged version of them in a form acceptable to the Bank. Exceptions are approved by World Bank management.

**General**

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the Project. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.

The auditor is encouraged to meet and discuss audit related matters including input to the audit plan with the World Bank project task team.

It is highly desirable that the auditor become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements. These guidelines include:

* Reference Material to the Financial Management Manual for World Bank-Financed Investment Operations (March 2010): *RM 3 - Financial Reporting and Auditing*; [Disbursement Handbook for World Bank Clients](https://clientconnection.worldbank.org/servlet/secmainssl?Columns=TITLE&ContentType=IT_MiscContent&Lang=all&Rows=100&SType=External&Status=Live&theSitePK=257204&piPK=63000616&pagePK=63000604&menuPK=256574&highlightIndex=5&Context=Disbursements)dated May 2006 (available on Client Connection web site);Disbursement Guidelines for Projects (available on Client Connection web site).
* World Bank’s Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing – Goods, Works, Non-Consulting and Consulting Services July 2016 (revised November 2017 and August 2018).

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.

The auditor should understand that working papers under World Bank project can be subject to the review by Client’s and/or World Bank designated staff.

# Annex 10: Formula- Calculation and Evaluation

**Formula Calculation**

|  |  |  |
| --- | --- | --- |
| Categories and Weights | Population | 35 |
| Area (km2) | 25 |
| Poverty | 35 |
| Climate Vulnerability | 5 |









**Formula evaluation**

In order to develop a robust approach for fair distribution of grant amounts in line with the development objective of the Project, a formula was set up that consider key spatial, economical, demographical and climate aspects of each LSG. For each aspect, one reliable index that can be obtained for each LSG is used. The below table provides the list of main input data and indicators used as well as sources of data:

|  |  |
| --- | --- |
| Indicator name | *Source of data* |
| LSGs number and names | *Law on Territorial Organization of the Republic of Serbia* (Official Gazette of the Republic of Serbia number 129/2007, 18/2016, 47/2018 and 9/2020)[[16]](#footnote-17). |
| LSGs population  (Estimation for middle of 2020. year) | ***DEMOGRAFIC ASPECT***  *Statistical Yearbook of the Republic of Serbia for 2021.*; Statistical office of the Republic of Serbia[[17]](#footnote-18) |
| LSGs area | ***SPATIAL ASPECT***  *Statistical Yearbook of the Republic of Serbia for 2021.*; Statistical office of the Republic of Serbia |
| LSGs development class | ***ECONOMIC ASPECT***  *Decree on the Establishing of Uniform List of Regional Development and Local self-government Units for 2014* (Official Gazette of the Republic of Serbia no.104/2014)[[18]](#footnote-19) |
| Think hazard climate risks | ***CLIMATE ASPECT***  *Think Hazard* official site[[19]](#footnote-20) [GNU General Public License, Version 3, 29 June 2007](https://www.gnu.org/licenses/gpl-3.0.en.html) |
| Average expenditure on infrastructure per LSG | *Ministry of Finance data* |

*LSGs number and names*

In accordance with Law on Territorial Organization of the Republic of Serbia, there are two types of LSGs: cities, municipalities and City of Belgrade as unique administrative entity. The LIID activities will cover 145 eligible LSGs: City of Belgrade (administrative area with 17 city municipalities), 27 cities and 117 municipalities.

*LSGs population*

Census of the population was planned for 2021, but it has been postponed for 2022 due to the Covid-19 pandemic. In line with the mentioned (previous was conducted 2011. and data are obsolete), official estimations were made on population number for each LSG by the Statistical Office of the Republic of Serbia (SORS).

*LSGs area*

Administrative area of LSGs consist from smaller cadastre municipalities. Records on cadastre municipalities areas are kept by the Republic Geodesy Authority and are subject of revision in accordance with Law on State survey and Cadastre. Revisions are not often and latest data are published in official publications. Therefore, the official data from official Statistical Yearbook from the SORS is used.

*LSGs development class*

In line with regional disparities in the Republic of Serbia, and needs for development support that should be given to least developed regions and LSGs, a decree on development classes was adopted in year 2014. Stated decree is dividing LSGs to 4 (four) class and one sub-class. First group of LSGs (20 in total) are the ones that are having the development rate above the national average. Second group of LSGs (34 in total) are ones with the development rate in the range from 80-100 percent of national average. Third group of LSGs (47) are ones those with the development range from 60-80 percent of the national average. Fourth group of LSGs (44) are the ones that are having development range under 60 percent of the national average. In this group, 19 LSGs are having a lower development range than 50 percent of the national average and they are forming a sub-class of devastated LSGs.

*Think hazard climate risks*

Think Hazardtool highlights the likelihood of different natural hazards affecting project areas (very low, low, medium and high), and provides guidance on how to reduce the impact of these hazards. The hazard levels provided are based on published hazard data, provided by a range of private, academic and public organizations. Values defined for the LSGs in formula calculations are derivate from administrative district values, and they are an approximation of potential hazard climate risks.

**Methodology for calculation of grant amounts / formula**

Formula for calculation of grant amount (assigned transfer) is as follows:

1. step – Data on population for each LSG is weighted (normalized) with average value of population for 145 LSGs (**47.580**)

2. step – Data on area for each LSG is weighted (normalized) with average value of areas for 145 LSGs (**535sq.km.**)

3. step - Data on development class for each LSG is weighted (normalized) with average value of development class for 145 LSGs (**2,92**); since one of main goals of the LIID intervention is to help least developed LSGs, 5th development class was assigned to sub-class of devastated LSGs, and in line with stated values they entered calculation.

4. step – Data on climate risks for each LSG is weighted (normalized) with average value of climate risk class for 145 LSGs (**2,9**).

5. step – Calculation of SUM coefficient (weighted sum) per LSG:

(Normalized value for population) multiplies (value of Population indicator 35%) plus (Normalized value for area) multiplies (value of area indicator 25%) plus (Normalized value for development class) multiplies (value of development class indicator 35%) plus (Normalized value for climate index class) multiplies (value of climate index class indicator 5%).

6. step – Calculation of multiplayer coefficient per LSG: Data on weighted sum for each LSG is normalized with average value of weighted sum for 145 LSGs (**93,69**)

7. step – Calculation of assigned transfer for each LSG: total available grant amount multiplies multiplayer coefficient

(Additional fine tuning - 8. step – reserving 10 percent for contingencies per each LSG. Meaning final initial value of investments should not be more than 90% of assigned sum.)

**SENSITIVITY ANALYSIS**

Formula has been revisited several times to include inputs form various stakeholders. Weights for each indicator have been tested for reality and fairness in iterative process. Based on those sensitivity tests, the following distribution of weights among indicators is considered to provide the best grant distribution among LSGs:

1. Population 35%
2. Area 25%
3. Development class 35%
4. Climate 5%

**Distribution of grant amount per LSGs**

To assess if the formula is properly prioritizing devastated regions but also gives enough weight to population, climate and area parameters, the distribution of assigned sums per LSGs was analyzed.

|  |  |  |
| --- | --- | --- |
| **Amount range** | **Number of LSGs** | **Total amount** |
| **Under 1 mil €** | **7** | **5.665.520** |
| **1-1,5 mil €** | **43** | **55.305.736** |
| **1,5-2,5 mil €** | **76** | **141.012.351** |
| **2,5 mil € - 5 mil €** | **17** | **52.726.676** |
| **Above 5 mil €** | **2** | **16.289.717** |
|  | **145** | **240.000.000** |

First group of (7) seven LSG, does not have devastated, 3rd and 4th development class LSGs. 4 (four) LSGs from 2nd development class group and 3 (three) LSGs from 1st development class group. Most of LSGs have small area and/or belong to higher development class rank.

Second group of 43 (forty-three) does not contain devastated 5th development class while 9 (nine) LSGs are with development index 4 th . There are 20 (twenty) LSGs from 3rd development class group, 11 (eleven) LSGs from 2nd development class group and 3 (three) LSGs from 1st development class group. These group covers smaller LSGs or those with medium development index.

Third group of 76 (seventy -six) LSGs contains 18 (eighteen) devastated LSGs with development index 5, 15 (fifteen) LSGs are from 4th development class group, 24 (twenty-four) LSGs from 3rd development class group, 12(twelve) LSGs from 2nd development class group and 7 (seven) LSGs from 1st development class group. This group consists of the biggest number of devastated LSGs and LSGs with lower development class.

Forth group of 17 (seventeen) LSGs contains 1 (one) LSG from 5th  development class group, 1 (one) LSG from 4th development class group and 3 (three) LSGs from 3rd development class group, 7 (seven) LSGs from Category 2nd and 5 (five) LSGs from 1st development class. Here the majority of LSGs are well developed populated LSGs.

Fifth group consist only from Novi Sad and Belgrade (1st development class LSGs).

**Comparison of grant amounts against current infrastructure expenditures per LSGs**

To better understand potential impact on absorption capacity of the LSGs and to identify those LSGs that might need additional support from the start, assigned grant sum was compared to the average expenditure on infrastructure development in 2018 and 2019 for each LSG. For each LSG is calculated what percentage of average annual expenditure would be covered by assigned sum. Following the calculation, the LSGs have been grouped into those that would receive:

1. less than 20 percent of their average annual infrastructure expenditures (only two LSGs – City of Belgrade and City of Novi Sad)
2. between 20 percent -50 percent of their average annual public expenditure.
3. between 50 percent -100 percent of their average annual public expenditure.
4. between 100 percent -200 percent of their average annual public expenditure. That is, those that would get up to twice compared to annual expenditure.
5. 2 to 3 times of their annual public expenditure (200 percent -300 percent);
6. 3 to 4 times of their annual public expenditure (300 percent -400 percent);
7. 4 to 6 times of their annual public expenditure (400 percent -600 percent); and
8. 6 times or more of what the LSG spent annually (table below).

|  |  |  |
| --- | --- | --- |
| Ratio of grant and current infrastructure expenditure (2018/2019) in % | Number of LSGs | LSGs name |
| Less than 20% | 2 | City of Belgrade, City of Novi Sad |
| 20-50% | 10 | Cajetina, Subotica, Kikinda, Pozarevac, Nis, Indjija, Backa Topola, Ub, Lajkovac, Stara Pazova, |
| 50-100% | 37 | Kula, Žitište, Bačka Palanka, Pančevo, Vranje, Temerin, Užice, Kragujevac, Bor, Novi Pazar, Gornji Milanovac, Ruma, Čačak, Sremska Mitrovica, Pirot, Valjevo, Vrnjačka Banja, Svilajnac, Aranđelovac, Bač, Opovo, Smederevo, Irig, Sombor, Pećinci, Paraćin, Šabac, Kanjiža, Apatin, Zrenjanin, Kruševac, Senta, Bela Crkva, Odžaci, Kraljevo, Vlasotince, Kladovo |
| 100-200% | 54 | Bački Petrovac, Nova Varoš, Sokobanja, Beočin, Kovin, Aleksandrovac, Raška, Tutin, Novi Kneževac, Novi Bečej, Mali Zvornik, Preševo, Vršac, Ada, Mali Iđoš, Bujanovac, Bečej, Ljubovija, Leskovac, Kovačica, Veliko Gradište, Sremski Karlovci, Ćuprija, Topola, Velika Plana, Plandište, Majdanpek, Loznica, Priboj, Petrovac, Negotin, Nova Crnja, Arilje, Šid, Požega, Titel, Aleksinac, Doljevac, Knić, Srbobran, Vrbas, Krupanj, Sjenica, Surdulica, Trstenik, Bojnik, Žabalj, Jagodina, Dimitrovgrad, Boljevac, Zaječar, Bela Palanka, Prokuplje, Vladičin Han |
| 200-300% | 22 | Alibunar, Bogatić, Malo Crniće, Brus, Žitorađa, Knjaževac, Mionica, Rača, Varvarin, Prijepolje, Golubac, Čoka, Kučevo, Despotovac, Koceljeva, Lapovo, Trgovište, Ražanj, Lučani, Medveđa, Batočina, Bajina Bašta |
| 300-400% | 6 | Ivanjica, Sečanj, Žabari, Osečina, Vladimirci, Žagubica |
| 400-600% | 7 | Babusnica, Kosjeric, Cicevac, Ljig, Svrljig, Kursumlija, Gadzin Han |
| >600% | 7 | Crna Trava, Merosina, Smederevska Palanka, Bosilegrad, Rekovac, Blace, Lebane |
|  | **145** |  |

Highlighted are LSGs from 5th group of development class (devastated)

# Annex 11: WB Exclusion List

The World Bank does not finance the following projects:

* Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
* Production or trade in weapons and munitions.[[20]](#footnote-21)
* Production or trade in alcoholic beverages (excluding beer and wine).1
* Production or trade in tobacco.1
* Gambling, casinos and equivalent enterprises.1
* Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
* Production or trade in unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
* Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

All **financial intermediaries (FIs)**, except those engaged in activities specified below\*, must apply the following exclusions, in addition to IFC's Exclusion List:

* Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.3
* Commercial logging operations for use in primary tropical moist forest.
* Production or trade in wood or other forestry products other than from sustainably managed forests.

\*When investing in **microfinance** activities, FIs will apply the following items in addition to the IFC Exclusion List:

* Production or activities involving harmful or exploitative forms of forced labor[[21]](#footnote-22)/harmful child labor[[22]](#footnote-23).
* Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
* Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
* \* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List.
* Production or activities involving harmful or exploitative forms of forced labor2/harmful child labor.3

# Annex 12: Grant Summary Report Template

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |
| **IBRD Loan *XXXXX* YF -** | | | | | | | | | |
| **Grant Summary Report** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
| **For the period from \_\_\_\_\_\_\_\_\_\_\_\_\_\_ until \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Q1/Q2/Q3/Q4 YYYY)** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **in RSD** |
| **No.** | **Grant Reference (Name, Acronim)** | **Grant Recipient** | **Grant Contract No.** | **Date of Grant Agreement** | **Grant amount in Currency** | **Disbursed to date** | **Documented and Verified in this period (out of disbursed) in this period** | **Cumulative Documented and Verified by the end of this period (out of disbursed)** | **Remaining balance out of disbursed (to be documented)** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  | **TOTAL** |  |  | **0.00 din.** | **0.00 din.** | **0.00 din.** | **0.00 din.** | **0.00 din.** |
|  |  |  |  |  |  |  |  |  |  |
|  | Date: |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Prepared by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | Controlled by:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | |  | Approved by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |
|  | (*name and title-PIU staff*) | | (PIU Project Manager/Head of PIU) | |  |  | (MCTI Project Coordinator) | |  |
|  |  |  |  |  |  |  |  |  |  |

1. Identified as in the EU cohesion policy’s “Lagging Regions Initiative”, regions are divided into four categories in line with the “Lagging regions initiative”: (i) leading regions; (ii) “low growth” lagging regions (iii) “low income”, converging lagging regions and (iv) ‘low income’, diverging lagging regions. [↑](#footnote-ref-2)
2. Law on Local Self-Government, "Official Gazette of the Republic of Serbia", no. 129/2007, 83/2014, 101/2016, 47/2018 [↑](#footnote-ref-3)
3. World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017, August 2018 and November 2020. [↑](#footnote-ref-4)
4. The four-step process is as follows: (a) the MCTI called for proposals from all 145 LSGs with clear guidance on prioritizing roads that link to a service – for example, schools and hospitals – or markets and on support to include also active mobility infrastructure; (b) 40 LSGs submitted their candidate roads with designs and justifications to the MCTI at an estimated cost of EUR 52 million; (c) the SCTM, engaged to support the Project preparation, performed a desk review of the technical designs and site visits to candidate roads (roads that did not have acceptable technical designs were excluded from the program); and (d) the MCTI concluded that sample eligible for financing would have estimated cost of EUR 23 million. [↑](#footnote-ref-5)
5. The sample road sections are in fair, bad or very bad condition carrying on average 1,417 vehicles per day. The sample includes roads with approximate lengths between 1km and 30km and average traffic volumes of 1,000–4,000 vehicles per day (VPD) or less in the case of rural roads. On average, the roads have an average roughness of 11.7 IRI m/km, and the average vehicles speeds of cars is 22.4 km per hour. Active mobility infrastructure mainly envisages the building of new bicycle paths and sidewalks with LED lighting and necessary furniture. The total length of the pedestrian and cycle infrastructure evaluated is 97.42 km, subdivided into 22 projects. Disaster risk management interventions are focused on strengthening riverbeds along streams prone to flash floods. [↑](#footnote-ref-6)
6. Sub-project level SEP [↑](#footnote-ref-7)
7. https://biwta.portal.gov.bd/sites/default/files/files/biwta.portal.gov.bd/page/f3ca1ff6\_95b0\_4606\_849f\_2c0844e455bc/2020-10-01-11-04-717aa8e02835a7e778b2fff46f531a8c.pdf [↑](#footnote-ref-8)
8. The ESA diagram imported form the ESMF adopted for the LIID Project [↑](#footnote-ref-9)
9. https://ebizprd.worldbank.org/wfa/ccloginpage.html [↑](#footnote-ref-10)
10. Per CFA means the date on which a Drawdown is made available by the AFD. [↑](#footnote-ref-11)
11. The detailed budget breakdown is available in the Loan Agreement and CFA [↑](#footnote-ref-12)
12. Directive on the Procedure and Control of Payment of Financial and Material Obligations, No 401-00-823/15-02, dated 25 September 2015 [↑](#footnote-ref-13)
13. https://thedocs.worldbank.org/en/doc/178331533065871195-0290022020/original/ProcurementRegulations.pdf [↑](#footnote-ref-14)
14. https://ppfdocuments.azureedge.net/5498e1a3-51d8-4568-bafc-c4c64134dd04.pdf [↑](#footnote-ref-15)
15. Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](http://www.ifac.org/sites/default/files/publications/files/A036%202012%20IAASB%20Handbook%20ISA%20620.pdf). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance. [↑](#footnote-ref-16)
16. https://www.paragraf.rs/propisi/zakon\_o\_teritorijalnoj\_organizaciji\_republike\_srbije.html [↑](#footnote-ref-17)
17. https://www.stat.gov.rs/sr-cyrl/publikacije/?d=2&r= [↑](#footnote-ref-18)
18. https://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/vlada/uredba/2014/104/1 [↑](#footnote-ref-19)
19. https://thinkhazard.org/en/report/2648-serbia [↑](#footnote-ref-20)
20. This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations. [↑](#footnote-ref-21)
21. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. [↑](#footnote-ref-22)
22. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development. [↑](#footnote-ref-23)