Loan Agreement

(Additional Financing to the Revenue Administration Reform Project)

between

MONTENEGRO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between MONTENEGRO ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of four million eight hundred thousand Euro (EUR 4,800,000.00), as such amount may be converted from time to time through a Currency Conversion ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

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

2.06. The Payment Dates are February 15 and August 15 in each year.

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

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

ARTICLE IV — TERMINATION

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

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is the Ministry of Finance.

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

    Ministry of Finance
    Stanka Dragojevica 2
    81000 Podgorica
    Montenegro; and

    (b) the Borrower’s Electronic Address is:

    Facsimile: +382 20 202 167
    E-mail: dragan.darmanovic@mif.gov.me

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

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

    (b) the Bank’s Electronic Address is:

    Telex: 248423(MCI) or 64145(MCI)
    Facsimile: 1-202-477-6391
AGREED as of the Signature Date.

MONTENEGRO

By

Authorized Representative

Name: Darko Radunovic
Title: Minister of Finance
Date: November 11, 2019

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: Emanuel Salinas
Title: Country Manager
Date: November 11, 2019
SCHEDULE 1

Project Description

The objective of the Project is to improve effectiveness of operational functions of Montenegro’s tax administration and to reduce the compliance costs for corporate taxpayers.

The Project consists of the Original Project and following additional part:

Part IV: Electronic Fiscal Invoicing

Support the MTA to develop and implement an EFI system through, *inter alia*: (i) customization of a solution for an EFI system and its implementation; (ii) procurement of the hardware and complementary software and licenses necessary for the implementation of the EFI system; (iii) integration of the EFI system with other MTA systems including the IRMS; (iv) consultancy services to support the MTA in monitoring and quality compliance; and (v) training of the MTA staff to implement the EFI system.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Borrower shall operate and maintain throughout the implementation of the Project, the PMU, the Project Steering Committee, the Revenue Modernization Advisory Board, the PIC, the Working Groups and the TSU, respectively, with staff, resources as needed, functions and responsibilities satisfactory to the Bank and in accordance with the relevant provisions of the Operational Manual.

B. Operational Manual

1. The Borrower, through the MTA, shall update and adopt the Operational Manual satisfactory to the Bank, which shall include, inter alia: (a) a detailed description of Project activities and institutional arrangements for the Project; (b) the Project administrative, accounting, auditing, reporting, financial (including cash flow aspects in relation thereto), procurement and disbursement procedures; (c) the monitoring indicators for the Project; and (d) the institutional and administrative mechanisms established to ensure inter-agency coordination for Project implementation, including the functions, responsibilities and staffing requirements under the Project.

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

3. In case of any conflict between the terms of the Operational Manual and this Agreement, the provisions of this Agreement shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

The Borrower shall furnish to the Bank each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.
Section III. **Withdrawal of Loan Proceeds**

**A. General**

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in EURO)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes other than VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Operating Costs and Training under Part IV of the Project</td>
<td>4,788,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>12,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 4.05 (c) of the General Conditions</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>4,800,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.

2. The Closing Date is March 31, 2023.
SCHEDULE 3
Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15</td>
<td></td>
</tr>
<tr>
<td>Beginning August 15, 2024</td>
<td>2.5%</td>
</tr>
<tr>
<td>through February 15, 2044</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

2. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.


5. “IRMS” means the Integrated Revenue Management System to be developed under Part II.3 of the Project.

6. “Ministry of Finance” or “MOF” means the Borrower’s Ministry of Finance and includes any successor thereto.

7. “Montenegro Tax Administration” or “MTA” means the Borrower’s tax administration, established through the Law on State Administration published on Official Gazette RCG 28/2003 as amended through Official Gazette CG 54/2016, and includes any successor thereto acceptable to the Bank. The Montenegro Tax Administration shall be considered the “Project Implementing Entity” for purposes of the General Conditions.

8. “Operational Manual” means the operational manual adopted by the Borrower for the Project, referred to in Section 1.B.1 of Schedule 2 to the Original Loan Agreement and this Agreement, satisfactory to the Bank.

9. “Original Loan Agreement” means the loan agreement for a Revenue Administration Reform Project between the Borrower and the Bank, dated January 19, 2018, as amended to the date of this Agreement (Loan No. 8772-ME).

10. “Original Project” means the project set forth in Schedule 1 to the Original Loan Agreement.
11. "PIC" means the Project Implementation Committee, established by the Borrower through the Internal Order No. 03/1-9703/1-17 of May 31, 2017, and aimed to ensure, inter alia, that the Project activities are properly coordinated and implemented, and includes any successor thereto.

12. "PMU" means project management unit referred to in Section I.A. of Schedule 2 to this Agreement responsible for, inter alia: (i) carrying out the project management and reporting; and (ii) coordinating with the TSU the procurement, financial management, and disbursement activities under the Project.


14. "Revenue Modernization Advisory Board" means the revenue modernization advisory board referred to in Section I.A. of Schedule 2 to this Agreement, comprised of representatives of associations of taxpayers, business associations, tax accountants and auditors, responsible for, inter alia, providing feedback to the Project Steering Committee on the institutional changes to be made under the Project, and includes any successor thereto.

15. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.

16. "TSU" means the Technical Services Unit within the MOF, responsible for carrying out the procurement, disbursement and financial management activities relating to the Project.

17. "VAT" means the Value Added Tax as established by the Borrower’s fiscal legislation.

18. "Working Groups" means the five working groups established by the Borrower through the Internal Orders No. 03/1-9701 through 9704/1-17 of May 31, 2017, and the Decision of the MTA No.03/1-20102/1-19 dated September 2, 2019 respectively, responsible for, inter alia: (i) carrying out day-to-day implementation of Project activities of components I.1, II.1, II.3, III and IV of the Project, respectively, with the support of the PMU; (ii) developing the terms or reference and technical specifications relating to the consulting services under the project; and (iii) supervising the execution of said consulting services in their respective areas of responsibility, and includes any successors thereto.