Development Credit Agreement

(Montenegro Pensions System Administration Investment Project)

between

SERBIA AND MONTENEGRO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 11, 2004
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 11, 2004, between SERBIA AND MONTENEGRO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) The Government of the Republic of Montenegro has adopted a Decision on April 14, 2004 and a Decision on April 29, 2004 (jointly the Program), as such Program may be amended from time to time with prior agreement of the Association;

(C) the Borrower will make available to the Republic of Montenegro, through the Sub-credit Agreement (as defined hereinafter), the proceeds of the Credit, as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement,

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) with the following modification (the General Conditions) constitute an integral part of this Agreement: the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “DPR” means the Directorate for Public Revenues of the Republic of Montenegro, or any successor or successors thereto;
(b) “Euro” and “€” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty of European Union;

(c) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 (a) of this Agreement;

(d) “Fund PIO” means the Pension Fund of the Republic of Montenegro, established pursuant to the Decision of the Parliament of Montenegro of November 18, 1991, on the establishment of the Fund PIO, and published in the Official Gazette of the Republic of Montenegro, and registered with the Commercial Court in Podgorica on January 7, 1992, under the number 2/92, or any successor or successors thereto;

(e) “MOF” means the Ministry of Finance of the Republic of Montenegro, or any successor or successors thereto;

(f) “MOL” means the Ministry of Labor and Social Welfare of the Republic of Montenegro, or any successor or successors thereto;

(g) “Procurement Plan” means the procurement plan adopted by the Government of the Republic of Montenegro by Decision No. 02/3175 on May 13, 2004, covering the initial period of eighteen (18) months (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.06 (b) of this Agreement, to cover succeeding periods of eighteen (18) months (or longer) of Project implementation;

(h) “Project Coordinator” means an appointee of the Deputy Minister for Financial System and Public Expenditures of the Republic of Montenegro, responsible for the coordination of Project implementation;

(i) “Project Operational Manual” means the manual adopted by the office of the Deputy Prime Minister for Financial System and Public Expenditures of the Republic of Montenegro and satisfactory to the Association, setting forth the rules and procedures related to Project implementation, as the same may be amended from time to time;

(j) “Special Account” means the account referred to in Schedule 1, Part B of this Agreement;

(k) “Steering Committee” means a committee chaired by a representative of the Republic of Montenegro Deputy Prime Minister for Financial System and Public Expenditures, and including representatives of the MOF, MOL, Fund PIO, DPR, Republican Secretariat for Development, Republican Employment Bureau, Republican Health Insurance Fund, and Head of the TSU, or any successor or successors thereto;
(l) “Sub-credit Agreement” means the agreement entered into between the Borrower and the Republic of Montenegro, referred to in Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Sub-credit Agreement;

(m) “TSU” means the technical services unit established by the Republic of Montenegro for the purposes of facilitating the implementation of the Project, or any successor or successors thereto; and

(n) “TSU Operational Manual” means the manual adopted by the TSU and satisfactory to the Association, setting forth the rules and procedures related to Project procurement, disbursement and financial management, as the same may be amended from time to time.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three million five hundred thousand Special Drawing Rights (SDR 3,500,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, services, training, and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be September 30, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.
The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15, commencing November 15, 2014, and ending May 15, 2024. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Minister of Finance of the Republic of Montenegro, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall ensure that the Republic of Montenegro carries out the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial, technical, and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall ensure that the Republic of Montenegro carries out the Project in accordance with the Program, the Project Operational Manual and the TSU Operational Manual.
Section 3.02. (a) Without limitation upon the provisions of Section 3.01, and except as the Association and the Borrower shall otherwise agree, the Borrower, in order to ensure the implementation of the Project, shall make the proceeds of the Credit available to the Republic of Montenegro, under a sub-credit agreement (Sub-credit Agreement), to be entered between the Borrower and the Republic of Montenegro, which shall be satisfactory to the Association.

(b) The Borrower shall exercise its rights under the Sub-credit Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal or waive the Sub-credit Agreement, or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Association and the Borrower shall otherwise agree, the Borrower shall ensure that the Republic of Montenegro maintains, during the term of the Project, the Steering Committee, the TSU and the Project Coordinator, with staff and resources, and under terms of reference necessary and appropriate for Project implementation, and satisfactory to the Association.

Section 3.04. The Borrower shall ensure that the Republic of Montenegro shall:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Borrower and Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnishes to the Association, by February 28, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section 3.04, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2006, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section 3.04, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.
Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall ensure that the Republic of Montenegro:

(a) prepares, on the basis of guidelines acceptable to the Association, and furnishes to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Republic of Montenegro and the Association, a plan for the continued achievement of the objectives of the Project; and

(b) affords the Association a reasonable opportunity to exchange views with the Republic of Montenegro on said plan.

Section 3.06. (a) Except as the Association shall otherwise agree, procurement of the goods and consultants’ services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall ensure that the Republic of Montenegro shall update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association’s approval.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall ensure that the Republic of Montenegro: (i) shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project; and (ii) shall cause the Fund PIO to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations and financial position of the Fund PIO.

(b) The Borrower shall ensure that the Republic of Montenegro shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
(ii) furnish to the Association as soon as available, but in any case not later than five months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in paragraph 5 of Part A of Schedule 1 to this Agreement (Report-based Disbursements), or on the basis of statements of expenditure, the Borrower shall ensure that the Republic of Montenegro shall:

(i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Republic of Montenegro’s progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall ensure that the Republic of Montenegro shall prepare and furnish to the Association financial monitoring reports (Financial Monitoring Reports), in form and substance satisfactory to the Association, which:
(i) set forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) set forth the Special Account, showing the period opening balance, movements during the period and the period closing balance; and

(iii) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) the Republic of Montenegro shall have failed to perform any of its obligations under the Sub-credit Agreement; and

(b) a situation has arisen which shall make it improbable that the Program, or any significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in Section 5.01 (a) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in Section 5.01 (b) of this Agreement shall occur.
ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Sub-credit Agreement has been executed and all conditions to the effectiveness of such agreement have been fulfilled; and

(b) the Association shall have received satisfactory evidence that the Fund PIO budget for year 2004 is balanced.

Section 6.02. The following is specified as an additional matter, within the meaning of paragraph (b) of Section 12.02 of the General Conditions, to be included in the opinions to be furnished to the Association, namely, that the Sub-credit Agreement has been duly authorized or ratified by the Borrower and the Republic of Montenegro and is legally binding upon the parties thereto.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 hereof, the Minister for International Economic Relations of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Borrower:

Ministry for International Economic Relations
Bul. Mihajila Pupina 2
11000 Belgrade
Serbia and Montenegro

Facsimile:

(381 11) 311-2979

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Belgrade, Serbia and Montenegro as of the day and year first above written.

SERBIA AND MONTENEGRO

By /s/ Predrag Ivanovic  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Carolyn Jungr  
Authorized Representative
SCHEDULE 1
Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated Expressed in SDR</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, including technical services</td>
<td>1,720,000</td>
<td>80% of foreign expenditures; 83% of local expenditures</td>
</tr>
<tr>
<td>(2) Consultants’ services, including auditing services</td>
<td>1,030,000</td>
<td>75% for foreign individuals; 68% for local individuals; and 81% for firms</td>
</tr>
<tr>
<td>(3) Training</td>
<td>190,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Incremental operating costs</td>
<td>180,000</td>
<td>80%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>380,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,500,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Republic of Montenegro for goods or services supplied from the territory of any country other than that of the Republic of Montenegro;

(b) the term “local expenditures” means expenditures in the currency of the Republic of Montenegro or for goods or services supplied from the territory of the
Borrower; provided, however, that if the currency of the Republic of Montenegro is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “training” means expenditures, as approved by the Association on the basis of budgets acceptable by the Association, and incurred in connection with training, workshops, and study tours to be carried out under the Project, including the travel costs and per-diem allowances for the trainees and other expenditures as shall be agreed with the Association; and

(d) the term “incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the Republic of Montenegro with respect to Project implementation, management and monitoring, including office space, office supplies, vehicle operation, translation, travel and supervision costs, but excluding salaries of officials and employees of the Borrower and the Republic of Montenegro.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in the aggregate amount not exceeding the equivalent of SDR 180,000, may be made in respect of Categories (2) and (4) on account of payments made for expenditures before that date but after June 1, 2004.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $100,000 equivalent per contract, except for the first two contracts to be procured under the Shopping method; (b) for services of individual consultants costing less than $25,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than $50,000 equivalent per contract; (d) training; and (e) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.
B. Special Account

1. The Borrower may open and maintain in Euro a special deposit account in a bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For the purposes of this Schedule, the term “Eligible Expenditures” shall mean expenditures in respect of reasonable costs of goods, services, training and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit, allocated from time to time to the Categories under Part A of this Schedule 1. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of paragraph 2 of Part B of this Schedule 1, the Association shall not be required to make further deposits into the Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in paragraph 5 of Part A of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts
reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of paragraph 2 of Part B of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.
Annex A

to

SCHEDULE 1

Operation of the Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of ₣170,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to ₣80,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 410,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 3 of Part B of this Schedule 1 for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Categories under Part A of this Schedule 1.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of this Schedule 1. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Categories under Part A of this Schedule 1.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in paragraph 5 of Part A of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the financial sustainability, effectiveness and efficiency of the pension system in the Republic of Montenegro by: (a) developing a unified collection and reporting system for social contributions and tax payments; (b) institutional strengthening of the DPR and Fund PIO; and (c) developing institutional capacity for policy analysis and evaluation of the pension system.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A. DPR Institutional Capacity

Strengthening the DPR institutional capacity to collect social contributions, and to collect and integrate data related to tax payments and social contributions, through the provision of goods, training and services.

Part B. Fund PIO Institutional Capacity

Strengthening the Fund PIO institutional capacity to provide improved client services and fulfill its institutional and legal mandate, through the provision of goods, training and services.

Part C. Institutional Capacity Strengthening, and Public Awareness and Education

1. Strengthening the MOL institutional capacity to analyze and develop pension policies, and strengthening the MOF institutional capacity to supervise pension funds, through the provision of goods, training and services.

2. Carrying out phased public awareness and education campaigns to promote the goals of pension reforms, through the provision of training and services.
Part D. Project Management, Implementation and Monitoring

Assistance to the Republic of Montenegro in the management, implementation and monitoring of the Project, though the provision of goods, training and services, including the audit of accounts and financial statements referred to in Section 4.01 (b) of this Agreement, and the financing of incremental operating costs.

* * *

The Project is expected to be completed by March 31, 2008.
SCHEDULE 3

Procurement

Section I. General

A. All goods and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

2. Direct Contracting. Goods which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Association’s prior agreement, be procured in accordance with the provisions of said paragraphs.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant
Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Least-cost Selection. Auditing services and services for other assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Association’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

A. Prior Review. Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods and Services (other than Consultants’ Services)
   (a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods and services (other than consultants’ services) estimated to cost the equivalent of $100,000 or more, and the first two contracts estimated to cost less than $100,000 equivalent per contract and to be procured under shopping procedures.
(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Association’s approval shall have been given; and (iii) the procedures set forth in paragraphs 2 (h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants’ Services Provided by Firms

   (a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants’ services provided by a firm estimated to cost the equivalent of $50,000 or more.

   (b) The following prior review procedures shall apply to each contract for consultants’ services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association’s approval shall have been given; and (iii) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants’ Services Provided by Individual Consultants

   The record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of $25,000 or more shall be subject to Prior Review by the Association.

B. Post Review. The following post review procedures shall apply to all contracts not subject to prior review by the Association:

1. With respect to contracts for goods or services (other than consultants’ services), the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to contracts for consultants’ services, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.