

CONFORMED COPY

LOAN NUMBER 8002-ME

Loan Agreement

(Additional Financing to Montenegro Environmentally Sensitive Tourist Areas
Project)

between

MONTENEGRO

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 23, 2010

LOAN NUMBER 8002-ME

LOAN AGREEMENT

Agreement dated December 23, 2010, between MONTENEGRO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing (“Additional Financing”) for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.
- 1.03. For the purposes of this Agreement and the General Conditions, all references to ‘Project Implementing Entity’ shall be deemed to refer to PEW (as defined in the Appendix to this Agreement), and all references to ‘PEW’ shall be deemed to refer to a Project Implementing Entity.

ARTICLE II -LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of four million and five hundred thousand Euros (EUR 4,500,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“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 IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of

the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 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 PEW (Project Implementing Entity) in accordance with the provisions of Article V of the General Conditions, the Subsidiary Agreements, and the Service Agreement.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consists of the following:
- (a) The MJC2 Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MJC2 to perform any of its obligations under the MJC2 Subsidiary Agreement or the Service Agreement.
 - (b) The PEW Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PEW to perform any of its obligations under the PEW Subsidiary Agreement.
 - (c) The Borrower, MJC2 or PEW have failed to perform any of their respective obligations under a Subsidiary Agreement.
 - (d) MJC2, the Municipality of Bar or the Municipality of Ulcinj have failed to perform any of their respective obligations under the Service Agreement.
- 4.02. The Additional Events of Acceleration consist of the following:
- (a) Any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs.
 - (b) Any event specified in paragraphs (c) and (d) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the PEW Subsidiary Agreement has been executed and authorized or ratified by the parties to it, in form, substance and a manner satisfactory to the Bank and all conditions to the effectiveness of such agreement have been fulfilled.
- 5.02. The Additional Legal Matter consists of the following, namely a legal opinion satisfactory to the Bank, stating that the PEW Subsidiary Agreement has been duly authorized or ratified by each of the respective parties, and is legally binding upon each of the parties thereto in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance
Stanka Dragojevicica 2
81000 Podgorica
Montenegro

Facsimile:

382 20 224 450

- 6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Podgorica, Montenegro, as of the day and year first above written.

MONTENEGRO

By /s/ Igor Luksic

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jan-Peter Olters

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to create an ecologically and commercially sustainable solid waste collection and disposal system, to maintain a clean, environmentally attractive coastal area in Montenegro, in order to support the growth of tourism in the area.

The Project consists of Part A.2 of the Original Project, namely the design and construction of a regional sanitary landfill to serve the municipalities of Bar and Ulcinj and the following additional part, namely the provision of equipment for the operation of the regional sanitary landfill.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall maintain, during the entire term of the Project, the PEW in a form and with functions, staffing, resources, terms of reference and qualifications required for Project implementation and satisfactory to the Bank.

2. The Borrower shall cause PEW to be responsible for overall Project implementation and coordination and for procurement, financial management, reporting, monitoring, supervision and evaluation of the Project. The Borrower shall ensure that MJC2 operates the Landfill Facility in accordance with this Agreement, the Service Agreement, the MJC2 Subsidiary Agreement, the MJC2 EMP and in accordance with financial, technical, engineering, administrative, commercial, insurance, environmental and social practices acceptable to the Bank.

3. The Borrower shall upon completion of construction of the Landfill Facility transfer ownership of the Landfill Facility and related assets to MJC2 under contractual arrangements satisfactory to the Bank. The Borrower shall provide evidence to the Bank that all conditions of effectiveness to such contractual arrangements have been fulfilled and shall provide a legal opinion satisfactory to the Bank, stating that said contractual arrangements have been duly authorized or ratified by each of the respective parties, and are legally binding upon each of the parties thereto in accordance with their terms.

B. Subsidiary Agreements

1. **PEW Subsidiary Agreement:** To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to PEW under the PEW Subsidiary Agreement for the purposes of implementation of the Project, under terms and conditions approved by the Bank, which shall include the following:

(a) The PEW Subsidiary Agreement shall set forth the responsibilities and functions of PEW on behalf of the Borrower and shall provide that PEW shall: (i) implement the Project in accordance with the terms and conditions of the PEW Subsidiary Agreement; (ii) shall exercise its rights under the PEW Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; (iii) shall not assign, amend, suspend, abrogate, repeal or waive the PEW Subsidiary Agreement or any of its provisions without prior approval of the Bank; (iv) perform in accordance with the provisions of the PEW Subsidiary Agreement all of the obligations of the PEW as set forth in the PEW Subsidiary Agreement; (v) take all action, including the provision of funds, facilities, services and other resources,

necessary or appropriate for the carrying out of the Project; and (vi) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

2. **MJC2 Subsidiary Agreement:** To facilitate the carrying out of the Project, the Borrower shall, prior to commencement of construction of the Landfill Facility, enter into the MJC2 Subsidiary Agreement, under terms and conditions approved by the Bank, which shall include the following:

(a) The MJC2 Subsidiary Agreement shall set forth the responsibilities and functions of MJC2, including, but not limited to, MJC2's obligation to coordinate with PEW and to operate the Landfill Facility in accordance with this Agreement, the MJC2 Subsidiary Agreement, the Service Agreement, the MJC2 EMP and in accordance with financial, technical, engineering, administrative, commercial, insurance, environmental and social practices acceptable to the Bank.

(b) The MJC2 Subsidiary Agreement shall provide that MJC2 shall: (i) implement the Project in accordance with the terms and conditions of the MJC2 Subsidiary Agreement; (ii) shall exercise its rights under the MJC2 Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; (iii) shall not assign, amend, suspend, abrogate, repeal or waive the MJC2 Subsidiary Agreement or any of its provisions without prior approval of the Bank; (iv) perform in accordance with the provisions of the MJC2 Subsidiary Agreement all of the obligations of MJC2 as set forth in the MJC2 Subsidiary Agreement; (v) take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Project; and (vi) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

3. The Borrower shall, prior to commencement of construction of the Landfill Facility, provide evidence to the Bank that all conditions of effectiveness to the MJC2 Subsidiary Agreement have been fulfilled and shall provide a legal opinion satisfactory to the Bank, stating that the MJC2 Subsidiary Agreement has been duly authorized or ratified by each of the respective parties, and is legally binding upon each of the parties thereto in accordance with its terms.

4. The Borrower shall implement the Project in accordance with the terms and conditions of the Subsidiary Agreements, shall exercise its rights under the Subsidiary Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and shall not assign, amend, suspend, abrogate, repeal or waive the Subsidiary Agreements or any of its provisions without prior approval of the Bank.

C. Service Agreement

1. The Borrower shall, prior to commencement of construction of the Landfill Facility, provide evidence to the Bank that the Service Agreement has been executed and authorized or ratified by the parties to it, in form, substance and a manner satisfactory to the Bank and that all conditions to the effectiveness of such agreement have been fulfilled, and shall provide a legal opinion satisfactory to the Bank, stating that the Service Agreement has been duly authorized or ratified by each of the respective parties, and is legally binding upon each of the parties thereto in accordance with its terms.

2. The Borrower shall cause MJC2 and the Municipality of Bar and the Municipality of Ulcinj to carry out the Project in accordance with the terms and conditions of the Service Agreement and shall not amend, suspend, abrogate, repeal or waive the Service Agreement without prior approval of the Bank.

3. The Service Agreement shall contain, *inter alia*, provisions requiring the Municipality of Bar and Ulcinj to:

(a) maintain tariffs covering: (i) the operation and maintenance cost of the Landfill Facility; (ii) contingencies and other costs as will be agreed in relevant contractual arrangements; and (iii) reserves that will cover replacement costs for equipment and plant;

(b) adjust tariffs, as required; and guarantee the delivery to the Landfill Facility of a minimum amount of waste and payment for services provided.

D. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

1. The Borrower shall ensure that as part of the development of the design for the Landfill Facility, and prior to commencement of construction of the Landfill Facility: (i) the MJC2 EMP is updated with detailed measures to adjust the MJC2 EMP to the design of the Landfill Facility, in form and substance satisfactory to the Bank; and (ii) such updated and adjusted MJC2 EMP is disclosed prior to the commencement of works under the Project.

2. The Borrower shall ensure that the MJC2 and the PEW carry out the Project in accordance with the MJC2 EMP. The Borrower shall not, and shall ensure that the MJC2 and PEW do not, assign, amend, suspend, abrogate, repeal or waive the MJC2 EMP or any of its provisions without prior approval of the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall ensure that PEW monitors and evaluates the progress of the Project and prepares Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain, and cause PEW to maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause PEW to prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have the Financial Statements, and shall cause PEW to have its financial statements (Entity Financial Statements), audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements and the Entity Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements and Entity Financial Statements for each such period shall be furnished to the Bank not later than five (5) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the

requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding, subject to the additional procedures listed in paragraph 3 below
(b) Shopping

3. National Competitive Bidding shall be subject to the following additional procedures:

- (i) **Eligibility:** foreign bidders shall not be precluded from bidding, and no preference of any kind shall be given to national bidders.
- (ii) **Procedures:** "Open procedures" shall be followed in all cases. Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, allowing a minimum of thirty (30) days for the preparation and submission of bids.
- (iii) **Pre-qualification:** when pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.

- (iv) **Participation by government-owned enterprises:** government-owned enterprises in Montenegro shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the government. Such enterprises shall be subject to the same bid and performance security requirements as other bidders.
- (v) **Bidding documents:** procuring entities shall use the appropriate standard bidding documents for the procurement of works which shall contain draft contract and conditions of contract, satisfactory to the Bank.
- (vi) **Submission of bids:** bidders may, at their option, deliver bids either in person, by courier service, or by mail at any time prior to the deadline set the submission of bids.
- (vii) **Bid opening and bid evaluation:** bids shall be opened in public and, if two envelopes are submitted for technical and price components, both shall be opened simultaneously. The time for the bid opening shall be the same as for the deadline for receipt of bids or immediately thereafter, and shall be announced, together with the place for bid opening, in the solicitation documents. Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be requested without the prior approval of the Bank. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid. Negotiations shall not be allowed with the lowest evaluated bidder or any other bidder.
- (viii) **Price adjustment:** civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.
- (ix) **Rejection of bids:** all bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (x) **Contracts:** all contracts shall be in writing, signed and stamped by authorized signatories of the purchaser and the supplier, and shall contain identical terms and conditions of contract to those included in the tender documents.
- (xi) **Securities:** bid securities shall not exceed two percent (2%) of the estimated cost of the contract; performance securities shall not exceed ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The wording of all such

securities shall be included into the bidding documents and be acceptable to the Bank.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Least cost Selection
(b)	Selection Based on Consultants' Qualifications
(c)	Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods, works and consultants' services (including auditing services) for the Project	4,478,750	100%
(2) Incremental Operating Costs	10,000	100%
(3) Front-end Fee	11,250	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.07(c) of this Agreement in accordance with Section 4.05(c) of the General Conditions
TOTAL AMOUNT	<u>4,500,000</u>	

3. For the purposes of this Schedule, the term 'incremental operating costs' means reasonable and necessary incremental expenditures, as approved by the Bank, on the basis of budgets acceptable to the Bank, incurred by PEW with respect of Project implementation, management and monitoring, including office space, office supplies, vehicle operation, translation, travel, supervision costs and consulting services, but excluding salaries of officials and employees of the Borrower.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2012.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
April 1, 2015	6.85%
October 1, 2015	7.09%
April 1, 2016	7.34%
October 1, 2016	7.59%
April 1, 2017	7.86%
October 1, 2017	8.14%
April 1, 2018	8.42%
October 1, 2018	8.72%
April 1, 2019	9.02%
October 1, 2019	9.34%
April 1, 2020	9.66%
October 1, 2020	9.97%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment

Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 with the modifications set forth in Section III of this Appendix.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Development Credit Agreement” means the development credit agreement for a Montenegro Environmentally Sensitive Tourist Areas Project between Serbia and Montenegro and the International Development Association, dated October 13, 2003, as amended (Credit Number 3823 YF).
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
6. “Landfill Facility” means the regional sanitary landfill to be constructed under the Project to serve the municipalities of Bar and Ulcinj.
7. “MJC2” means “Možura” Doo Za Upravljanje Sanitarnom Deponijom – Bar, a limited liability company established by the Municipality of Bar and the Municipality of Ulcinj and registered in the Central Registry of the Commercial Court of Montenegro under number 5-0502603/002 on June 9, 2010, as such registration may be extended from time to time, or any successor thereto.
8. “MJC2 Legislation” means the agreement and the statute signed on October 31, 2008 between the Municipality of Bar and Ulcinj related to Doo Za Upravljanje Sanitarnom Deponijom – “Mozura” Bar, as registered in the Central Registry of the Commercial Court of Montenegro under number 5-0502603/002 on June 9, 2010, as such registration may be extended from time to time.
9. “MJC2 EMP” means the plan dated April 30, 2010, describing the environmental mitigation, monitoring, and institutional measures to be undertaken during the implementation of the Project, satisfactory to the Bank, as such plan shall be updated pursuant to Section I.E.1 of this Agreement by agreement between the

Borrower and the Bank, and as such plan may be further amended from time to time by agreement between the Borrower and the Bank.

10. “MJC2 Subsidiary Agreement” means the agreement entered into between the Borrower and MJC2, referred to in Section I.B.2 of Schedule 2 to this Agreement, as the same may be amended from time to time with the approval of the Bank, and such term includes all schedules and agreements supplemental to the MJC2 Subsidiary Agreement.
11. “Original Project” means the Project described in the Development Credit Agreement.
12. “PEW” means Javno Preduzece Za Vodosnabdijevanje, Tretman I Odvođenje Otpadnih Voda I Deponovanje Cvrstog Otpada Za Područje Crnogorskog Primorja I Cetinja- Budva, the Borrower’s public enterprise for water supply, wastewater drainage and treatment for the area of the Montenegrin Coast, established pursuant to the PEW Legislation, last registered with the Commercial Court of the Borrower under registration number 80013444, on July 11, 2003, as amended on May 4, 2006, or any successor thereto.
13. “PEW Legislation” means a decision of the Parliament of the Borrower, dated December 11, 2007, and published in the Official Gazette No 13/07, dated December 18, 2007, last registered with the Commercial Court of the Borrower under registration number 80013444, on July 11, 2003, as amended on May 4, 2006.
14. “PEW Subsidiary Agreement” means the agreement entered into between the Borrower and PEW, referred to in Section I.B.1 of Schedule 2 to this Agreement, as the same may be amended from time to time with the approval of the Bank, and such term includes all schedules and agreements supplemental to the PEW Subsidiary Agreement.
15. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
16. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 15, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
17. “Project Implementing Entity” means PEW.
18. “Service Agreement” means the service agreement entered into between MJC2 and the Municipality of Bar and the Municipality of Ulcinj referred to in Section

I.C.1 of Schedule 2 to this Agreement, setting forth the parties' respective obligations in relation to certain technical aspects of carrying out the Project and operation of the Landfill Facility.

19. "Subsidiary Agreement" means the PEW Subsidiary Agreement or the MJC2 Subsidiary Agreement and "Subsidiary Agreements" refers to both of them collectively.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

"Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association ("Preparation Advance"), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (l) of Section 7.02 is modified to read as follows:

"Section 7.02. Suspension by the Bank

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a: (i) determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association; and/or (ii) a declaration by another financier that the Borrower (other than the Member Country) or the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the Project Implementing Entity has engaged in fraudulent,

corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

Section III. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise

participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”