

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4048 YF

Development Credit Agreement

(Montenegro Education Reform Project)

between

SERBIA AND MONTENEGRO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 25, 2005

CREDIT NUMBER 4048 YF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 25, 2005, 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 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 May 1, 2004) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "BES" means the Bureau of Educational Services, a republican administrative organization established by the Government of the Republic of Montenegro pursuant to Decree No. 02-2395, dated March 20, 2003, or any successor or successors thereto.

(b) "Education Reform Program" means a program of educational reform adopted by the Government of the Republic of Montenegro on December 17, 2001, and published in December 2001, under the heading "The Book of Changes."

(c) “Education Reform Steering Committee” means the committee established by the MOES to coordinate the implementation of the education reform, including Project implementation, chaired by a representative of the MOES, with representatives from the Office of the Deputy Prime Minister of Montenegro for Financial System and Public Expenditure, the MOF, the BES and the TSU, or any successor or successors thereto.

(d) “Eligible Category” means Category (1) set forth in the table in paragraph 1 of Part A of Schedule 1 to this Agreement.

(e) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services and training referred to in Section 2.02 of this Agreement.

(f) “Euro” or “€” 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.

(g) “Examination Center” means a unit under the BES responsible for the examination and assessment of students, or any successor or successors thereto.

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 (a) of this Agreement.

(i) “MOES” means the Ministry of Education and Science of the Republic of Montenegro, or any successor or successors thereto.

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

(k) “Operational Manual” means the manual describing the operational rules and procedures of Project implementation adopted by the TSU in February 2005, and satisfactory to the Association, as the same may be amended from time to time.

(l) “Participating Schools” means primary and general secondary schools referred to in Part A of Schedule 2 to this Agreement, and selected in accordance with paragraph 3 (d) of Schedule 4 to this Agreement.

(m) “Procurement Plan” means the procurement plan adopted by the MOES, dated February 22, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(n) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in paragraph 5 of Part A of Schedule 1 to this Agreement.

(o) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

(p) "SPU" means the Strategy and Planning Unit established by the MOES pursuant to MOES Decision No. 01-344, dated January 31, 2005, or any successor or successors thereto.

(q) "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.

(r) "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.

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 three hundred thousand Special Drawing Rights (SDR 3,300,000).

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, works, services, and training required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2009, 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.

(c) 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 May 15, 2015, and ending November 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, education 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, the Republic of Montenegro and the Association shall otherwise agree, the Borrower shall ensure that the Republic of Montenegro carries out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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 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. (a) Except as the Association shall otherwise agree, procurement of the goods, works 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 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.

- (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 (5) 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 Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower shall ensure that the Republic of Montenegro shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets 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) sets forth the Special Account for the Project, showing the period opening balance, movements during the period and the period closing balance;
- (iii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains the variances between the actual and planned Project implementation; and
- (iv) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR 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 FMR 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 (1) of the General Conditions, the following additional event is specified, namely, that the Republic of Montenegro shall have failed to perform any of its obligations under the Sub-credit Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 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.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Sub-credit Agreement has been executed and all conditions to the effectiveness of such agreement have been fulfilled.

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 Serbia and Montenegro is designated as 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
11070 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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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 Podgorica, Republic of Montenegro, 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 Category of items to be financed out of the proceeds of the Credit and the percentage of expenditures for items to be financed in the Category:

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, consultants' services, including auditing, and training	3,300,000	100%
TOTAL	<u>3,300,000</u>	

2. For the purposes of this Schedule, the term "training" means expenditures 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; all such expenditures shall be based on plans adopted by the MOES and satisfactory to the Association, which shall include proposed budgets and terms of reference.

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 an aggregate amount not exceeding the equivalent of SDR 110,000, may be made with respect to Category (1) on account of payments made for expenditures before that date but after October 31, 2004.

4. The Association may require, under such terms and conditions as the Association shall specify by notice to the Borrower, 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 contracts to be procured under the Direct Contracting method;

(b) works costing less than \$100,000 equivalent per contract, except for the first contract to be procured under the National Competitive Bidding method;

(c) services of consulting firms under contracts costing less than \$100,000 equivalent per contract, except for contracts to be procured under the Single Source Selection method; and

(d) training.

5. Upon receipt by the Borrower of a written notice from the Association, 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 Management 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 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 commercial 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 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, 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 Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of □310,000 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 □190,000 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 660,000.

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 Schedule 1 to this Agreement 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 the Eligible Category.

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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under the Eligible Category.

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 objective of the Project is to strengthen the capacity of the Republic of Montenegro education system to make continuous improvements, in particular in the quality of teaching and learning in schools, and in the efficient utilization of budgetary resources.

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. Reform Implementation

Assistance to eligible primary and general secondary schools included in the Education Reform Program (the Participating Schools), through the provision of textbooks and other learning materials, staff professional development, school equipment, and minor school buildings renovations, and monitoring and evaluation of reform activities, through the financing of goods, works, consultants' services and training.

Part B. Education Planning and Finance

Strengthening the capacity of the MOES and the BES to prepare, execute and monitor a program budget, assistance to the MOES and the BES in the planning and implementation of the Education Reform Program, assistance to the relevant agencies and entities of the Republic of Montenegro in the school network optimization and staffing levels to restructure the budget, and in the determination and implementation of an effective plan for the decentralization of education finance, all through the financing of goods, consultants' services and training.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works 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, Works 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 of the Procurement Guidelines.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$100,000 per contract may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3 and 3.4, of the Procurement Guidelines and the following additional provisions:

- (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 Local Competitive Bidding" 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 widely circulated national daily newspaper allowing 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 Serbia and 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 Association.
- (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 for 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 Association. 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 Association'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 Association.

3. Shopping. Goods and works 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.

4. 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 be comprised entirely of national consultants.

B. Other Procedures

1. Least-cost Selection. Auditing services 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 \$200,000 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 Bank.

Section IV. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association:

(a) each contract for goods, works and services (other than consultants' services): (i) estimated to cost the equivalent of \$100,000 or more; or procured on the basis of Direct Contracting; and (ii) the first contract for works procured on the basis of National Competitive Bidding;

(b) each contract for consultants' services provided by a firm: (i) estimated to cost the equivalent of \$100,000; or (ii) procured on the basis of Single Source Selection; and

(c) each contract for the employment of individual consultants procured on the sole-source basis, in which case the Borrower shall provide the Association the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines.

2. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. 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 Republic of Montenegro and the 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 furnish to the Association, by July 15, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (a) of this Schedule 4, 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 September 15, 2007, or such later date as the Association shall request, the report referred to in paragraph 1 (b) of this Schedule 4, 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.
2. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall ensure that the Republic of Montenegro shall:
 - (a) prepare, on the basis of guidelines acceptable to the Association, and furnish 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) afford the Association a reasonable opportunity to exchange views with the Republic of Montenegro on said plan.
3. The Borrower shall ensure that the Republic of Montenegro shall:
 - (a) maintain, during the term of the Project, the Education Reform Steering Committee, the SPU and the TSU with staff and other resources necessary and appropriate for the Project, and satisfactory to the Association;

(b) carry out the financial management and procurement functions under the Project by the TSU, in accordance with the Operational Manual;

(c) carry out Part A of the Project through the MOES, the BES and the SPU, and carry out Part B of the Project through the MOF, the MOES, the BES, the SPU and the municipalities;

(d) under Part A of the Project, select the Participating Schools in accordance with the procedures, eligibility criteria, and on terms and conditions satisfactory to the Association, including, without limitation, a transparent and objective selection procedure, and taking into account students' social background and ethnicity, and schools geographical locations; the Participating Schools shall be set forth in an annual plan to be adopted by the MOES by January 1 of each calendar year of Project implementation, which plan shall be satisfactory to the Association; and

(e) adopt, through the MOES and the Ministry of Labor and Social Welfare of the Republic of Montenegro, by July 1, 2005, and thereafter by January 1 during each calendar year of Project implementation, an annual program of support for the next year, targeting school children from socially disadvantaged and minority backgrounds, to ensure that they have adequate access to the required curriculum materials, which program may include provisions for renting books, establishing and maintaining a used books market, or supplying schools and public libraries with books; each annual program shall be discussed with the Association at least thirty (30) days prior to adoption, and shall, in its final form, be satisfactory to the Association.