

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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February 14, 2011

H.E. Milorad Katnic
Minister of Finance
Stanka Dragojevicica 2
Podgorica 81000
MontenegroRe: Montenegro: Advance Agreement for Preparation of Proposed
Montenegro Industrial Waste Management and Cleanup
Project
Preparation Advance No. IBRD P4600-ME

Excellency:

In response to the request for financial assistance made on behalf of Montenegro ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed one million Dollars (\$ 1,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to (a) support (i) the reduction of environmental and public health risks from selected historic industrial waste disposal sites through investments in remediation measures; (ii) the development of infrastructure for the management of hazardous waste; and (b) to strengthen institutional capacity to regulate both hazardous and non-hazardous industrial waste management ("Project"), for the carrying out of which the Recipient has requested the World Bank's financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage
Country Director and Regional Coordinator
for Southeast Europe
Europe and Central Asia Region**AGREED:**

MONTENEGRO

By /s/ Milorad Katnic
Authorized Representative

Title: Minister of Finance of Montenegro

Date: March 23, 2011

Enclosures:

- (1) “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility”, dated July 31, 2010; and
- (2) Disbursement Letter for the Advance of the same date as this Agreement, together with “World Bank Disbursement Guidelines for Projects”, dated May 1, 2006.

Article I

Standard Conditions; Definitions

1.01. *Standard Conditions.* The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

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

Article II

Execution of the Activities

2.01. *Description of the Activities.* The Activities for which the Advance is provided consist of the following parts:

- (a) Site investigations and preparation study to determine remediation requirements and budgets for the selected historic industrial waste disposal sites.
- (b) Siting and feasibility study for the development of a national hazardous waste disposal facility in Montenegro.
- (c) Environmental assessments for industrial disposal sites remediation works and establishment of national hazardous waste disposal facility.
- (d) Project management, including fiduciary functions, procurement and financial management, monitoring and evaluation.

2.02. *Execution of the Activities Generally.* The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall cause the Activities to be carried out by the Recipient’s Environmental Protection Agency, established pursuant to the Decree on the Amendments and Modifications of the Decree on Organization and Functioning of Public Administration, published in the Official Gazette of Montenegro No. 48/08 on November 12, 2008 (“Implementing Entity”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; (c) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011, and (d) the arrangements to be entered into between the Recipient and the Implementing Entity referred to in Section 2.03 below.

2.03. *Institutional and Other Arrangements.* To facilitate the carrying out of the Activities, the Recipient shall make the proceeds of the Advance available to the Implementing Entity under arrangements and terms and conditions approved by the World Bank. The Recipient shall cause the Implementing Entity to exercise its rights under such arrangements in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Advance. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive such arrangements or any of their provisions and shall cause the Implementing Entity not to assign, amend, abrogate or waive such arrangements or any of their provisions.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. .

(i) If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, the Recipient shall have the Financial Statements included in the first audit of financial statements required under the Refinancing Agreement.

(ii) If, by the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, such audit of the Financial Statements shall cover the period of the Advance, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of the Recipient's fiscal year in which the Refinancing Date occurs.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) of this Section, the World Bank may request an audit of the Financial Statements prior to the Refinancing Date, covering such period as is indicated in its request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.06. **Procurement**

(a) General. All services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" published by the World Bank in January 2011 ("Consultant Guidelines") in the case of consultants' services; and

(ii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.24 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Consultant Guidelines.

(c) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in sub-paragraph (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants' Qualifications; and (B) Selection of Individual Consultants.

(d) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III
Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of consultants' services.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Refinancing Date.** The Refinancing Date is October 1, 2012.

**Article IV
Terms of the Advance**

4.01. **Interest.** The Recipient shall pay interest on the Withdrawn Advance Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread. Interest shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. The Interest Period Determination Dates are January 1 and July 1 in each year.

4.02. **Repayment.** The Withdrawn Advance Balance, together with interest accrued thereon shall be repaid by the Recipient to the World Bank in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with interest accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds

equivalent to the Withdrawn Advance Balance plus such interest, in accordance with the provisions of the Refinancing Agreement.

(b) *Repayment in the absence of a Refinancing Agreement:* If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by this date, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed US\$50,000, it shall be repaid by the Recipient to the World Bank (together with interest accrued on the Withdrawn Advance Balance to the date of repayment), on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds US\$50,000, it (together with interest accrued on the Withdrawn Advance Balance to the Notice Date) (the “Aggregate Balance”) shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates (“Payment Dates”) which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date (“Notice Date”) of dispatch of such notice. The Recipient shall pay interest on the Aggregate Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread, payable in arrears on each Payment Date. Notwithstanding the foregoing, if any amount of the Aggregate Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Recipient shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified above in this subparagraph (ii) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.

Article V

Additional Remedies

5.01. *Additional Events of Suspension.* The Additional Events of Suspension consist of the following:

(a) The Decree on the Amendments and Modifications of the Decree on Organization and Functioning of Public Administration, published in the Official Gazette of Montenegro No. 48/08 on November 12, 2008 and any related legislation pursuant to which the Implementing Entity is operating has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Implementing Entity to perform any of its obligations under the arrangements to be entered into between the Recipient and the Implementing Entity referred to in Section 2.03 above.

(b) The Implementing Entity has failed to perform any of its obligations under the arrangements to be entered into between the Recipient and the Implementing Entity referred to in Section 2.03 above.

5.02. **Additional Events of Acceleration.** The Additional Events of Acceleration consist of the following:

(a) The event specified in paragraph (b) of Section 5.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the World Bank to the Recipient.

(b) The event specified in paragraph (a) of Section 5.01 of this Agreement occurs.

Article VI
Recipient's Representative; Addresses

6.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is its Minister of Finance.

6.02. **Recipient's Address.** The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
Stanka Dragojevicica 2
81000 Podgorica
Montenegro

Facsimile:

+382 20 224 450

6.03. **World Bank's Address.** The World Bank's Address referred to in Section 9.01 of the Standard Conditions is:

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

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145

1-202-477-6391

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