H.E. Dr. Radoje Žugić
Minister of Finance
Ministry of Finance
Stanka Dragojevica 2
81000 Podgorica
Montenegro

Re: Montenegro: Capacity Building for Effective Audit Oversight Project
(IDF Grant No. TF013555)

Your 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 a grant from the World Bank’s Institutional Development Fund ("IDF") in an amount not to exceed five hundred thousand United States Dollars (USD 500,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in 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.

This Agreement shall become effective on the date upon which the World Bank dispatches to the Recipient notice of its receipt of: (i) an original countersigned copy of this Agreement; and (ii) the Recipient’s written confirmation, acceptable to the World Bank, that the Technical Steering Committee referred to in Section 2.03 (b) has been established ("Effective Date").
This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date (60) sixty days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose. The World Bank shall promptly notify the Recipient of such later date.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Ellen Goldstein
Country Director
for Southeast Europe
Europe and Central Asia Region

AGREED:

MONTENEGRO

By:

Authorized Representative

Name: REDOE IUGIC

Title: MINISTER OF FINANCE

Date: July 24, 2013

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

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Article I
Standard Conditions; Definitions


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, and the following additional terms have the following meanings:


(b) “ICAM” means the Recipient’s Institute of Certified Accountants, an associate member of the International Federation of Accountants (IFAC), and the entity designated by the Recipient as the competent authority for the accountancy profession as stipulated in the Recipient’s Official Gazette No. 44/07 dated July 23, 2007.

(c) “MOE” or “Ministry of Education” means the Recipient’s Ministry of Education and includes any successor thereto.

(d) “MOF” or “Ministry of Finance” means the Recipient’s Ministry of Finance and includes any successor thereto.

(e) “TSU” means the Technical Services Unit within the Recipient’s MOF.

Article II
Project Execution

2.01. Project Objectives and Description. The objectives of the Project are to: (i) assist the Recipient to establish a system for public oversight and quality assurance for its statutory audit function; and (ii) build institutional capacity to provide training and maintain the competence of accounting and audit professionals to implement international standards of accounting, auditing and ethics.

The Project consists of the following parts:

Part 1: Building Effective Audit Oversight and Quality Assurance

Provision of technical assistance to support the Recipient in adopting and implementing audit quality assurance and public oversight arrangements to meet the requirements of the EU Statutory Audit Directive, through, inter alia: (a) the carrying out of an assessment and a study mission to establish the requirements for establishing a public oversight authority; (b) the preparation of by-laws and an operating manual for the public oversight authority; (c) the carrying out of
capacity building activities and training to selected personnel of the MOF and audit inspectors, (d) the design of a quality assurance program for statutory auditors; (e) the development of a quality assurance methodology; and (f) the carrying out of dissemination and outreach activities.

Part 2: Developing the Capacity of the Ministry of Finance for Policy in Corporate Financial Reporting

Provision of technical assistance to support the MOF in developing policy in corporate financial reporting to align financial reporting with the European Union’s requirements, through, *inter alia*: (a) the preparation of draft financial reporting regulations; (b) the development of guidelines, regulations and monitoring indicators for the implementation of the corporate financial reporting system; (c) the preparation of guidelines and regulation on protection of consumers, and financial and accounting education; and (d) the preparation of progress reports on the transposition of the European Union’s accounting and auditing acquis into national systems.

Part 3: Developing the Capacity of the Audit Profession in Montenegro

Carrying out of capacity building activities for ICAM, including *inter alia*: (a) the revision of ICAM’s by-laws; (b) the development of a business model for long term strategic and operational planning support; and (c) the development of a roadmap for a revised professional education program, taking into account relevant MOE requirements governing further and higher education relevant to accounting and an audit education in Montenegro.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through its MOF, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements. For the purposes of carrying out the Project the Recipient, through MOF, shall:

(a) maintain, throughout Project implementation, the TSU in a form and with functions, staffing, resources, terms of reference and qualifications satisfactory to the World Bank, and shall cause the TSU to be responsible for carrying out the technical, procurement, financial management and disbursement activities under the Project;

(b) maintain, throughout the implementation of the Project, a project technical steering committee (“Technical Steering Committee”) with a structure and in a form and with functions, staffing, terms of reference qualifications and scope of responsibilities and other resources satisfactory to the World Bank, and shall cause the Technical Steering Committee to be responsible for: (i) overseeing the technical aspects of the Project; (ii) providing overall strategic guidance and policy direction; and (iii) reviewing progress made towards achieving the Project’s objectives.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of
indicators acceptable to the World Bank. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than (1) one month after the date of such request.

(b) The Recipient shall, upon the World Bank’s request, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than (5) five months after the Closing Date.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report 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 Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account are made. The audited Financial Statements for such period shall be furnished to the World Bank not later than (6) six months after the end of such period.

2.06. Procurement

(a) General. All goods, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”), in the case of consultants’ services; and

(iii) 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 Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
(c) **Particular Methods of Procurement of Goods and Non-consulting Services.** Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants' Services**

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

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection under a Fixed Budget; (B) Least Cost Selection; (C) Selection based on Consultants' Qualifications; (D) Single-source Selection of consulting firms (E) Selection of Individual Consultants; and (F) Single-source procedures for the Selection of Individual Consultants.

(e) **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 Grant Proceeds**

3.01. **Eligible Expenditures.** (a) The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and (iii) 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 Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants' Services (including audits)</td>
<td>478,600</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training</td>
<td>21,400</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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(b) For the purposes of this Section, the term "Training" means the reasonable costs, as shall have been approved by the World Bank, for training and workshops activities conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding 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. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the Effective Date.

**Article IV**

**Recipient's Representative; Addresses**

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

4.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance  
Stanka Dragojevica 2  
81000 Podgorica  
Montenegro  

Facsimile:  
+382 20 224 450

4.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 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: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391