Loan Agreement

(Additional Financing for the Institutional Development and Agriculture Strengthening Project)

between

MONTENEGRO

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated October 5, 2016
LOAN AGREEMENT

AGREEMENT dated October 5, 2016, between MONTENEGRO ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing 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.

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 three million Euro (EUR 3,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 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 Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment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(e) of the General Conditions.

2.06. The Payment Dates are May 1 and November 1 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.08. (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 unwritten, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) 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; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 or the Reference 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 MARD in accordance with the provisions of Article V of the General Conditions.

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 — EFFECTIVENESS; TERMINATION

4.01. The Additional Condition of Effectiveness consists of the following, namely that the Project Operational Manual has been updated by the Borrower in form and substance satisfactory to the Bank.

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

ARTICLE V— REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is its Minister of Finance.

5.02. The Borrower’s Address is:

   Ministry of Finance
   Stanka Dragojevica 2
   81000 Podgorica
   Montenegro

   Facsimile:
   382 20 224 450

5.03. The Bank’s Address is:

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

   Telex: 248423(MCI) or 64145(MCI)
   Facsimile: 1-202-477-6391
AGREED at Podgorica, Montenegro, as of the day and year first above written.

MONTENEGRO

By: [Signature]

Authorized Representative

Name: [Name]

Title: [Title]

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: [Signature]

Authorized Representative

Name: [Name]

Title: [Title]
SCHEDULE 1

Project Description

The objectives of the Project are to: (i) improve the delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements; (ii) increase the experience of the Borrower's authorities in administering Rural Development Grants in accordance with EU-IPARD core rules; and (iii) support a selected number of Agricultural Holdings and Food Establishments in upgrading towards EU standards.

The Project consists of the following parts:

Part A. Strengthening MARD's Rural Development Program

1. Increasing Rural Development Funding for Target Measures and Areas:

Provision of Rural Development Grants to Beneficiaries to support target measures and areas as provided in the Manual of Rules and Procedures, including, *inter alia*: (a) piloting a direct payment scheme for Rural Development Grants compatible with EU regulation; and (b) implementing a monitoring system for said payment scheme.

2. Strengthening Institutional Capacity:

Provision of technical assistance, Training, goods and works to, *inter alia*: (a) carry out surveys on Beneficiaries' satisfaction in relation with Rural Development Grants; (b) carry out awareness campaigns on Rural Development Grants; (c) strengthen the Borrower's capacity to support potential Beneficiaries in meeting standards, developing business plans, and preparing applications for Rural Development Grants; and (d) strengthen the Borrower's capacity to develop a record keeping system for local farmers and promote agri-environment approaches for rural development.

Part B. Strengthening MARD's Administrative and Management Capacity

1. Administering EU-compatible agriculture and rural development support programs:

Provision of technical assistance, Training, goods and works to: (a) establish within MARD a Managing Authority compatible with EU regulation and responsible for planning and evaluating the Borrower's rural development program, including through agri-environment approaches; (b) support a Paying Agency compatible with EU relevant requirements; and (c) prepare and implement the Systematization Plan, including the refurbishment and/or construction of facilities, as deemed necessary under such Plan.
2. Modernizing Agriculture Information Management Systems:

Provision of technical assistance, Training, goods and works to help build key components of the Borrower’s IACS, including, *inter alia*, software applications, hardware and relevant implementation procedures.

**Part C. Support for Project Management, Monitoring and Evaluation**

Strengthening the Borrower’s Project management, monitoring and evaluation capacity through the provision of goods and consultant services, including Project auditing, Training, and financing of Operating Costs.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall maintain, throughout the duration of the Project, the Project Steering Committee with a composition and terms of reference acceptable to the Bank.

2. The Borrower shall maintain, throughout the duration of the Project, the Project Management Team with a composition, staff, resources and terms of reference acceptable to the Bank.

3. The TSU shall be responsible for procurement, financial management and disbursement activities under the Project in accordance with the provisions of this Agreement, the Project Operational Manual, the Manual of Rules and Procedures, the Procurement Plan, and the MOU and, to this end, the Borrower shall maintain, throughout the duration of the Project, the TSU with a composition, staff, resources and terms of reference acceptable to the Bank.

4. The Borrower shall carry out the Project in accordance with this Agreement, the Project Operational Manual and the Manual of Rules and Procedures, and shall not amend, suspend, abrogate, repeal or waive any provision of said Manuals without the prior written approval of the Bank.

B. Anti-Corruption

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

C. Sub-projects

1. Sub-projects under Part A.1 of the Project shall be selected, appraised, implemented and evaluated in accordance with the principles, procedures and requirements set forth in the Manual of Rules and Procedures, Procurement and Consultant Guidelines, Anti-Corruption Guidelines, and the ESMF.

2. The Borrower shall provide each Rural Development Grant under a Rural Development Grant Agreement with the respective Beneficiary on terms and conditions satisfactory to the Bank, which shall include the following:

   (a) the Rural Development Grant shall be denominated in EUR; and
(b) the Borrower shall obtain rights adequate to protect its interests and those of the Bank, including the right to:

(i) suspend or terminate the right of the Beneficiary to use the proceeds of the Rural Development Grant, or obtain a refund of all or any part of the amount of the Rural Development Grant, upon the Beneficiary’s failure to perform any of its obligations under the Rural Development Grant Agreement; and

(ii) require each Beneficiary to: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower, and the ESMF; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Rural Development Grant in accordance with the provisions of this Agreement, and the Procurement and Consultant Guidelines; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Bank’s or the Borrower’s request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (F) enable the Borrower and the Bank to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

3. The Borrower shall thereafter exercise its rights and carry out its obligations under each Rural Development Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.
D.  **Safeguards**

1. The Borrower shall carry out the Project in accordance with the EA, the RPF and the ESMF, as applicable, and shall not amend, suspend, abrogate, repeal or waive any of their provisions without the prior written approval of the Bank.

2. The Borrower shall ensure that no Loan proceeds are used to finance: (a) any new irrigation systems or extension of existing irrigation systems; (b) any agri-processing or other activities which could result in increased contamination of international water bodies; or (c) purchase of pesticides.

3. For purposes of Part B.1(c) of the Project and prior to the commencement of works for each proposed site, the Borrower shall: (a) submit to the Bank for its approval: (i) the proposed site for said works and, where required by the EA and/or RPF, the related site-specific environmental management plan, land acquisition and/or resettlement plan and checklist, said site-specific plans and checklist to be in form and substance satisfactory to the Bank; and (ii) the proposed contract for said works to ensure that the provisions of said site-specific plans and checklist are adequately included in said contract; and (b) ensure that such works are carried out in accordance with the Resettlement Policy Framework.

Section II.  **Project Monitoring Reporting and Evaluation**

A.  **Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

B.  **Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained 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 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 its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the
Financial Statements shall cover the period of one (1) fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

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

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to modifications set forth in paragraph 3 below; (b) Shopping; (c) Direct Contracting; (d) Methods or Commercial Practices which have been found acceptable to the Bank; and (e) Community Participation procedures which have been found acceptable to the Bank.
3. Modifications to the Borrower's National Competitive Bidding Procedures:

(i) **Registration**: (a) bidding shall not be restricted to pre-registered firms; (b) where registration is required, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(ii) **Eligibility**: foreign bidders shall not be precluded from bidding, and no preference of any kind shall be given to national bidders.

(iii) **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.

(iv) **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.

(v) **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.

(vi) **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.

(vii) **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.

(viii) **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.

(ix) **Price adjustment:** civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.

(x) **Rejection of bids:** all bids shall not be rejected and new bids solicited without the Bank’s prior concurrence.

(xi) **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.

(xii) **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.

(xiii) **Right to inspect and audit:** each contract financed out of the proceeds of the Loan shall provide that the suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the procurement and performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

(xiv) **Fraud and Corruption:** the Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the World Bank Group.
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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Selection under a Fixed Budget; (b) Least Cost Selection; (c) Selection based on Consultants' Qualifications; (d) Selection of Individual Consultants; and (e) Single-source procedures for the Selection of Individual Consultants.

D. **Procurement of Operating Costs**

Incremental expenditures included in the Operating Costs category can be procured in accordance with the established Borrower’s administrative procedures acceptable to the Bank.

E. **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.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Rural Development Grants under Part A.1 of the Project</td>
<td>800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works, non-consulting services, consultants' services, Training and Operating Costs for the Project</td>
<td>2,192,500</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end Fee</td>
<td>7,500</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(4) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 2.08(c) of this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
   
   (a) for payments made prior to the date of this Agreement; or

   (b) for expenditures under Category (1) unless the Borrower has approved the Manual of Rules and Procedures in form and substance satisfactory to the Bank.

2. The Closing Date is March 30, 2019.
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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1, 2021</td>
<td>3.91%</td>
</tr>
<tr>
<td>May 1, 2022</td>
<td>4.01%</td>
</tr>
<tr>
<td>November 1, 2022</td>
<td>4.11%</td>
</tr>
<tr>
<td>May 1, 2023</td>
<td>4.21%</td>
</tr>
<tr>
<td>November 1, 2023</td>
<td>4.32%</td>
</tr>
<tr>
<td>May 1, 2024</td>
<td>4.42%</td>
</tr>
<tr>
<td>November 1, 2024</td>
<td>4.53%</td>
</tr>
<tr>
<td>May 1, 2025</td>
<td>4.65%</td>
</tr>
<tr>
<td>November 1, 2025</td>
<td>4.76%</td>
</tr>
<tr>
<td>May 1, 2026</td>
<td>4.88%</td>
</tr>
<tr>
<td>November 1, 2026</td>
<td>5.01%</td>
</tr>
<tr>
<td>May 1, 2027</td>
<td>5.13%</td>
</tr>
<tr>
<td>November 1, 2027</td>
<td>5.26%</td>
</tr>
<tr>
<td>May 1, 2028</td>
<td>5.39%</td>
</tr>
<tr>
<td>November 1, 2028</td>
<td>5.52%</td>
</tr>
<tr>
<td>May 1, 2029</td>
<td>5.66%</td>
</tr>
<tr>
<td>November 1, 2029</td>
<td>5.80%</td>
</tr>
<tr>
<td>May 1, 2030</td>
<td>5.95%</td>
</tr>
<tr>
<td>November 1, 2030</td>
<td>6.10%</td>
</tr>
<tr>
<td>May 1, 2031</td>
<td>6.38%</td>
</tr>
</tbody>
</table>

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. "Agricultural Holdings" means any production unit, individually managed, involved in primary agricultural productions either as a main or secondary business activity and located in the Borrower’s territory.


3. "Beneficiary" means a recipient of a Rural Development Grant under Part A.1 of the Project, and includes private agricultural holdings, producer organizations, agricultural cooperatives, small and medium sized enterprises, NGOs and tourist associations, all selected in accordance with criteria and procedures set forth in the Manual of Rules and Procedures, and “Beneficiaries” means more than one such Beneficiary.

4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


6. “EA” or “Environmental Assessment” means the assessment dated August 31, 2008, prepared and adopted by the Borrower in connection with the Original Project and satisfactory to the Bank, consisting of a set of mitigation, monitoring, and institutional measures (including measures for pest management and aimed to avoid any negative impact on natural habitats, forests and physical cultural resources) required for the Project and to be taken to eliminate adverse environmental impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures, including the measures and information required for the preparation of site-specific environmental management plans, land acquisition and/or resettlement plans and checklists referred to in paragraph 3 of Part D of Section I of Schedule 2 to this Agreement.

7. “Environmental and Social Management Framework” or “ESMF” means the framework dated June 17, 2008, prepared and adopted by the Borrower in connection with the Original Project and satisfactory to the Bank, as updated and re-disclosed on June 24, 2014, consisting of a set of mitigation, monitoring, and institutional measures (including measures for pest management and aimed to avoid any negative impact on natural habitats, forests and physical cultural resources).
resources), required for the Project and to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures, including the measures and information required for the preparation of site-specific environmental and social management plans.

8. "EU" means the European Union.


10. "Food Establishments" means any establishment handling, preparing, processing or producing food products (but excluding restaurants and food retailers) located in the Borrower’s territory.

11. "General Conditions" means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.

12. "IACS" means the European Union’s Integrated Administrative and Control System aimed at ensuring that transactions financed by the European Agricultural Guarantee Fund are actually carried out and executed correctly, and to prevent and deal with any irregularities.

13. "Managing Authority" means the unit established on October 27, 2011, through Decision No. 03-7161/4 issued by the Borrower’s Government.

14. "Manual of Rules and Procedures" means the manual describing the procedures for implementing the Rural Development Grants under Part A.1 of the Project, to be approved by the Borrower pursuant to Section IV.B.1(b) of Schedule 2 to this Agreement, and including, inter alia: (a) adequate procedures and controls relating to eligibility, evaluation, selection, procurement and flow of funds for Rural Development Grants, with a view to ensure use of funds for intended purposes; and (b) adequate environmental and social safeguard measures.

15. "MARD" means the Borrower’s Ministry of Agriculture and Rural Development and includes any successor thereto.

16. "MOU" means a Memorandum of Understanding, dated January 16, 2009, between the Borrower’s Ministry of Finance and MARD, satisfactory to the Bank, defining the roles and obligations of the parties in the implementation of the Project.

17. "Operating Costs" means the incremental expenses incurred by the TSU on account of Project related communication and office supplies and the incremental expenses incurred by the PMT on account of the Project management, monitoring and evaluation, which may include the maintenance of a vehicle (including fuel costs),
costs of office and equipment rental and maintenance, translation and interpretation, communication, printing and publications, supplies, local travel costs and field trip expenses (including *per diem*), reasonable bank charges, and other miscellaneous costs directly associated with the Project implementation, all based on periodic budgets acceptable to the Bank.

18. “Original Loan Agreement” means the loan agreement for the Institutional Development and Agriculture Strengthening Project between the Borrower and the Bank, dated May 27, 2009, as subsequently amended (Loan No. 7716-ME).


20. “Paying Agency” means the body, established on October 27, 2011 through Decision No. 03-7161/4 issued by the Borrower’s Government and responsible for, *inter alia*: (i) processing aid applications; (ii) authorizing and executing payments in line with the eligibility criteria defined in the Manual of Rules and Procedures; (iii) organizing on-the-spot *ex-ante* and *ex-post* controls; and (iv) carrying out internal audits.


22. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 20, 2016 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

23. “PMT” means the Project Management Team established by MARD on March 13, 2008, and responsible for the overall implementation, coordination, monitoring and evaluation of the Project.

24. “Project Operational Manual” means the manual prepared in connection with the Original Project, to be updated by the Borrower pursuant to Section 4.01 of this Agreement and describing the procedures for Project implementation, including, *inter alia*: (a) procedures governing staffing, procurement, accounting, financial management, including adequate measures for procurement and forensic audits, environmental and social safeguards, and monitoring and evaluation arrangements; and (b) the financial management arrangements.

25. “Project Steering Committee” means the Project Steering Committee chaired by the MARD and established on February 15, 2010, through Ministerial Resolution 320/10-0201-4114 issued by the Minister of Agriculture and Rural Development for the purposes of overall Project oversight.
26. "RPF" or "Resettlement Policy Framework" means the framework dated November 14, 2008, prepared and adopted by the Borrower in connection with the Original Project and satisfactory to the Bank, which establishes the potential resettlement and compensation principles, organizational arrangements and design criteria to be applied to project implementation in compliance with the laws of Montenegro and the Bank's safeguards policy on involuntary resettlement.

27. "Rural Development Grant" means a grant made or proposed to be made by the Borrower to a Beneficiary under Part A.1 of the Project; and "Rural Development Grants" means more than one such grant.

28. "Rural Development Grant Agreement" means the agreement entered into between the Borrower and a Beneficiary according to terms and conditions set forth in paragraph 2 of Part C of Section I of Schedule 2 to this Agreement, as such agreement may be amended from time to time by its parties.

29. "Sub-project" means a sub-project selected and approved by the Borrower to be financed by a Rural Development Grant in accordance with the criteria and procedures set forth in the Manual of Rules and Procedures.

30. "Systematization Plan" means the action plan for the reorganization of agriculture sector institutions approved by the Borrower's Government on January 29, 2016 through Resolution No. 08-67 to bring its institutional framework more in line with EU requirements, as the same may be subsequently amended by MARD from time to time.

31. "Training" means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers' contracts, including training materials, space and equipment rental, travel, accommodation and per diem costs of trainees and trainers, trainers' fees, and other training related miscellaneous inputs.

32. "TSU" means the Technical Services Unit within the Borrower's Ministry of Finance.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. Section 3.01. (Front-end Fee) is modified to read as follows:
"Section 3.01. Front-end Fee; Commitment Charge

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

3. In the Appendix, Definitions, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.

4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."