Re: EU Grant No. TF018039
EU/IPA Agriculture and Rural Development Institution Building Project

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"), acting as administrator of grant funds provided by European Union represented by the European Commission ("Donor") under the Montenegro EU/IPA Agriculture and Rural Development Institution Building Project (TF072147), proposes to extend to the Recipient a grant in an amount not to exceed three million three hundred eighty five thousand three hundred eight Euros (€3,385,308) ("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").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

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 return it to the World Bank. This Agreement shall become effective upon: (i) receipt by the World Bank of
this countersigned copy; (ii) the approval by the World Bank of the Project Operational Manual referred to in Section 2.03 (c) of the Annex to this Agreement; and (iii) the approval by the World Bank of the Grant Operational Manual referred to in Section 2.03 (e) of the Annex to this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 30 days after the date of signature of this Agreement by the World Bank,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.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Anabela Abreu
Country Manager, Montenegro
Europe and Central Asia

AGREED:
MONTENEGRO

By

Authorized Representative
Name ENDOJE BULJIC
Title MINISTER OF FINANCE
Date: OCTOBER 31, 2011

Enclosures:

(2) Disbursement Letter 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 Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("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, and the following additional terms have the following meanings:

(a) "Beneficiary" means a recipient of Sub-grant under Part 1 of the Project, and includes private agricultural holdings, producer organizations, small and medium sized enterprises, NGOs and tourist associations, all selected in accordance with criteria and procedures set forth in the Grants Operational Manual, and "Beneficiaries" means all of such Beneficiaries.

(b) "Environmental Management Framework" or "EMF" means the assessment originally dated June 17, 2008 and recently re-disclosed on June 24, 2014, prepared and adopted by the Recipient and satisfactory to the World Bank, consisting of the set of mitigation, monitoring, and institutional measures 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 management plans, land acquisition and/or resettlement plans and checklists referred to in Section 2.03 (j) to this Agreement.

(c) European Union Instrument for Pre-Accession Assistance for Rural Development" or “EU IPARD” means the financial instrument of the European Community for pre-accession assistance for rural development within the framework of the European Partnerships with the potential candidate countries and the Accession Partnerships of the candidate countries.

(d) “GOM” means the Grant Operational Manual describing procedures for implementation of the grant scheme under Part 1 of the Project, to be prepared and adopted by the Recipient and satisfactory to the World Bank, and including, *inter alia*: (a) adequate procedures and controls relating to eligibility, evaluation, selection, procurement and flow of funds for the grant scheme with a view to ensure use of funds for intended purposes; and (b) adequate environmental and social safeguard measures, as the same may be amended, from time to time, in a manner satisfactory to the World Bank.

(e) IPARD” means Instrument for Pre-Accession Assistance for Rural Development.

(f) “MARD” means the Recipient’s Ministry of Agriculture and Rural Development or any legal successor thereto.
(g) "MOF" means the Recipient's Ministry of Finance or any legal successor thereto.

(h) "MOU" means the Memorandum of Understanding, dated September 3, 2014, between MOF and MARD, satisfactory to the World Bank, defining the roles and obligations of the parties in the implementation of the project.

(i) "MIDAS" means the Montenegro Institutional Development and Agricultural Strengthening Project (Loan Number 7716-ME) dated May 27, 2009, entered into between Montenegro and the International Bank for Reconstruction and Development.

(j) "POM" means the Project Operational Manual referred to in Section 2.03 (c) of this Agreement, as the same may be amended, from time to time, in a manner satisfactory to the World Bank.

(k) "Sector for Payment" means MARD's future IPARD paying agency or any legal successor thereto.

(l) "Sector for Rural Development" means MARD's future managing authority or any legal successor thereto.

(m) "Sector Monitoring Committee" or "SMC" means the Sector Monitoring Committee to be established and maintained by the Recipient in accordance with Part 2 (a) of this Agreement.

(n) "Sub-grant" means a grant made or proposed to be made by the Recipient, through MARD, to a Beneficiary to finance, in whole or in part, the carrying out of an activity under Part 1 of the Project, and "Sub-grants" means all of such grants.

(o) "Sub-grant Agreement" means the agreement satisfactory to the World Bank to be entered into between the Recipient, through MARD, with a Beneficiary, such agreement to provide, inter alia, for the responsibility of the Beneficiary in the implementation of Subprojects under Part 1 of the Project, and "Sub-grant Agreements" means all of such agreements.

(p) "Subproject" means an activity selected and implemented by a Beneficiary under Part 1 of the Project in accordance with the criteria and procedures set forth in the GOM, and "Subprojects" means all of such activities.

(q) "Technical Bodies" means an entity of the Recipient, as defined in the Recipient's Conclusion No. 06-336/3 of February 21, 2013, including, the Ministry of Sustainable Development and Tourism, the Ministry of Labor and Social Welfare, the Ministry of Health, the Veterinary Administration, the Phytosanitary Administration, the Agency for Environmental Protection, and the Directorate for water and Monteorganica.

(r) "Technical Service Unit" means the unit established within the MOF.
Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to increase the experience of the Recipient’s authorities in administering rural development grants in accordance with the core rules of the European Union Instrument of Pre-accession Assistance for Rural Development and to improve the productivity of a targeted number of agriculture holdings. The Project consists of the following parts:

**Part 1: Implementation of a grant scheme based on core EU IPARD rules**

(a) Implementing a grant scheme, based on EU IPARD rules, to strengthen MARD’s Sector for Rural Development and Sector for Payment through the carrying out of the following activities: (i) drafting the GOM; (ii) preparing and issuing calls for applications; (iii) selecting applications; (iv) signing of grant contracts between MARD and the final beneficiaries; (v) authorizing and controlling commitments and payments; (vi) carrying out on-the-spot checks; (vii) accounting for commitments and payments; and (viii) monitoring and evaluation of the implementation of the grants investments.

(b) Providing EU IPARD-like demand-driven grants to beneficiaries to finance investments in agricultural holdings in accordance with the criteria set forth in the GOM.

(c) Strengthening the capacity of MARD as well as selected Technical Bodies through the implementation of procedures introduced in the national accreditation package.

(d) Implementing a grievance redress and complaints mechanism building on the existing MIDAS Project.

**Part 2: Technical Assistance to support implementation and monitoring**

(a) Supporting the implementation and monitoring of the grant scheme including: (i) implementing a monitoring support system to measure results achieved by the grant scheme; (ii) providing support to the Sector Monitoring Committee (SMC) for Rural Development responsible for implementation of the monitoring arrangements including the monitoring indicators; and (iii) enhancing the knowledge in implementing the tasks foreseen under the future IPARD for the relevant staff of MARD’s Sectors for Rural Development and for Payments, as well as members of the Sector Monitoring Committee, in particular through financing their participation in study tours.

(b) Carrying out a baseline survey in the first year of Project implementation and a final survey; (i) carrying out public awareness of the Project including dissemination of promotional material; (ii) providing support for the coordination, monitoring and implementation of environmental and social safeguards, (iii) carrying audits of grant beneficiaries; and (iv) providing operational support for the implementation of the Project.
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 MARD with the assistance of the Technical Service Unit 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”); (c) this Article II; (d) the POM; (e) the GOM; and (f) the EMF (including any related safeguards documents as needed).

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

(a) Maintain the Technical Service Unit at all times during Project implementation with professional staff in adequate numbers and with terms of reference, qualifications and functions acceptable to the World Bank. The Technical Service Unit shall be responsible for procurement, disbursement, financial management activities under the Project in accordance with requirements, criteria, organizational arrangements and operational procedures set forth in this Agreement, the POM, the GOM and the MOU.

(b) Establish and maintain throughout Project implementation a Sector Monitoring Committee for Rural Development comprising representatives of MARD, the Donor and other stakeholders, to coordinate, and exchange views on operational progress and information regarding the implementation of the activities and to implement monitoring arrangements.

(c) Prepare, adopt and maintain the POM, acceptable to the World Bank, said manual shall include, *inter alia*:

(i) the detailed description of Project implementation activities;

(ii) the Project administrative, accounting, auditing, reporting, financial, and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;

(iii) the procedures for the monitoring, evaluation and supervision of the Project;

(iv) the scope of rural development measures and potential applicants to be supported by the Project;

(v) the workplan; and

(vi) the performance indicators for the Project.

(d) The POM may only be amended from time to time in consultation with, and after approval of the World Bank. In case of any conflict between the terms of the POM and those of this Agreement, the terms of this Agreement shall prevail.
Prepare, adopt and maintain the GOM, acceptable to the World Bank, said manual shall include, *inter alia*:

(i) guidelines to be followed for complaints handlings;

(ii) the composition and role of the evaluation and complaints commissions;

(iii) disclosure requirements stating that all complaints handling procedures and information will be posted on the Project website to ensure a full transparency of the process;

(iv) details of the IPARD core measures, such as specific activities to be financed;

(v) applicants selection criteria and administrative procedures for grants disbursement; and

(vi) the template of the Sub-grant Agreement.

The GOM may only be amended from time to time in consultation with, and after approval of the World Bank. In case of any conflict between the terms of the GOM and those of this Agreement, the terms of this Agreement shall prevail.

Upon selection of any given Subproject under Part 1 of the Project, and prior to the carrying out of said Subproject, the Recipient shall, through MARD, enter into a separate agreement with a Beneficiary responsible for carrying out said Subproject, under terms and conditions acceptable to the World Bank (the “Sub-grant Agreement”), which shall provide, *inter alia*, the Beneficiary’s obligations to carry out the operation, management and maintenance of the Subproject in accordance with the terms and requirements of this Agreement, the GOM, the Anti-Corruption Guidelines, and the EMF (including any related safeguards documents as needed) and the Recipient’s obligation, through MARD, to transfer parts of the proceeds of the Grant to the Beneficiary for the implementation of the Subprojects.

Without limitation to the provisions of paragraph (f) of this Section, the obligation of the Recipient, through MARD, to suspend in whole or in part the portion of the Grant allocated to finance a given Subproject in case the Beneficiary has failed to comply with any of its obligations under the corresponding Sub-grant Agreement and/or terminate the Sub-grant Agreement (as the case may be).

The Recipient shall exercise its rights and carry out its obligations under each of the Sub-grant Agreements, in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, terminate, abrogate, waive or fail to enforce any of the Sub-grant Agreements or any provision thereof.
(k) The Recipient shall ensure that no Grant proceeds are used to finance: (i) any new irrigation systems or extension of existing irrigation systems; and (ii) any agri-processing or other activities which could result in increased contamination of international water bodies.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and 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 the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall 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 six months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient may employ consultants in accordance with the provisions of Section 2.07 of this Agreement.

2.06. 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 not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, 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. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.07. Procurement

(a) General. All goods, works, 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 and revised in July 2014
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 and revised in July 2014 (“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, Works and Non-consulting Services

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

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts which are specified in the Procurement Plan: (A) National Competitive Bidding, subject to the requirements set forth in the Attachment A to this Annex (B) Shopping; (C) Commercial Practices which have been found acceptable to the World Bank; (D) Community Participation procedures which have been found acceptable to the World Bank, and (E) Direct Contracting.

(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, 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 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.

9
(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.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) 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 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 Euros)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Sub-grants under Part 1 of the Project</td>
<td>3,085,308</td>
<td>75% of the total sub-grant amounts</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services and consultants’ services, Training, and Operating Costs under Part 2 of the Project</td>
<td>300,000</td>
<td>69%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>3,385,308</strong></td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this Grant Agreement, the term “Operating Costs” means the incremental expenses incurred on account of the Project, related to communication and office supplies, management, monitoring and evaluation, which may include costs of translation and interpretation, communication, printing and publications, supplies, local travel costs and field trip expenses (including per diem), bank charges, and other miscellaneous costs directly associated with the Project implementation, all based on periodic budgets acceptable to the Bank.

For purposes of this Grant Agreement, the term “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers' contracts, including costs of training materials, space and equipment.
rental, travel, accommodation and per diem costs of trainees and trainers, trainers' fees, and other training related miscellaneous costs.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) under Category I of the Project until and unless the respective Sub-grant Agreement referred to in Section 2.03 (f), acceptable to the World Bank, shall have been executed.

(c) for any payments for taxes levied by or in the territory of the Member Country.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2017.

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: Telex: Facsimile:

INTBAFRAD 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)
Attachment A

Additional Provisions for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Guidelines, National Competitive Bidding shall be subject to the following additional 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."