

Public Disclosure Authorized

# OFFICIAL DOCUMENTS

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LOAN NUMBER 8820-ME

## Loan Agreement

(Second Institutional Development and Agriculture Strengthening Project)

between

MONTENEGRO

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

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## **LOAN AGREEMENT**

AGREEMENT dated as of the Signature Date between MONTENEGRO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). 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) apply to and form 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 the amount of thirty million Euro, (EUR 30,000,000), as such amount may be converted from time to time through a Currency Conversion (“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 III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

**ARTICLE IV —EFFECTIVENESS**

- 4.01. The Additional Condition of Effectiveness consists of the following, namely that the Project Operational Manual has been adopted by the Borrower in form and substance satisfactory to the Bank.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Borrower's Representative is its Minister of Finance.
- 5.02. For purposes of Section 10.01 of the General Conditions:

- (a) the Borrower's address is:

Ministry of Finance  
Stanka Dragojevicica 2  
81000 Podgorica  
Montenegro

and

- (b) the Borrower's Electronic Address is:

Facsimile:	E-mail:
382 20 224 450	mf@mif.gov.me

- 5.03. For purposes of Section 10.01 of the General Conditions:

- (a) the Bank's address is:

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


and

- (b) the Bank's Electronic Address is:

Telex:	Facsimile:
248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED as of the Signature Date.

**MONTENEGRO**

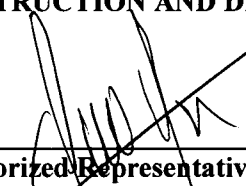
By   
\_\_\_\_\_  
Authorized Representative

Name: DARKO RADUNOVIĆ

Title: MINISTER OF FINANCE

Date: MARCH 8, 2018

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By   
\_\_\_\_\_  
Authorized Representative

Name: EMANUEL SALINAS

Title: COUNTRY MANAGER

Date: MARCH 8, 2018

## SCHEDULE 1

### Project Description

The objective of the Project is to improve the competitiveness of agriculture and fisheries in Montenegro through enhanced delivery of Borrower's support in alignment with EU accession requirements.

The Project consists of the following parts:

#### **Part A. Strengthening MARD Agriculture, Rural Development and Fisheries Programs**

1. Increasing and diversifying income generation opportunities through grants for rural development, agriculture and fisheries Sub-projects, including through the following:

Provision of agriculture, rural development and fisheries Grants to Beneficiaries to carry out target measures and implement direct support for rural development measures, including through, *inter alia*: (a) piloting further EU IPARD-like measures; (b) implementing direct payment measures towards harmonization with EU Common Agricultural Policy (CAP); (c) supporting production and processing associations/collection centers; and (d) carrying out fisheries investments in preparation for the implementation of the European Maritime Fisheries Fund (EMFF).

2. Strengthening MARD towards fulfilling EU accession requirements, including through the following:

(a) Strengthening the Directorate for Payments (DfP) management capacity and development of the IACS applications; (b) strengthening the Advisory Services and DfP system at the regional level; (c) upgrading offices for DfP and the Advisory Services, including through carrying out of works for rehabilitation of existing offices, provision of equipment and necessary hardware and software installation; and (d) strengthening capacity of the Department of Rural Development (DfRD), Department of Agriculture (DfA) and DfP.

#### **Part B. Support for the Food Safety, Veterinary and Phytosanitary Services**

1. Safe management of animal by-products (ABPs), including through the following:
  - (a) establishment of a comprehensive system for the processing and/or disposal for ABPs through the design of a control system for the safe management of ABPs;
  - (b) carrying out of training to inspectors and business operators in alignment with the relevant food safety provisions of the EU *acquis*; and
  - (c) carrying out of public information and awareness activities addressed at food production/processing industry.

2. Strengthening the diagnostic capacity of MARD's phytosanitary laboratory, through:
  - (a) preparing the designs for the construction of laboratory facilities, including the carrying out of related works, as well as provision of laboratory equipment and laboratory furniture;
  - (b) development of an instrument to ensure efficient inter-agency collaboration between the AFSVPA and the NRL; and
  - (c) support NRL to obtain accreditation of priority tests and methods and strengthen its institutional capacity.
3. Support to inspectors of the AFSVPA to implement effectively the enhanced official risk-based food safety control regime.

**Part C. Modernization of the Fisheries Sector**

1. Development of a network of landing sites with enhanced access to auxiliary services, including through the design of infrastructure improvement and subsequent carrying out of works for rehabilitation of existing infrastructure in the port cities of: a) Bar; (b) Herceg Novi; and (c) other localities in which fishing landing sites may be developed.
2. Support to the MARD's Directorate for Fisheries and association of fishermen to enhance the productive capacity of the sector and strengthen institutional capacity.

**Part D. Project Management**

Strengthening the Borrower's Project management, monitoring and evaluation and safeguards' capacity through the provision of goods, consulting services and Training, audits and Operating Costs.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Borrower shall maintain, throughout the duration of the Project, (a) the Project Steering Committee and (b) the Project Management Team, all with a composition and terms of reference acceptable to the Bank.
2. 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.
3. The Borrower, through 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 Grant Operational Manuals, the Project Procurement Strategy for Development and the Procurement Plan, 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 Grant Operational Manuals, and shall not amend, suspend, abrogate, repeal or waive any provision of said manuals without the prior written approval of the Bank. In case of any discrepancy between the terms of said manuals and those of this Agreement, those of this Agreement shall prevail.

##### B. Sub-projects

1. The Borrower shall select, appraise, implement, and evaluate Sub-projects under Part A.1 of the Project in accordance with the principles, procedures and requirements set forth in the Grant Operational Manuals, Procurement Regulations, Anti-Corruption Guidelines, and the ESMF.
2. The Borrower shall provide each Grant under a Grant Agreement with the respective Beneficiary on terms and conditions satisfactory to the Bank, which shall include the following:
  - (a) the 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 Grant, or obtain a refund of all or any part of the amount of the Grant, upon the Beneficiary's failure to perform any of its obligations under the 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 Grant in accordance with the provisions of this Agreement, and the Procurement Regulations; (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 exercise its rights and carry out its obligations under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

**C. Safeguards**

1. The Borrower shall carry out the Project in accordance with 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) infrastructure that directly uses or discharges into International Waterways; (b) activities that correspond to a Category A Project or require a full environmental impact assessment under the Borrower's laws; and (c) purchase of pesticides, or investments or activities involving Involuntary Resettlement.

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

The Borrower shall furnish to the Bank each Project Report not later than thirty (30) days after the end of each calendar semester, covering the calendar semester.



**Section III. Withdrawal of Loan Proceeds**

**A. General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in EURO)</b>	<b>Percentage of Expenditures to be financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, and consulting services, Training and Operating Costs for Parts A.2 B, C and D of the Project	13,778,000	100%
(2) Grants under Part A.1 of the Project	16,147,000	100%
(3) Front-end Fee	75,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>30,000,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
  - (a) for payments made prior to the Signature Date; or
  - (b) for expenditures under Category (2), unless the Borrower has approved the Grant Operational Manual for the first call for Grants in form and substance satisfactory to the Bank.
2. The Closing Date is June 30, 2023.

### SCHEDULE 3

#### Commitment-Linked Amortization Repayment Schedule

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”).

<b>Principal Payment Date</b>	<b>Installment Share</b>
February 15, 2023	1.84%
August 15, 2023	1.87%
February 15, 2024	1.90%
August 15, 2024	1.92%
February 15, 2025	1.95%
August 15, 2025	1.98%
February 15, 2026	2.01%
August 15, 2026	2.04%
February 15, 2027	2.07%
August 15, 2027	2.10%
February 15, 2028	2.14%
August 15, 2028	2.17%
February 15, 2029	2.20%
August 15, 2029	2.23%
February 15, 2030	2.27%
August 15, 2030	2.30%
February 15, 2031	2.33%
August 15, 2031	2.37%
February 15, 2032	2.41%
August 15, 2032	2.44%
February 15, 2033	2.48%
August 15, 2033	2.52%
February 15, 2034	2.55%
August 15, 2034	2.59%
February 15, 2035	2.63%
August 15, 2035	2.67%
February 15, 2036	2.71%
August 15, 2036	2.75%
February 15, 2037	2.79%
August 15, 2037	2.83%
February 15, 2038	2.88%
August 15, 2038	2.92%
February 15, 2039	2.96%
August 15, 2039	3.01%
February 15, 2040	3.05%
August 15, 2040	3.10%
February 15, 2041	3.14%
August 15, 2041	3.19%
February 15, 2042	3.24%
August 15, 2042	3.45%

## APPENDIX

### Section I. Definitions

1. “ABPs” means animal by-products.
2. “Advisory Services” means the Division for advisory affairs in plant production and the Division for advisory affairs in livestock production within the MARD, established on March 27, 2017 by MARD’s internal order 011-7/17.
3. “AFSVPA” means Administration for Food Safety, Veterinary and Phytosanitary Affairs, the Borrower’s agency to perform tasks related to: food and feed safety at all stages of production, processing and distribution, import and for veterinary and phytosanitary affairs established on October 7, 2015 by the Law on Food Safety published in the Borrower’s Official Gazette No. 57/15.
4. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, 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 as of July 1, 2016.
5. “Beneficiary” means a recipient of a Grant under Part A.1 of the Project, and includes private agricultural holdings, producer organizations, NGOs, agricultural cooperatives, and enterprises, all selected in accordance with criteria and procedures set forth in the Grant Operational Manual, and “Beneficiaries” means more than one such Beneficiary.
6. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
7. “Category A Project” means an investment that, in the opinion of the Bank, is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works.
8. “DfP” or “Directorate for Payments” means MARD’s body, established on October 27, 2011 through Borrower Decision No. 03-7161/4 and responsible for, *inter alia*: (i) processing aid applications for programs under its jurisdiction; (ii) authorizing and executing payments in line with eligibility criteria; (iii) organizing related on-the-spot *ex-ante* and *ex-post* controls; and (iv) carrying out related internal audits.
9. “Environmental and Social Management Framework” or “ESMF” means the framework dated November 17, 2017, prepared and adopted by the Borrower 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 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.

10. "EU" means the European Union.
11. "EU *acquis*" means the body of common rights and obligations that is binding on all the EU member states.
12. "EU CAP" or "Common Agricultural Policy" means the set of legislation and practices adopted by the EU to provide a common, unified policy on agriculture.
13. "EU-IPARD" means the European Union Instrument for Pre-Accession Assistance for Rural Development.
14. "European Maritime Fisheries Fund" or "EMFF" means the EU Fund for maritime and fisheries policies for the period 2014-2020.
15. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing", dated July 14, 2017.
16. "Grant" means a grant made or proposed to be made by the Borrower to a Beneficiary for purposes of financing the activities of a Sub-Project under Part A.1 of the Project; and "Grants" means more than one such grant.
17. "Grant Agreement" means the agreement entered into between the Borrower and a Beneficiary according to terms and conditions set forth under Section I. B.2 of Schedule 2 to this Agreement, as such agreement may be amended from time to time by its parties.
18. "Grant Operational Manual" means the manual, to be revised yearly by the Borrower for each annual call for Grant proposals, describing the procedures for implementing the Grants under Part A.1 of the Project, to be approved by the Borrower pursuant to Section III.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 Grants, with a view to ensure use of funds for intended purposes; and (b) adequate environmental and social safeguard measures, including the ESMF, as said manual may be amended from time to time with the agreement of the Bank.
19. "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.
20. "International Waterways" means waters of a trans-boundary river or a tributary to such river, including (a) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more states, whether Bank members or not; (b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and (c) any bay, gulf, strait, or channel bounded by two or more states or, if within one state, recognized as a necessary channel of communication between the open sea and other states--and any river flowing into such waters.
21. "Involuntary Resettlement" means any direct economic and social impact caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of

assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons.

22. "MARD" means the Borrower's Ministry of Agriculture and Rural Development and any successor thereto.
23. "NRL" means the Borrower's national reference laboratory.
24. "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 field trips and study tours 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.
25. "PMT" or "Project Management Team" means the Project management team established by MARD, and responsible for the overall implementation, coordination, monitoring and evaluation of the Project.
26. "Procurement Regulations" means, for purposes of paragraph 85 of the Appendix to the General Conditions, "The World Bank Procurement Regulations for IPF Borrowers", dated July 1, 2016 revised November 2017.
27. "Project Procurement Strategy for Development" or "PPSD" means the strategy document for the Project, prepared and adopted by the Borrower on November 14, 2017 describing the carrying out of World Bank-financed projects' procurement.
28. "Project Operational Manual" means the Borrower's manual acceptable to the Bank describing the procedures for Project implementation, including, *inter alia*, procedures governing staffing, procurement, accounting, financial management, (including adequate measures for procurement and forensic audits), environmental and social safeguards, and monitoring and evaluation arrangements, as said manual may be amended from time to time with the agreement of the Bank.
29. "Project Steering Committee" means the committee chaired by the MARD and to be established by MARD for the purposes of overall Project oversight.
30. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.
31. "Sub-project" means any of the activities and/or investments under Part A.1 of the Project which have been selected and approved by the Borrower to be financed by a Grant in accordance with the criteria and procedures set forth in the Grant Operational Manual.

32. "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, as approved by the Bank.
33. "TSU" or "Technical Services Unit" means the technical service unit established by the Borrower's Ministry of Finance and responsible for the fiduciary (procurement and financial management) and disbursement aspects of the Project.