

Public Disclosure Authorized

CONFORMED COPY

GEF GRANT NUMBER TF093405

Global Environment Facility Grant Agreement

(Institutional Development and Agriculture Strengthening Project)

between

MONTENEGRO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated May 27, 2009

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GEF GRANT NUMBER TF093405

**GLOBAL ENVIRONMENT FACILITY
GRANT AGREEMENT**

AGREEMENT dated May 27, 2009, entered into between:

MONTENEGRO (“Recipient”); and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”).

The Recipient and the World Bank hereby agree as follows:

**Article I
Standard Conditions; Definitions**

- 1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008 (“Standard Conditions”) 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 Standard Conditions or in the Appendix to this Agreement.

**Article II
The Project**

- 2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project in accordance with the provisions of Article II of the Standard Conditions.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**Article III
The Grant**

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to four

million United States Dollars (\$4,000,000) (“Grant”) to assist in financing the Project.

- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

Article IV
Effectiveness; Termination

- 4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:
 - (a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action; and
 - (b) the loan agreement dated the same date as this Agreement, between the Recipient and IBRD, providing a loan in support of the Project (“Loan Agreement”), has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 4.02. As part of the evidence to be furnished pursuant to Section 4.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing the following matter, namely, on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.
- 4.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this

Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

- 4.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article V
Recipient's Representative; Addresses

- 5.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance of the Recipient.
- 5.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Stanka Dragojevicica 2
81000 Podgorica
Montenegro

Facsimile:

382 20 224 450

- 5.03. 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

Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Podgorica, Montenegro, as of the day and year first above written.

MONTENEGRO

By /s/ Igor Luksic

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the
Global Environment Facility

By /s/ Jan-Peter Olters

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve delivery of the Recipient's assistance for sustainable agriculture and rural development in a manner consistent with the European Union pre-accession requirements.

The Project consists of the following parts:

Part A. Strengthening MAFWM's Rural Development Program

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

Provision of Rural Development Grants to support target measures and areas identified in the Grants Operational Manual for agri-environmental measures and community-based approaches to agri-environment.

2. Strengthening Extension and Advisory Services:

Provision of technical assistance and Training to strengthen the Recipient's extension and advisory services' capacity to: (a) promote agri-environment and community-driven approaches to agri-environment; and (b) develop and implement a Code of Good Agricultural Practices.

Part B. Strengthening MAFWM's Administrative and Management Capacity

Provision of technical assistance and Training to strengthen the capacity of the Rural Development Unit of MAFWM in agri-environment and community-driven approaches to agri-environment.

Part C. Support for Project Management

Provision of consultants' services for Project management, monitoring and evaluation.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain, throughout the duration of the Project, the Project Steering Committee with a composition and terms of reference acceptable to the Bank. The Project Steering Committee, which shall be chaired by the Minister of Agriculture, Forestry and Water Management, shall be responsible for overall Project oversight and coordination.

2. The Recipient 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. The PMT shall be responsible for overall implementation, coordination, monitoring and evaluation of the Project. The PMT shall be headed by a Project Coordinator and shall comprise a Project Manager, a Monitoring and Evaluation Specialist and a part-time Environmental Specialist.

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 Grants Operational Manual, the Procurement Plan, and the MOU and, to this end, the Recipient 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 Recipient shall carry out the Project in accordance with this Agreement, the Project Operational Manual and the Grants Operational Manual, 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 Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Recipient shall carry out the Project in accordance with the Environmental Assessment and the Resettlement Policy Framework, and shall not amend, suspend, abrogate, repeal or waive any provision of said Assessment or Framework without the prior written approval of the World Bank.

2. The Recipient shall ensure that no Grant 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; and (c) purchase of pesticides.

3. For purposes of Part A.1 of the Project and prior to the commencement of works for each proposed site, the Recipient shall: (a) submit to the World 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 World 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.

D. 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 Grants Operational Manual, Procurement and Consultants Guidelines, Anti-Corruption Guidelines, Environmental Assessment and Resettlement Policy Framework.

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

- (a) the Rural Development Grant shall be denominated in EUR; and
- (b) the Recipient shall obtain rights adequate to protect its interests and those of the World 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 World Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient, the EA and the RPF; (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 Guidelines; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the World 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 World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the World Bank's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank; (F) enable the Recipient and the World Bank to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each Rural Development Grant Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. 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 agreed with the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.
2. 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 (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. 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.
3. The Recipient shall have its Financial Statements for the Project 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 (1) 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.

Section III. Procurement

A. General

1. Goods and Works. All goods and works 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 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 Grant 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding,

which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding, subject to the modifications set forth in paragraph 3 below.
(b) Shopping.
(c) Community Participation Procurement.
(d) Commercial Practices.
(e) Direct Contracting.

3. Modifications to the Recipient’s National Competitive Bidding Procedures:

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

- (vi) **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.
- (vii) **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.
- (viii) **Price adjustment:** civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.
- (ix) **Rejection of bids:** all bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (x) **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.
- (xi) **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.

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 table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection based on Consultants’ Qualifications
(d) Selection of Individual Consultants
(e) Single-Source Selection for the Selection of Individual Consultants

D. Review by the World Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 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 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:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed
(1) Rural Development Grants under Part A.1 of the Project	3,010,000	100%
(2) Goods, works, consultants' services and Training	990,000	100%
TOTAL AMOUNT	4,000,000	

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 Recipient has (i) adopted a Grants Operational Manual, satisfactory to the Bank; and (ii) established a Proto-Paying Agency on terms and conditions satisfactory to the Bank.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2014.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary” means a recipient of a Rural Development Grant under Part A.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 more than one such Beneficiary.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006.
5. “Environmental Assessment” or “EA” means the assessment dated August 31, 2008, 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 paragraph 3 of Part C of Section I of Schedule 2 to this Agreement.
6. “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.
7. “Grants Operational Manual” means the manual describing procedures for implementation of the Rural Development Grants under Part A.1 of the Project, to be adopted by the Recipient and satisfactory to the Bank, 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.

8. “MAFWM” means the Recipient’s Ministry of Agriculture, Forestry and Water Management and includes any successor thereto.
9. “Ministry of Finance” or “MOF” means the Recipient’s Ministry of Finance and includes any successor thereto.
10. “MOU” means a Memorandum of Understanding, dated January 16, 2009, between MOF and MAFWM, satisfactory to the Bank, defining the roles and obligations of the parties in the implementation of the project.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 22, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Project Management Team” or “PMT” means the Recipient’s Project Management Team to be established and maintained within MAFWM in accordance with paragraph 2 of Part A of Section I of Schedule 2 to this Agreement.
14. “Project Operational Manual” means the manual describing procedures for implementation of the Project, dated March 3, 2009, adopted by the Recipient and satisfactory to the World Bank, and including, *inter alia*: (a) procedures governing staffing, procurement, accounting, financial management, including adequate measures for procurement and forensic audits, and monitoring and evaluation arrangements; and (b) the financial management manual.
15. “Project Steering Committee” means the Project Steering Committee to be established and maintained by the Recipient in accordance with paragraph 1 of Part A of Section I of Schedule 2 to this Agreement.
16. “Proto-Paying Agency” means the body, established by the Recipient pursuant to paragraph 1(b) of Part B of Section IV of Schedule 2 to this Agreement, that will be responsible for (i) processing aid applications; (ii) authorizing and executing payments in line with the eligibility criteria defined in the Grants Operational Manual; (iii) organizing on-the-spot ex-ante and ex-post controls; and (iv) carrying out internal audits.
17. “Resettlement Policy Framework” or “RPF” means the Resettlement Policy Framework submitted to the Bank on November 14, 2008, 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.

18. “Rural Development Grant” means a grant made or proposed to be made by the Recipient to a Beneficiary under Part.A.1 of the Project; and “Rural Development Grants” means more than one such grant.
19. “Rural Development Grant Agreement” means the agreement entered into between the Recipient and a Beneficiary according to terms and conditions set forth in paragraph 2 of Part D of Section I of Schedule 2 to this Agreement, as such agreement may be amended from time to time by its parties.
20. “Sub-project” means a sub-project selected and approved by the Recipient to be financed by a Rural Development Grant in accordance with the criteria and procedures set forth in the Grants Operational Manual.
21. “TSU” means the Technical Services Unit within the Recipient’s Ministry of Finance.
22. “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.