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Report No: **PAD1814**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF EUR3.0 MILLION
(US\$3,343,800 EQUIVALENT)

TO

MONTENEGRO

FOR THE

INSTITUTIONAL DEVELOPMENT AND AGRICULTURE STRENGTHENING PROJECT

August 17, 2016

Agriculture Global Practice
South East Europe Country Unit
Europe and Central Asia

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2016)

Currency Unit	=	EUR
EUR 1	=	US\$1.1146
US\$ 1	=	EUR .8971

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BIP	Border Inspection Post
CAP	European Union Common Agricultural Policy
CPF	Country Partnership Framework
EC	European Commission
ESMF	Environmental and Social Management Framework
EU	European Union
GDP	Gross Domestic Product
IACS	Integrated Administration and Control System
IBRD	International Bank for Reconstruction and Development
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IT	Information Technology
LPIS	Land Parcel Identification System
MARD	Ministry of Agriculture and Rural Development
MIDAS	Montenegro Institutional Development and Agriculture Strengthening
MONSTAT	Statistical Office of Montenegro
POM	Project Operational Manual
RPF	Resettlement Policy Framework
TA	Technical Assistance
TF	Trust Fund

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**MONTENEGRO
INSTITUTIONAL STRENGTHENING AND AGRICULTURE DEVELOPMENT
PROJECT**

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ADDITIONAL FINANCING DATA SHEET

Montenegro

Additional Financing to MIDAS (P159115)

EUROPE AND CENTRAL ASIA

GFADR

Basic Information – Parent							
Parent Project ID:	P107473	Original EA Category:	B - Partial Assessment				
Current Closing Date:	30-Sep-2016						
Basic Information – Additional Financing (AF)							
Project ID:	P159115	Additional Financing Type (from AUS):	Scale Up				
Regional Vice President:	Cyril E Muller	Proposed EA Category:	B				
Country Director:	Ellen A. Goldstein	Expected Effectiveness Date:	15-Sep-2016				
Senior Global Practice Director:	Juergen Voegele	Expected Closing Date:	30-Mar-2019				
Practice Manager/Manager:	Julian A. Lampietti	Report No:	PAD1814				
Team Leader(s):	Daniel P. Gerber						
Borrower							
Organization Name	Contact	Title	Telephone	Email			
Ministry of Finance	Rasko Konjevic	Minister of Finance	38220224450	rasko.konjevic@mif.gov.me			
Ministry of Finance							
Project Financing Data - Parent (Montenegro Institutional Development and Agriculture Strengthening (MIDAS)-P107473) (in USD Million)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P107473	IBRD-77160	Effective	21-Apr-2009	27-May-2009	23-Jul-2009	30-Jun-2014	30-Sep-2016
P107473	TF-A1293	Effective	24-Dec-2015	30-Dec-2015	23-Feb-2016	30-Jun-2018	30-Jun-2018
P110602	TF-093405	Effective	27-May-2009	27-May-2009	23-Jul-2009	30-Jun-2014	30-Jun-2017
Note: GEF TF093405 entered manually as portal is not showing link							
Disbursements							

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Un disbursed	% Disbursed
P107473	IBRD-77160	Effective	USD	15.70	15.70	0.00	14.07	0.00	89.62
P107473	TF-A1293	Effective	USD	5.29	5.29	0.00	0.67	4.62	12.70
P110602	TF093405	Effective	USD	4.00	4.00	0.00	3.50	0.50	87.74

Note: GEF TF093405 entered manually as portal is not showing link

**Project Financing Data - Additional Financing Additional Financing to MIDAS (P159115)
(in USD Million)**

[X] Loan [] Grant [] IDA Grant
[] Credit [] Guarantee [] Other

Total Project Cost: 3.84 Total Bank Financing: 3.34

Financing Gap: 0.00

Financing Source – Additional Financing (AF)	Amount
Borrower	0.50
International Bank for Reconstruction and Development	3.34
Total	3.84

Policy Waivers

Does the project depart from the CAS in content or in other significant respects? No

Explanation

Does the project require any policy waiver(s)? No

Explanation

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Daniel P. Gerber	Team Leader (ADM Responsible)	Sr. Agricultural Spec.		GFA03
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Silvia Mauri	Team Member	Consultant		GFA03	
Vera Dugandzic	Safeguards Specialist	Senior Operations Officer		GSU03	
Extended Team					
Name		Title		Location	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Institutional Data					
Parent (Montenegro Institutional Development and Agriculture Strengthening (MIDAS)-P107473)					
Practice Area (Lead)					
Agriculture					
Contributing Practice Areas					
Additional Financing Additional Financing to MIDAS (P159115)					
Practice Area (Lead)					
Agriculture					
Contributing Practice Areas					
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants will be required					

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional loan in an amount of EUR3.0 million (US\$3,343,800 equivalent) to Montenegro for the Additional Financing to the Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS) (P159115), hereafter *MIDAS AF* (Loan Number IBRD 8643-ME). The proposed AF is sought in order to scale up and restructure a well-performing project that the government sees as a key part of its strategy to develop rural areas and increase its preparedness toward European Union's accession requirements. This AF would allow for the expansion of the institutional capacity building to manage public funds dedicated to agricultural support. The project would remain classified as safeguards category B and no new safeguards policies would be triggered. MIDAS is rated Satisfactory both toward achieving Project Development Objective and Global Environmental Objective, and Moderately Satisfactory toward Implementation Progress due to some delays in completing few important activities, namely construction of the Border Inspection Post in Bar and rehabilitation of the future Paying Agency premises.

2. The proposed AF would provide additional resources to strengthen the capacity of all the implementing entities and structures involved in the implementation of the Instrument for Pre-Accession and Assistance for Rural Development (IPARD) measures, namely the Directorate for IPARD Payments (hereafter Paying Agency), and to introduce and pilot the systems required for the implementation of EU compliant direct payments systems necessary for the administration of Common Agricultural Policy (CAP) required for eventual EU membership. The MIDAS AF would be implemented by the same department of Ministry of Agriculture and Rural Development (MARD) as the MIDAS project. The main expected outcomes of the AF are therefore the following: (i) design of a functional system supporting the disbursement of direct payments, (ii) design one or two measures to be piloted with the new system, and (iii) pilot the direct payments.

II. Background and Rationale for Additional Financing in the amount of EUR 3 million (US\$3,343,800 equivalent)

3. The MIDAS Project is financed by Loan IBRD-77160 of EUR11 million (US\$15.70 million equivalent) and GEF Grant TF093405 of US\$4.00 million that became effective in July 2009. To date disbursement stands at 94 percent of the IBRD Loan, and 84 percent of the GEF Grant. The MIDAS project has made an important contribution in assisting (MARD) in developing the required institutions and capacity to deliver support to the sector in a manner consistent with the EU's pre-accession requirements. The most successful element of MIDAS has been the provision of grants modelled after the EU's IPARD support scheme to agricultural holdings (i.e. producers) through MARD's structures. This approach has served three purposes: (i) it has provided financial support for productivity improvements; (ii) it has supported the gradual adjustment of agricultural holdings to the European Union (EU) financial and legal framework; and (iii) it has increased the capacity of Montenegro's institutions to manage EU funded IPARD resources.

4. The importance of agriculture to Montenegro's rural economy remains significant, as it represents a key source of employment, income generation, and food security for a large segment of the population including some of its most vulnerable members. According to official statistics, agricultural primary production represents around 10 percent of GDP, yet official data likely underestimate the contribution of agriculture to the economy because a large share of agricultural production is carried out informally. Historically, the region of Southeast Europe has had a tradition of growing food at home and many families still grow fruits and vegetables and sometimes raise animals (even urban dwellers often have rural second houses called *vikendica*). This production is not accounted for in most national statistics, as is the case with the relatively low level of formal agricultural employment. For instance, according to the official statistics provided by the Statistical Office of Montenegro (MONSTAT), the number of persons formally employed in agriculture was 2,347 in 2010. However, the 2010 Agricultural Census reported the equivalent of 46,473 Annual Work Units for agriculture, suggesting that only five percent of agricultural employment is formal. This implies that 95 percent of agricultural employment is not reported in official statistics. In turn, this also means that a large share of this production may not be reported as production nor as consumption.

5. Agricultural exports have been increasing by around four percent annually during the last eight years, while agricultural imports have been increasing at around 16 percent annually. This divergence has resulted in a worsening agricultural trade deficit that increased from US\$166 million in 2005 to US\$473 million in 2012. Agriculture's share within the goods trade deficit increased from 21 percent to 27 percent over the same period. The role of tourism which drives a surge in demand in summer to a multiple fold of what the average monthly figures show should not be neglected in understanding these figures. There is potential to supply a substantial share of this surging demand from a better organized local production base for fresh produce and niche products.

6. Montenegro's agricultural development is held back by constraints similar to those witnessed elsewhere in Southeast Europe: (i) low levels of information among farmers and a reluctance and/or inability to adopt modern technologies; (ii) small average farm size and a limited or sub-optimal land rental market; (iii) slow uptake in development of intermediaries or of agricultural cooperatives that could improve collecting, storage, packaging and marketing of produce; (iv) the effects of climate change, especially increased risks of weather-related natural disasters such as floods, and to a lesser extent droughts, the former often resulting in damaging land erosion once torrential rains occur after these dry periods. Comparing the agricultural value added per hectare of land with other countries in the region, it seems that agriculture in Montenegro has some potential for growth in land productivity.

7. With its proximity to the EU, reliance on trade with EU members, and strategic geopolitical location, Montenegro expressed its interest in EU accession in the mid-2000s. Since then, the country has advanced significantly in EU approximation, and it was officially granted candidate status on December 17, 2010. EU accession negotiations started on June 29, 2012.

8. Since the early stages of Montenegro's EU accession process, the European Commission (EC) and the World Bank have closely coordinated their activities to support Montenegro's authorities and the agriculture sector towards unlocking access to IPARD. The MIDAS project

was launched in July 2009 and has made important contributions in Montenegro's closer compliance with IPARD requirements through TA and investment in physical infrastructure. Montenegro's authorities have put considerable efforts into setting up the required legal and institutional framework for IPARD implementation. This involved a reorganization and renaming of the Ministry of Agriculture Forestry and Water Management (MAFWM) into the Ministry of Agriculture and Rural Development (MARD). With support from MIDAS, MARD established a Directorate for IPARD Payments and a Directorate for Rural Development which will serve as the future Paying Agency and Managing Authority respectively. These new bodies were supported in establishing a Farm Registry and building EU compliant Paying Agency premises and necessary Information Technology (IT) hardware. To improve the quality of information, MIDAS supported the Montenegro Statistical Office in carrying out the Agriculture Census.

9. MIDAS has also supported preparing the Program for the Development of Agriculture and Rural Areas in Montenegro under IPARD II and preparation and submission to the EU of the Accreditation Package. It has strengthened the capacity of the Directorate for IPARD Payment and Extension Service to implement IPARD-like measures through the successful preparation and implementation of five rounds of the MIDAS grants program providing grants to agriculture holdings that resulted in awarding 794 grants (out of 1,500 applications received) of which 657 investments have been completed amounting to about EUR6.5 million.

10. Food safety was supported by investments in the national reference laboratories through rehabilitation of the Institute of Marine Biology in Kotor and equipping of the Veterinary Laboratory in Podgorica as well as building and equipping the first Border Inspection Post (BIP) in Bar, and strengthening the legal and regulatory framework including for safe disposal of animal byproducts.

11. Throughout the implementation of the project's grants program, the principles and rules of IPARD were gradually introduced and thus have assisted Montenegro's authorities in making progress in their alignment and farmers in getting used to preparing business plans, pre-financing investments and getting reimbursed upon fulfillment of grant conditions. These achievements were in large part the result of extensive and very effective information campaigns involving administrators as well as end beneficiaries, which is confirmed by the high percentage of respondents from general public (74 percent) as having heard of the possibility to apply for MIDAS funds,¹ as well as training to extension officers on how to effectively engage with potential grant applicants.

12. The results of MIDAS and the good cooperation with MARD and the EU resulted in the establishment of two Trust Funds financed by the EU and administered by the Bank. These Trust Funds finance the Bank implementation support to Montenegro and two projects. The EU/IPARD Agriculture and Rural Development Institution Building Project (IPARD-like Project, P14499) of EUR3.4 million and Additional Financing to EU/IPARD Agriculture and Rural Development Institution Building Project (IPARD-like 2 Project, P154111) of EUR4.7 million were extended to Montenegro to provide further support to strengthen Montenegro's agriculture and the capacity of its public institutions in their path to EU accession. While the focus of both, MIDAS and IPARD-like Project was to provide support to agricultural holdings and public institutions, the

¹ 2015 data from the Socio-economic Evaluation of the MIDAS Grants Program

IPARD-like 2 Project provides for support of agro-processors (small and large), enabling investments aiming at increasing compliance with EU requirements, most importantly in the area of food safety. Due to the larger size of the latter grant financing the IPARD-like 2 Project (EUR4.7 million) and the direct linkages with the activities funded under MIDAS, it was decided that the Additional Financing to EU/IPARD Agriculture and Rural Development Institution Building Project would be processed as an Additional Financing to MIDAS. The relevant Grant Agreement was signed on December 24, 2015 and the project became effective on February 23, 2016. The progressive approach with each successive call has ensured that all stakeholders have been able to grow their understanding of the application process approximating IPARD more closely. Consequently, allocated grant resources made available under the IPARD like model have always enjoyed a high demand in response to calls for application.

13. Currently Montenegro is in the final stage to receive the EU's "Entrustment of budget implementation tasks for EU IPARD funds" (former "Conferral of Management") for measure 1 – *Investments in physical assets of agricultural holdings* and measure 3 – *Investments in physical assets concerning processing and marketing of agricultural and fishery products* of the IPARD II Program (both of which have been piloted through MIDAS and IPARD-like Projects), which will allow Montenegro to make use of its IPARD allocation. To this end, Montenegro's IPARD II Program for 2014 – 2020 (approved by the EU and adopted by the Government of Montenegro in September 2015) is conceived as a multi-annual development program for rural areas and proposes nine measures to be implemented in Montenegro for which the Sectoral Agreement between Montenegro and the EU has been signed and ratified.

14. A first round of EU audit of the structures and authorities established by Montenegro for the implementation of the above mentioned measures has been carried out. The EU audit mission reviewed all manuals of procedures and additional annexes prepared by the Paying Agency for the implementation of the IPARD measures, all horizontal issues and structure of the Paying Agency, namely the Department for Publicity and Authorization of Projects, Department for Authorization of Payments, Department for On-the-Spot Control, Department for Accounting and Budget, Department for Execution of Payments as well as its premises. The main findings are related to a lack of staffing that is now being addressed by an ongoing hiring process, the need for an accounting software that is under development under MIDAS, and a safe room for IT equipment, for which works were being completed during the audit mission. In addition, lower level improvements are required to procedures including: (i) the establishing of red flag indicators for fraud and irregularities; (ii) the establishing of reasonable general costs (related to the applicants expenditures for business plan, visibility study, etc.), and (iii) the carrying-out of an external audit of the accounting software and of the reference price database already developed.

15. Montenegro is also in process of opening negotiations with the EU on Chapter 11 – Agriculture and Rural Development, Chapter 12 – Food Safety, and Chapter 13 – Fishery, as opening benchmarks for these chapters have all been met and negotiations positions adopted by the Montenegrin Government. While final closing benchmarks are yet to be defined, Chapter 11 includes a large number of binding rules, many of which are directly linked and essential to the functioning of the Common Agriculture Policy (CAP). This is underpinned by Montenegro's Strategy for Agriculture and Rural Development that has been accepted by the EU as the Chapter 11 opening benchmark requirement. Within the strategy, an Action Plan for the establishment of a

fully operational Paying Agency and IACS system has been prepared. The Strategy and Action Plan define the activities that Montenegro is planning to do to prepare for the implementation of the CAP and the use of agricultural funds in pre-accession and post accession period. While it is anticipated that some activities will be financed from the national budget and EU/Instrument for Pre-Accession Assistance (IPA) projects, the Government aims to use the proposed AF to fund other required activities. Thus there is strong commitment from the Government of Montenegro to meet the above mentioned EU accession requirement while building on the momentum, learning-by-doing approach and capacity established under MIDAS.

16. *Nutrition* - MIDAS activities have actively contributed in supporting the Client in reaching the above mentioned EU pre-accession negotiation opening benchmark, in particular for Chapter 11 and 12. In regards to nutrition, one of the early steps required in the EU pre-accession process is the preparation of a diet study that surveys the food supply and standard food basket from a food safety and health perspective. This study is the basis to inform the Food Safety Agency of the inherent risks stemming from the food supply chains. MIDAS provided the MARD, the Veterinary Administration and Inspectors technical assistance and training in increasing their capacity. This included drafting of the new Food Safety Law (approved in September 2015) that was not only one of the Chapter 12 benchmarks, but also creates the legal/regulatory framework for upgrading food producing/processing establishments to meet EU hygiene standards. Further, the Project supported categorization of all Montenegro food establishments with regard to their deviation from the new hygiene standards, and is currently supporting MARD in implementing a grants program funded by the EU through a Bank administered Trust Fund associated to MIDAS in providing funds to the food establishments to upgrade their operations so as to comply with EU hygiene standards.

17. *Gender* -With regard to the agriculture gender dimension in Montenegro, according to the 2010 Agriculture Census some 40 percent of the agriculture labor force is composed of women, of which women aged over 65 represent nearly a quarter. Women represent slightly less than 13 percent of owners² of the agriculture holdings. The share of women farmers is low in Montenegro, just as it is throughout Europe mainly because most young women may not seek farming as a career path. In the Balkans as in much of Western Europe women tend to have higher educational achievements than men, which leads them to seek professional careers or careers in the services industry in urban centers. Nonetheless, the MIDAS grants program has specifically targeted women beneficiaries by providing preferential ranking criteria for woman applicants (of the total grants approved, 10 percent went to women that represented slightly less than 12 percent of applicants), and reaching all set targets for women participation in training. MARD will continue good coverage of gender data collection and monitoring.

18. The proposed AF would provide additional resources to strengthen the capacity of all the implementing entities and structures involved in the implementation of IPARD measures, processing direct payments, and establishment of an emerging Integrated Agriculture Control System (IACS). This would be implemented by the same department of MARD as with the MIDAS project, which has been successfully implemented since 2009.

² Owner is the person on whose account and in whose name the holding is operated and who is legally and economically responsible for the holding, i.e. who takes the economic risks of the holding (MONSTAT)

19. The proposed AF closing date is March 30, 2019. The closing date of the current loan and associated grants remain as follows: MIDAS IBRD Loan (P107473, Loan Number 7716-ME) September 30, 2016; MIDAS GEF Grant (P110602, Grant Number TF093405) June 30, 2017; and the EU-funded grant Additional Financing to Institutional Development and Agriculture Strengthening (P154111, Grant Number TF0A1293) June 30, 2018.

III. Proposed Changes

Summary of Proposed Changes	
This Project Paper seeks the approval of the Executive Directors to provide an additional loan in an amount of EUR3.0 million (US\$3,343,800 equivalent) to Montenegro for the Additional Financing to the Montenegro Institutional Development and Agriculture Strengthening Project, hereafter MIDAS AF. The proposed AF is sought in order to scale up and restructure a well-performing project that the government sees as a key part in its strategy to strengthen rural areas and increase its preparedness toward European Union's accession requirements. The AF would support the expansion of the institutional capacity to manage public funds dedicated for agricultural support in the form of direct payments as required for accession to the EU and the eventual management of CAP resources. Accordingly, the component description will be expanded and the results framework will be restructured to reflect these changes.	
Change in Implementing Agency	Yes [] No [X]
Change in Project's Development Objectives	Yes [] No [X]
Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [] No [X]
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [] No [X]
Change in Loan Closing Date(s)	Yes [] No [X]
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [] No [X]
Change in Financial Management	Yes [] No [X]
Change in Procurement	Yes [] No [X]
Change in Implementation Schedule	Yes [] No [X]

Other Change(s)						Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Development Objective/Results						
Project's Development Objectives						
Original PDO						
The Project Development Objective is to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements.						
Current PDO						
The Project Development Objectives are: (i) to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements; (ii) to increase the experience of Montenegrin authorities in administering rural development grants in accordance with EU-IPARD core rules, and (iii) to support a selected number of agricultural holdings and food establishments in upgrading towards EU standards.						
Change in Results Framework						
Explanation:						
Additional intermediary indicators need to be added that will measure the actual impact of the additional financing resources as it relates to procedures and processes as well as software modules that will be employed by the payment agency for the processing of a select number of rural development measures.						
The additional indicators would include: (i) establishment of a system supporting the disbursement of direct payments in line with EU, (ii) adoption of one or two direct payment measures by the Ministry, and (iii) successful piloting of direct payments in line with designed measures.						
Compliance						
Covenants - Additional Financing (Additional Financing to MIDAS - P159115)						
Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
Conditions						
Source Of Fund	Name			Type		
IBRD	Disbursement Condition for Category (1) Rural Development Grants			Disbursement		
Description of Condition						
No withdrawal shall be made for the disbursement of rural development grants unless the Borrower has approved the Manual of Rules and Procedures in form and substance satisfactory to the Bank.						
Source Of Fund	Name			Type		

IBRD	Effectiveness Condition	Effectiveness								
Description of Condition										
The Project Operational Manual has been updated by the Borrower in form and substance satisfactory to the Bank.										
Risk										
Risk Category		Rating (H, S, M, L)								
1. Political and Governance		Moderate								
2. Macroeconomic		Moderate								
3. Sector Strategies and Policies		Low								
4. Technical Design of Project or Program		Low								
5. Institutional Capacity for Implementation and Sustainability		Low								
6. Fiduciary		Moderate								
7. Environment and Social		Low								
8. Stakeholders		Low								
9. Other		Low								
OVERALL		Moderate								
Finance										
Loan Closing Date - Additional Financing (Additional Financing to MIDAS - P159115)										
Source of Funds		Proposed Additional Financing Loan Closing Date								
International Bank for Reconstruction and Development		30-Mar-2019								
Change in Disbursement Estimates (including all sources of Financing)										
Explanation:										
There is no change in the disbursement schedule of the original Loan as this will close as scheduled on September 30, 2017. The table below reflects the expected disbursement of the AF Loan.										
Expected Disbursements (in USD Million)(including all Sources of Financing)										
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual	0.38	1.30	1.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	0.38	1.68	3.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Allocations - Additional Financing (Additional Financing to MIDAS - P159115)										
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement %(Type Total)					
			Proposed		Proposed					
IBRD	EUR	(1) Rural Development Grants	800,000.00		100.00					

IBRD	EUR	(2) Goods, works, non-consulting services, consultants' services, training and operating costs	2,192,500.00	100.00
		(3) Front-end Fee	7,500.00	0.00
		(4) Interest Rate Cap or Interest Rate Collar Premium	0.00	0.00
		Total:	3,000,000.00	

Components

Change to Components and Cost

Explanation:

The proposed AF will provide additional resources to strengthen the capacity of all the implementing entities and structures involved in the management of the EU-compatible rural development measures. It would furthermore introduce systems, processes and applications necessary for the management of direct payments which, along with the farm register, the livestock registration and identification system and the eventual Land Parcel Identification System (LPIS), will form the backbone of the emerging Integrated Administration and Control System (IACS).

Therefore, due to the expansion of the activities as indicated above, the costs of the components will increase as indicated in the table below. Given the limited resources available under the AF, the proposed activities do not further support the food safety sector, Therefore, the original project sub-component 2.3, creating a modern food safety system, has been dropped.

Component 1: Strengthening MARD's rural development program (AF amounting to EUR 0.89 million) will continue to finance rural development measures, but will broaden its scope to include piloting of direct payments. This will involve funding to the following:

(1.1) 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; and

(2.1) 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.

Component 2: Strengthening MARD's administrative and management capacity in accordance with EU pre-accession requirements (AF amounting to EUR1.81 million) - additional funding will further support MARD in building key elements of an emerging IACS as required for implementation, management and control of the CAP implementation. To this end the AF will finance:

(2.1) 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; (c) prepare and implement the Systematization Plan, including the refurbishment and/or construction of facilities, as deemed necessary under such Plan; and (2.2) Modernizing Agriculture Information Management Systems: Provision of technical assistance, Training, goods and works to help building key components of the Borrower's IACS, including, inter alia, software applications, hardware and relevant implementation procedures.

The rudimentary IACS system developed under the project will be tested during the piloting and processing of direct payments.

Component 3: Support for Project Management, Monitoring and Evaluation (AF amounting to EURO0.30 million) - additional financing will continue to support strengthening the Borrower's Project management, monitoring and evaluation capacity through the provision of goods and consultant services, including Project auditing, training, and operating costs.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Component 1: Strengthening MAFWM's rural development program	Component 1: Strengthening MARD's rural development program	12.14	13.13	Revised
Component 2: Strengthening MAFWM's administrative and management capacity in accordance with EU pre-accession requirements	Component 2: Strengthening MARD's administrative and management capacity in accordance with EU pre-accession requirements	10.85	12.87	Revised
Component 3: Project Management, Administration and Monitoring	Component 3: Project Management, Monitoring and Evaluation	0.86	1.20	Revised
	Total:	23.85	27.20	

IV. Appraisal Summary

Economic and Financial Analysis

Explanation:

The economic rationale of the original project has not changed. The AF will substantially prepare Montenegro to benefit from the financial resources made available by the EU. The alignment of its institutions so as to be able to effectively absorb its expected CAP allocation estimated at EUR24.0 million

per year upon entry is an important objective, as has been informed by the experience in Romania and Bulgaria, both of which had to reimburse substantial portions of the funds due to inadequately transparent and traceable processes. Furthermore, the early introduction of the processing of direct payments for a few measures will help with bringing transparency and traceability of agricultural payments. The feedback mechanisms in line with EU requirements will also ensure more efficient use of public funds. While it remains difficult to quantify the impact of capacity building, the improved capacity for analysis, planning, and programming will lead to better allocation of public expenditures. Over the years the project has had five rounds of grants in dairy, cattle, sheep and goat, pig, poultry and fishery production, vegetable and fruit production, honey production, farm processing and wine yards. The range in IRR of these investments is as high as 68 percent for niche production such as mushroom, much lower rates of return for capital intensive barn construction and dairy production around 11 percent while acquisition of higher yielding dairy cows yielded 47 percent, and cheese production and sale as high as 60 percent. Measures developed under the AF will focus on agro-environmental support to compensate farmers through direct payments for introducing more environmentally sustainable agronomic practices and ensuring the sustainability and preservation of the natural rural landscape. The economic benefits to the environment of these measures was not estimated for the AF due to the limited resources dedicated to this purpose.

Technical Analysis

Explanation:

Currently Montenegro is in the final stage of receiving from the EU “Entrustment of budget implementation tasks for EU IPARD funds” (former “Conferral of Management”) which will allow Montenegro to make use of its IPARD allocation. Montenegro also in process of opening negotiations with the EU on Chapter 11 - Agriculture and Rural Development, Chapter 12 - Food Safety, and Chapter 13 - Fishery as opening benchmarks for these chapters have all been met and negotiations positions adopted by the Montenegro Government. While final closing benchmarks are yet to be defined, Chapter 11 includes a large number of binding rules, many of which are directly linked and essential to the functioning of the Common Agriculture Policy (CAP). For the implementation of EU CAP, a fully functional Paying Agency will have to be in place including a management and control system such as the Integrated Administration and Control System (IACS) and the capacity to implement rural development actions. On the day of accession, according to the accreditation criteria, the Paying Agency will have to be able to apply all the required EU standards related to the implementation of Direct Payments, Rural Development Measures and Common Market Organization mechanism for various agricultural products. The Paying Agency will be responsible for establishment and implementation of the IACS that will be used as a support tool for direct payments and area-related rural development measures. These requirements are reflected in Montenegro’s Strategy for Agriculture and Rural Development that has been accepted by the EU as the benchmark requirement to opening Chapter 11 negotiations. As part of the strategy, an Action Plan for the establishment of a fully operational Paying Agency and IACS system has been prepared. The Strategy and Action Plan define the activities that Montenegro is expected to undertake to ready itself for the implementation of the CAP and the use of agricultural funds during the pre-accession period and eventual full membership. The multi-annual plan envisages the harmonization of agricultural policies and strengthening administrative and technical capacities of MARD. The plan is also defining detailed activities and necessary funding.

The proposed AF would provide additional resources to strengthen the capacity of all the implementing entities and structures involved in the implementation of IPARD measures, processing direct payments and an emerging IACS system as defined above and in line with EU approximation requirements.

Implementation arrangements, beneficiary institutions and existing mechanisms would be substantially retained as designed under the original MIDAS project. The project would remain classified as safeguards category B and no new safeguards policies would be triggered.

The Client has prepared a Procurement Plan for the entire duration of the Project and this Plan has been reviewed by the Bank.

Social Analysis

Explanation:

Safeguards: The project will maintain the current ongoing monitoring systems to ensure the social safeguards under the project are adequately tracked and managed. MIDAS triggered the Bank’s Policy OP 4.12 on Involuntary Resettlement mainly because at the time of project appraisal, it was expected that the project would finance the construction of the building for the then Sector for Payment (future Paying Agency) and that land may be required to be expropriated for that purpose. Therefore, the Resettlement Policy Framework (RPF) document was developed and disclosed in November 2008. However, no land acquisition took place under the MIDAS as the decision was made in 2013 not to construct a new building but rather to use the existing state-owned building located in the vicinity of the implementing Ministry of Agriculture and Rural Development. Furthermore, the two ongoing associated EU-funded EU/IPA Agriculture and Rural Development Institutional Building Project (IPARD-like) grants do not trigger OP 4.12 policy. The eligibility criteria under the grant program (for all MIDAS and IPARD-like calls for proposals) clearly state that only sub-projects that do not trigger the application of Bank’s OP 4.12 policy on Involuntary Resettlement are eligible for funding. It is also stated that sub-projects that may result in displacement of any third party formally or informally occupying or using the land on which the sub-project will be implemented are also excluded from financing. Additionally, the two associated Trust Funds have also required a revised Environmental and Social Management Framework (ESMF), (or environmental and social screening procedure) that was disclosed on the MIDAS project website on June 24, 2014, and also through the World Bank InfoShop. The ESMF continues to be applicable for this Additional Financing as well, as it has evolved from the originally drafted (Environmental Management Framework (EMF) over the course of the different grant cycles, corresponding to those under Component 1.1 of this AF. The new support program will follow the same eligibility criteria used under the existing grant program clearly stating that only activities that do not trigger the application of Bank’s OP 4.12 policy on Involuntary Resettlement are eligible for funding. Only activities which are located on the farmer’s own land, or on land for which the grant applicant has written consent from the owner to use the land will be eligible for funding. Therefore, the RPF will apply only to activities under the second component associated with potential needs for refurbishment and/or construction of facilities.

Gender dimension: Good coverage of gender data collection and monitoring will be kept. The Project results framework originally had no gender indicators, however, in May 2014, the results framework was revised and gender indicators added to capture gender aspect of the project. This refers to the number of direct beneficiaries, including both beneficiaries of grants and of capacity building activities, disaggregated by gender.

Citizen engagement: As stated, the project will maintain well-functioning complaints handling mechanism and beneficiary feedback surveys. The high quality practice of registering complaints, handling rejections, monitoring and reporting as well as disclosure practice will continue. All procedures related to complaints handling and relevant information are posted on the MIDAS website: www.midas.co.me to ensure full transparency. Beneficiary satisfaction/socioeconomic survey will be carried out in the first year of project implementation and final survey in the last year. Additionally, public awareness campaign will be launched to present the features of the support program with dedicated presentations and workshops to be held country-wide as to familiarize the potential applicants with the scheme and EU required standards and documentation.

Environmental Analysis

Explanation:

The project will maintain the current ongoing monitoring systems to ensure the environmental safeguards under the project are adequately tracked and managed.

The scaling-up and restructuring of project activities will not trigger any additional safeguards policies. The original project, as prepared in 2009 had triggered OP 4.01 on Environmental Assessment, OP 4.04 on Natural Habitats, OP 4.36 on Forests, OP 4.09 on Pest Management, OP 4.11 on Physical Cultural Resources and OP 7.50 on International Waterways. The triggering of this number of policies was mostly due to the fact that the size, location and type of investments to be financed under the grants was unknown at the time, and that the activities beyond the grants included works on a cultural heritage building (Marine Biology Laboratory in Kotor), and the potential for irrigation development, for which an Exception to Notify Memo had been prepared in line with OP 7.50. The Environmental Assessment prepared for the project will continue to be applicable to the project activities, including small-scale refurbishment or reconstruction works. The most relevant of the policies, OP 4.0, was reflected in the Environmental Management Framework prepared for the project, and applied in each of the grant cycle through its provision in the Grant Operational Manual (GOM). Since the GOM was reviewed and updated for each of the subsequent grant cycles, it has with time evolved into an (ESMF) that shall be applicable to the grants under Component 1.1 of this AF. Sound environmental practices have been integrated into each of the grant applications for which an Environmental Management Plan was necessary. A relatively small number of activities that could have an impact on international waterways were screened out.

In preparation for each of the subsequent grant cycles, the MIDAS team had worked closely with the World Bank team to streamline the process and to integrate lessons learned into the new grant cycle. The revisions have been minor, but have helped improve the overall process. In addition, the safeguards specialist that is on board the Project Management Team has played a crucial role in educating the applicants and reviewing all of the grant applications with respect to potential risk to the environment, and assigning adequate due diligence. As a result, each of the applications has been screened with respect to environmental impact, and adequate measures were provided through EMPs for each activity that required one. The screening procedure was also in place for the two TF-funded activities under the project. Each of the Environmental Management Plans called for public consultations and disclosure and this has been carried out for each of the activities. There have been no issues noted during the select site visits, and no cases of non compliance were noted.

All reconstruction/refurbishment activities under the AF shall be subject to a simple EMP or Checklist EMP, as was the case for the Paying Agency and Border Inspection Point (BIP) Bar works under the original project.

Risk

Explanation:

Because the scope and structure of the on-going Project would not be significantly altered, no additional risks are foreseen. However, in order for the AF activities to be carried out smoothly and within the time foreseen, it is important for the established capacity and human resources within the MARD Directorate for IPARD Payments to be retained, and increased as per the EU requirements with the introduction of additional functions such as handling direct payments and any support measures financed from the national budget. While the current Government has shown commitment in timely achievements of the set milestones in the EU accession process, national elections scheduled to take place during 2016 could cause disruptions or delays.

The Project's activities are in line with both the existing safeguard, fiduciary and monitoring mechanisms in place, thus they will be kept as such.

V. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1 - Revised Result Framework

Project Name:	Additional Financing to MIDAS (P159115)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader(s):	Daniel P. Gerber	Requesting Unit:	ECCU4	Created by:	Daniel P. Gerber on 15-Feb-2016
Product Line:	IBRD/IDA	Responsible Unit:	GFADR	Modified by:	Silvia Mauri on 18-May-2016
Country:	Montenegro	Approval FY:	2017		
Region:	EUROPE AND CENTRAL ASIA	Lending Instrument:	Investment Project Financing		
Parent Project ID:	P107473	Parent Project Name:	Montenegro Institutional Development and Agriculture Strengthening (MIDAS) (P107473)		

Project Development Objectives

Original Project Development Objective - Parent:

The Project Development Objective is to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements.

Current Project Development Objective - Parent:

The Project Development Objectives are: (i) to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements; (ii) to increase the experience of Montenegrin authorities in administering rural development grants in accordance with EU-IPARD core rules, and (iii) to support a selected number of agricultural holdings and food establishments in upgrading towards EU standards.

Proposed Project Development Objective - Additional Financing (AF):

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
No Change	MAFWM capacity to disburse and track the use of rural development funds and to evaluate their impact in line with EU IPARD requirements.	<input type="checkbox"/>	Text	Value	Limited coverage of monitoring and verification.	Achieved. MARD developed a system and capacity to disburse & track use of rural development IPARD funds, procedures are improved in each forthcoming round, and the capacity of both beneficiaries and processors is enhanced. Accreditation package including procedures fully aligned with IPARD requirements submitted to EU. M&E system developed and operational for IPARD like measures and programs for grant support. Indicators developed.	Fully compliant monitoring and evaluation system, eligible for EU accreditation.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016

				Comment			
No Change	Number of agro-processors compliant toward EU food safety/hygiene regulations	<input type="checkbox"/>	Number	Value	18.00		60.00
				Date	23-Oct-2015		30-Jun-2018
				Comment			
New	Measures for direct payments implemented and paid	<input type="checkbox"/>	Amount(USD)	Value	0.00	0.00	500000.00
				Date	22-Mar-2016		30-Jun-2018
				Comment			
No Change	EU IPARD compatible rural development measures fully integrated in MAFWM support programs.	<input type="checkbox"/>	Text	Value	No EU IPARD compatible rural development measures in MAFWM support programs	Achieved. Rural development measures (101, 103, and 302) included in IPARD program. Measure 101 integrated in MARD support through MIDAS grants program round 1 and 4. Agro-environmental measures integrated in MARD support program through MIDAS grants program round 2, 3 and 5.	Rural development measures defined in EU IPARD program
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
Revised	Critical elements of the food	<input type="checkbox"/>	Text	Value	Reference	Partially	Lab

<p>safety system upgraded in EU compliant manner.</p>			<p>Labs lacking equipment and/or facilities, BIPs and food processing establishments not meeting EU standards, animal by-products not safely disposed of</p>	<p>achieved. Veterinary Diagnostic Lab equipped, 16 methods accredited; Kotor Marine Biology Institute rehabilitated, furnished and equipped. Bar Border Inspection Post construction works 95% completed fully furnished and equipped; gap analysis on legal/institutional, administrative and technical aspects of food system completed, TA to create animal by-products legal and regulatory framework, and increase administrative and technical capacity completed, trainings to veterinary inspectors and</p>
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						veterinary directorate carried out.	
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			Full disposal of animal by- products target removed

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
No Change	Investments in agricultural and rural development in line with IPARD measures	<input type="checkbox"/>	Text	Value	Number of commercial orientated farmers availing of market driven support measures is 0 (zero)	Overachieved. 619 commercially oriented agro-holdings	400 agro-holdings
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Amount of IPARD-like grant funding awarded (percentage)	<input type="checkbox"/>	Percentage	Value	0.00		90.00
				Date	23-Oct-2015		30-Jun-2018
				Comment			
No Change	Amount of grant funding disbursed (percentage)	<input type="checkbox"/>	Percentage Sub Type Breakdown	Value	0.00		75.00
				Date	23-Oct-2015		30-Jun-2018
				Comment			
No Change	Number of applications for Food Establishments Grant	<input type="checkbox"/>	Number	Value	0.00		150.00
				Date	23-Oct-2015		30-Jun-2018

	approved			Comment			
No Change	Number of grants for Food Establishments successfully completed	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00		120.00
				Date	23-Oct-2015		30-Jun-2018
				Comment			
New	Direct payments EU-compatible policy measures developed and adopted by the Ministry	<input type="checkbox"/>	Text	Value	No EU-compatible direct payments measures		EU-compatible direct payments policy measures adopted
				Date	22-Mar-2016		30-Jun-2018
				Comment			
New	Targeted beneficiaries are satisfied with timeliness and transparency of payout of EU-compatible direct payments	<input type="checkbox"/>	Percentage	Value	0.00		70.00
				Date	22-Mar-2016		30-Mar-2019
				Comment			
New	IT system to manage the flow of funds for implementation of direct payments measures established	<input type="checkbox"/>	Text	Value	No IT system in place		IT system established
				Date	22-Mar-2016		30-Mar-2019
				Comment			
No Change	Adoption of agri-environmental measures among beneficiaries.	<input type="checkbox"/>	Text	Value	No awareness and use of agri-environmental measures among farmers, processors, and rural communities.	Overachieved. 278 agricultural households adopted agro-environmental measures	200 agricultural households
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016

				Comment			
No Change	Amount of IPARD-like grant funding awarded (Euros)	<input type="checkbox"/>	Number	Value	0.00	7700000.00	7000000.00
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Amount of grant fund disbursed (Euros)	<input type="checkbox"/>	Number	Value	0.00	6040000.00	5925925.90
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Client days of training provided (number)	<input checked="" type="checkbox"/>	Number	Value	0.00	5681.00	6000.00
				Date	23-Mar-2011	23-Oct-2015	30-Jun-2018
				Comment			End target increased from 5,330 to 6,000
No Change	Client days of training provided - Female (number)	<input checked="" type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	850.00	900.00
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			End target increased from 800 to 900
No Change	Clients who have adopted an improved agricultural technology promoted by the project (number)	<input type="checkbox"/>	Number	Value	0.00	1468.00	1500.00
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Value	0.00	5962.00	6200.00
				Date	23-Mar-2009	23-Oct-2015	30-Jun-2018
				Comment			End target increased from 5,500 to 6,200
No Change	Female beneficiaries	<input checked="" type="checkbox"/>	Percentage	Value	0.00	15.00	15.00

			Sub Type Supplemental				
No Change	Land area where sustainable land mgt. practices were adopted as a result of proj	<input checked="" type="checkbox"/>	Hectare(Ha)	Value	0.00	2142.00	2000.00
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
Revised	Actions implemented toward Montenegro IPARD accreditation: adoption by Government of the IPARD program; Accreditation package submitted to EU;Paying Agency premises according to EU standards completed	<input type="checkbox"/>	Text	Value	No structure in place	Partially achieved. IPARD Program II adopted by EU on July 20, 2015 and Mn Gov on Sept 10, 2015. Accreditation package submitted to EU for Accreditation on August 14, 2015. Completion of the Paying Agency Building and Farm Registry software are the only missing elements to achieve this target	IPARD program II approved by EU, updated accreditation package according to IPARD program II and submitted for national accreditation, Paying Agency building, IT and Farm Registry system functional.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	EU IPARD compatible Rural Development Plan, including agri-environmental measures, submitted to EU.	<input type="checkbox"/>	Text	Value	No EU IPARD compatible Rural Development	Achieved. Directorate for Rural Development EU	Final IPARD Program II submitted to EU

					Unit or Plan.	IPARD compatible in place, final IPARD Program II adopted by EU on July 20, 2015 and Montenegro Government on September 10, 2015.	
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	All agricultural and rural development investments executed through an EU IPARD compatible Proto-Paying Agency (as approved by the World Bank).	<input type="checkbox"/>	Text	Value	Non-compliant system.	Achieved. MARD and its Directorate for IPARD Payments approved by the Bank to be fully in charge for execution of payments as detailed in the grants fourth and fifth round operational manual.	Proto-Paying Agency remains operational.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Agricultural Census is implemented and results disseminated.	<input type="checkbox"/>	Text	Value	No agricultural census data available.	Achieved. Census implemented and results disseminated.	Main agricultural census implemented. Statistical

							register established
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Integrated farm register operational	<input type="checkbox"/>	Text	Value	No farm register in place.	Partially achieved. Paper-based Farm Registry established and more than 900 farmers registered. Electronic Farm Registry software in testing phase.	Farm Register software and hardware system in place, registration of farms initiated and ongoing.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Number of analysis methods of the Veterinary Diagnostic Laboratory in Podgorica ISO 17025 accredited.	<input type="checkbox"/>	Text	Value	No accreditation at present, overlapping competence in food safety system.	Achieved. Vet Diagnostic Laboratory in Podgorica has 16 analysis methods ISO17025 accredited	Achieved. Vet Diagnostic Laboratory in Podgorica has 16 analysis methods ISO17025 accredited
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Marine Biology Institute in Kotor functioning as NRL in adequate facilities.	<input type="checkbox"/>	Text	Value	No suitable facilities in place. No clearly defined role in food	Achieved. Marine Biology Institute rehabilitated, provided with lab furniture and	Full monitoring of sea waters and aquaculture products in line with national

					safety system, no routine testing performed.	equipment, regular testing ongoing. In late February 2015 the MBI accredited Microbiological testing of sea water methods.	legislation.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Veterinary and phyto-sanitary border controls performed in EU-compliant facility in Bar.	<input type="checkbox"/>	Text	Value	No suitable facility in place	In progress. 98% of Bar Border Inspection Post construction works completed, lab furniture and equipment installed. Pending utilities connection and landscaping.	Building completed, equipment procured and installed.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Feasibility Study on safe disposal of animal by-products prepared and legal framework improved.	<input type="checkbox"/>	Text	Value	National, non-EU compliant system of safe disposal of ABPs in place	Achieved. Legal framework on safe disposal of animal by-products improvements completed, training to Veterinary Directorate and	Legal framework on safe disposal of animal by-products drafted.

						Inspectors conducted.	
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
No Change	Food establishments classified and annual control plans prepared.	<input type="checkbox"/>	Text	Value	No system in place	Achieved. Procedures for classification of food establishments and annual control plans completed according to EU standards, preliminary classification completed. Training to Veterinary Directorate and Inspectors conducted.	Procedures for classification of food establishments and annual control plans completed according to EU standards.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment	Annual control plans detailing shortcomings result from classification carried out by inspectors.		

Annex 2 – Description of Modified and New Activities

20. The additional financing will be substantially based on the design of the on-going Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project which is composed of three Components: Component 1 - Strengthening MARD's rural development program; Component 2 – Strengthening MARD's administrative and management capacity in accordance with EU pre-accession requirements; and Component 3 - Project Management, Administration and Monitoring.

21. The proposed AF will provide additional resources to strengthen the capacity of all the implementing entities and structures involved in the management of the IPARD measures. It would furthermore introduce systems, processes and applications necessary for the management of direct payments which along with the farm register, the livestock registration and Identification system and the eventual LPIS will form the backbone of the emerging IACS system.

Component 1: Strengthening MARD's rural development program (EUR0.89 million).

22. Building on the positive experience of the MIDAS project supporting MARD, identifying measures to be supported through its rural development program, and design and pilot the system to implement its support to farmers in an EU compliant way will remain one of the key project activity. Currently the project is supporting the provision of grants for a gradual introduction of the IPARD approach to improve competitiveness of the agricultural sector. With the Additional Financing (AF) the scope of the rural development measures to be supported by the project under this component will be broadened, as the scheme will aim at introducing measures that may include supporting: (i) areas of natural constraints; (ii) ecological focused areas; (iii) greening; (iv) summer pastures; (v) organic agriculture, and (vi) medicinal and aromatic plants. These measures will be defined during the implementation of the AF as they will need to take into consideration the studies on areas of natural constraints and ecological focused areas that are in the process of being procured under the ongoing MIDAS project, as well as the national support scheme that MARD is planning to implement during the same period. Decision on the measures to be funded under this AF will also depend on the availability and adequacy of tools to monitor their implementation. The AF support will be delivered through system of direct payments that will be based on the information drawn from the farm register supported by MIDAS and cross checked with the LPIS that is being implemented with EU assistance and designed on common protocols.

23. Details of the measures, such as specific activities to be financed, applicant criteria, requirements including environmental and social safeguards, and rule and administrative procedures including for qualification, authorization, carrying out on-the-spot checks, accounting and disbursement will be detailed in a Manual of rules and procedures for the implementation of direct payment system that will be prepared by MARD under the supervision of the World Bank. This document will be in line with future EU requirements for Direct Payments. The Manual, satisfactory to the Bank, will build on previously used procedures for the implementation of grant programs within MIDAS and the ongoing IPARD-like projects as well as the national program supporting direct payments.

24. Internal control procedures to improve transparency and traceability in the implementation of the scheme will be established in parallel with the capacity of staff and institutions involved, and as such increase their alignment with EU direct payments criteria and requirements. Through this process, MARD institutions, the Paying Agency in particular, will further strengthened its institutional capacity in order to fulfill all the requirements of a full-fledged Paying Agency, while at the same time continue the successful MIDAS learning by doing approach, introducing the procedures required by the EU to implement direct payments. During the scheme implementation, MARD will, to the extent possible, gradually introduce EU standards thus supporting also the beneficiaries' gradual learning process to comply with increasingly required standards and documentation.

25. This Component will finance the following:

- (a) 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; and
- (b) 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.

26. The project will also continue supporting a grievance redress and complaints mechanism, building on the positive experience of MIDAS. This mechanism has proven effective in helping to deter fraud and corruption, increase accountability, transparency and responsiveness to beneficiaries, and increasing stakeholders' involvement in the project. The Implementing Agency has a good track record in registering, monitoring, and reporting the complaints received. The Manual will lay out in detail the guidelines to be followed for complaints handling; the composition and role of the evaluation and complaints commissions; and disclosure requirements stating that all complaints handling procedures and information are to be posted on the project's website to ensure full transparency of the process.

Component 2: Strengthening MARD's administrative and management capacity in accordance with EU pre-accession requirements (EUR1.81 million).

27. This component would further support MARD in building key elements of a rudimentary Integrated Administrative and Control System (IACS) that will provide the platform from which requirements for the implementation, management and control of the Common Agriculture Policy (CAP) implementation will be met. The main IACS elements consist of: (i) basic agricultural

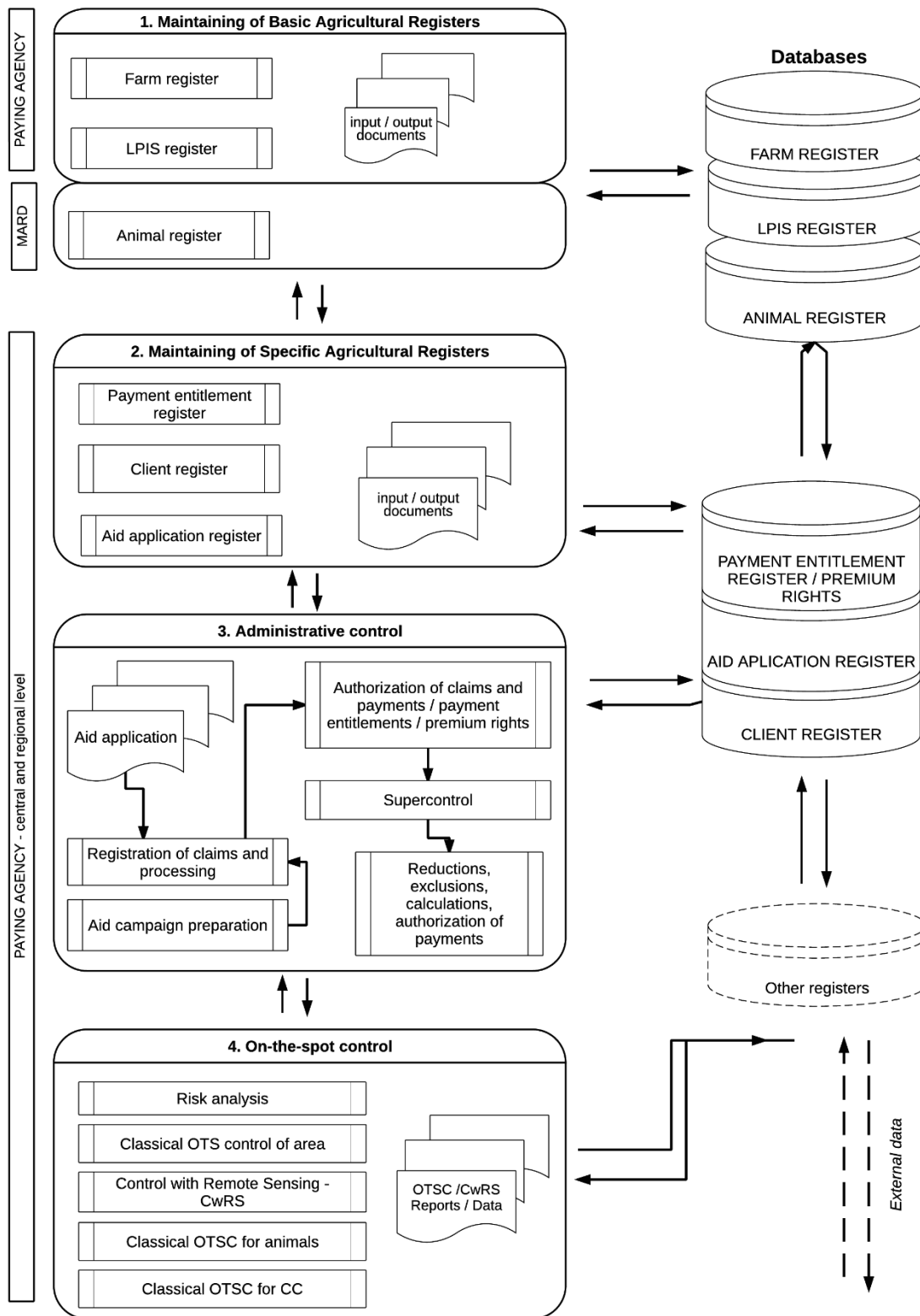
registers (Farm Registry, Land Parcel Information System, Animal Register); (ii) specific registers (entitlement register, aid application register, client register); (iii) administrative control, and (iv) on the sport control.

28. While Montenegro has already established the Animal Registry and Farm Registry and is in the process of developing the Land Parcel Information System with support from the EU through IPA funds, a number of steps still need to be taken in order to develop the necessary links and interfaces between databases composing the control system required to implement a full IACS. The rudimentary IACS system developed under the project will be tested during the pilot direct payments.

29. To this end the AF will finance the following:

- (a) 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; (c) prepare and implement the Systematization Plan, including the refurbishment and/or construction of facilities, as deemed necessary under such Plan; and
- (b) Modernizing Agriculture Information Management Systems: Provision of technical assistance, Training, goods and works to help building key components of the Borrower's IACS, including, *inter alia*, software applications, hardware and relevant implementation procedures.

DIRECT PAYMENTS / IACS - control system



Component 3: Support for Project Management, Monitoring and Evaluation (EURO.3 million).

19. This component would continue to support MARD to manage the day-to-day implementation of the project as well as monitor and evaluate its impact. The small Project Management Team (PMT) established under MIDAS will continue to operate under the direction of the Project Coordinator/General Director of the Paying Agency of the MARD. It will be composed by a Project Manager, a Monitoring & Evaluation (M&E) Specialist, and a part-time Environment Specialist. Additional local consultants with specific expertise required during the implementation of the AF may be hired. During the implementation of MIDAS MARD has worked toward mainstreaming of Monitoring & Evaluation activities into the ministry structure. As such, M&E of project activities will be also supported both by the Managing Authority, tasked with the monitoring and evaluation of the MARD rural development program, and by the Paying Agency that will provide data on the implementation of the support piloted through the direct payments system to be established under the project. With regard to the Bank fiduciary requirements, procurement and financial management aspects of the AF will be carried out under the Technical Service Unit (TSU) established under the Ministry of Finance to provide procurement and financial management services to the line ministries as defined in the Memorandum of Understanding signed by MARD and MOF. The AF would finance project management, monitoring and evaluation capacity through the provision of goods and consultant services, including Project auditing, training, and operating costs.