

Document of
The World Bank
FOR OFFICIAL USE ONLY

Report No: PAD1427

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED RESTRUCTURING AND ADDITIONAL GRANT

IN THE AMOUNT OF EUR4.7 MILLION
(US\$5.3 MILLION EQUIVALENT)

TO

MONTENEGRO

FOR A

MONTENEGRO INSTITUTIONAL DEVELOPMENT AND AGRICULTURE STRENGTHENING
PROJECT (P107473)

November 25, 2015

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

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.

CURRENCY EQUIVALENTS

(Exchange Rate Effective Sep. 17, 2015)

Currency Unit = Euro
EUR1 = US\$1.1325
US\$1 = EUR0.883

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CAP	Common Agricultural Policy (EU)
CAS	Country Assistance Strategy
DfIP	Directorate for IPARD Payments
EC	European Commission
EMF	Environmental Management Framework
EU	European Union
GDP	Gross Domestic Product
GHP	Good Hygiene Practices
GMP	Good Manufacturing Practices
GOM	Grants Operational Manual
HACCP	Hazard Analysis and Critical Control Point
IBRD	International Bank for Reconstruction and Development
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
MARD	Ministry of Agriculture and Rural Development
MIDAS	Montenegro Institutional Development and Agriculture Strengthening
MONSTAT	Statistical Office of Montenegro
PDO	Project Development Objective
POM	Project Operational Manual
SOPs	Standard Operating Procedures
TA	Technical Assistance
TF	Trust Fund

Vice President:	Cyril Muller
Country Director:	Ellen A. Goldstein
Country Manager:	Tatiana A. Proskuryakova
Practice Manager / Manager:	Steven N. Schonberger
Task Team Leader(s):	Maurizio Guadagni

MONTENEGRO
PROPOSED RESTRUCTURING AND ADDITIONAL FINANCING
MONTENEGRO INSTITUTIONAL DEVELOPMENT AND AGRICULTURE STRENGTHENING
PROJECT (P107473)

CONTENTS

Project Paper Data Sheet	iv
I. Introduction	1
II. Background and Rationale for Additional Financing.....	2
III. Proposed Changes	6
Annex 1 - Revised Result Framework.....	13
Annex 2 – Description of Modified and New Activities	24

ADDITIONAL FINANCING DATA SHEET

Montenegro

Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project (P154111)

EUROPE AND CENTRAL ASIA

GFA09

Basic Information – Parent							
Parent Project ID:	P107473	Original EA Category:	B - Partial Assessment				
Current Closing Date:	31-Mar-2016						
Basic Information – Additional Financing (AF)							
Project ID:	P154111	Additional Financing Type (from AUS):	Scale Up				
Regional Vice President:	Cyril E Muller	Proposed EA Category:	B - Partial Assessment				
Country Director:	Ellen A. Goldstein	Expected Effectiveness Date:	21-Dec-2015				
Senior Global Practice Director:	Juergen Voegele	Expected Closing Date:	30-Jun-2018				
Practice Manager/Manager:	Steven N. Schonberger	Report No:	PAD1427				
Team Leader(s):	Maurizio Guadagni						
Approval Authority							
Approval Authority							
Board/AOB Decision							
Please explain							
The Additional Financing will be entirely funded by a Trust Fund and it is therefore approved at the RVP level. However, since the additional financing operation also envisages the change of the original PDO, an approval by the Executive Board of the World Bank Group is needed on an Absence of Objection Basis (AOB).							
Borrower							
Organization Name	Contact	Title	Telephone	Email			
Ministry of Finance	Radoje Zugic	Minister of Finance		radoje.zugic@mif.gov.me			
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	31-Mar-2016
Disbursements							

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P107473	IBRD-77160	Effective	USD	15.70	15.70	0.00	12.75	1.70	81.21
Project Financing Data - Additional Financing Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project (P154111) (in EUR Million)									
<input type="checkbox"/>	Loan	<input checked="" type="checkbox"/>	Grant	<input type="checkbox"/>	IDA Grant				
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		4.72		Total Bank Financing:		0.00			
Financing Gap:		0.00							
Financing Source – Additional Financing (AF)								Amount	
Borrower								0.00	
Free-standing TFs for ECA SD Sector Unit								4.72	
Total								4.72	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Does the project require any policy waiver(s)?							No		
Team Composition									
Bank Staff									
Name	Role	Title	Specialization	Unit					
Maurizio Guadagni	Team Leader (ADM Responsible)	Senior Rural Development Specialist	Task Team Leader	GFADR					
Arben Maho	Procurement Specialist	Procurement Specialist	Procurement	GGODR					
Aleksandar Crnomarkovic	Financial Management Specialist	Sr Financial Management Specialist	Financial Management	GGODR					
Antonio Cristian D'Amelj	Counsel	Senior Counsel	Legal	LEGLE					
Dionisis Panagiotatos	Team Member	Consultant	Food Safety	GFADR					
Esma Kreso	Safeguards Specialist	Senior Environmental Specialist	Environmental Safeguards	GENDR					
Jasna Mestnik	Team Member	Finance Officer	Fiduciary	WFALA					
Marko Bucik	Team Member	Consultant	Editing	GFA03					
Ruxandra Maria Floroiu	Team Member	Lead Environmental Specialist	Environmental Safeguards	GENDR					
Silvia Mauri	Team Member	Consultant	Operations	GWADR					
Valencia M. Copeland	Team Member	Program Assistant	Support	GFADR					
Vera Dugandzic	Safeguards	Senior Operations	Social Safeguards	GSURR					

	Specialist	Officer		
Locations				
Country	First Administrative Division	Location	Planned	Actual
Montenegro		Countrywide		
Institutional Data				
Parent (Montenegro Institutional Development and Agriculture Strengthening (MIDAS)-P107473)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Cross Cutting Topics				
[] Climate Change				
[] Fragile, Conflict & Violence				
[] Gender				
[] Jobs				
[] Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration-Agriculture, fishing and forestry	48		
Agriculture, fishing, and forestry	General agriculture, fishing and forestry	46		
Agriculture, fishing, and forestry	Agricultural extension and research	6		
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural policies and institutions	84		
Trade and integration	Regional integration	10		
Rural development	Rural services and infrastructure	6		
Total		100		
Additional Financing Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution				

Building Project (P154111)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Cross Cutting Topics				
[] Climate Change				
[] Fragile, Conflict & Violence				
[] Gender				
[] Jobs				
[] Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration- Agriculture, fishing and forestry	40		
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	30		
Industry and trade	Agro-industry, marketing, and trade	30		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural markets	40		
Rural development	Rural non-farm income generation	40		
Public sector governance	Managing for development results	20		
Total		100		
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consultants Required? Consultants will be required				

I. Introduction

1. This Project Paper seeks the Board approval to restructure the Montenegro Institutional Development and Agriculture Strengthening Project (P107473), hereafter the *MIDAS Project*. The proposed restructuring would entail broadening the Project development objectives to widen the typology of beneficiaries receiving grants with a methodology similar to the Instrument of Pre-accession Assistance for Rural Development (IPARD) from agricultural holdings (farmers) to food establishments (agro-processors) and consequently revising the Results Framework in order to better capture the outcome of the proposed additional activities. The current PDO is to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements. The proposed PDOs 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.

2. Activities supported under the proposed restructuring are funded through an additional grant fully financed by the European Union through a World Bank administered Trust Fund and will be complemented with counterpart funding by the Government of Montenegro. Commitment of funds for the additional grant in the amount of EUR4.7 million (US\$5.3 million) has already been approved by the Regional Vice-President on November 25, 2015.

3. The MIDAS Project became effective in July 2009 and it is due to end in March 2016. The project has been successfully implemented, with progress towards achievement of the Project Development Objectives (PDO) consistently rated in the satisfactory range. The most successful element of MIDAS has been the provision of grants modelled after the EU's pre-accession financial support scheme called the Instrument of Pre-accession Assistance for Rural Development (IPARD) to agricultural holdings (i.e. agricultural producers or farmers) through Montenegro's public institutions. 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 EU financial and legal framework; and (iii) it has increased the capacity of Montenegro's institutions to manage EU funded financial schemes, in this case mainly the IPARD.

4. While the focus of MIDAS Project so far has remained on providing support to agricultural holdings and public institutions, the proposed AF would allow for the inclusion of agro-processors (small and large), enabling investments in increased compliance with EU requirements, most importantly in the area of food safety.¹ The main expected outcomes of the AF are therefore the following: (i) increased awareness of the agro-processing industry in Montenegro about EU food safety regulations and the flexibility therein; (ii) increased compliance of food establishments in Montenegro with EU food safety regulations²; and (iii) increased capacity of Montenegro's institutions in administering IPARD grants to food establishments.

¹ At present, the MIDAS Project provides grants to improve competitiveness of the agricultural sector through the measure 101 of IPARD Axis 1 "Investments in *agricultural holdings* to restructure and to upgrade to EU Standards". The AF would allow for the provision of grants under measure 103 of IPARD Axis 1 "Investments in the *processing and marketing* of agriculture and fishery products to restructure and upgrade to EU standards".

² This paper adopts the term "food establishment" used mainly within the EU to encompass establishments handling, preparing or producing foodstuffs, independently whether conducted by farmers or specialized agro-processors. The term does not include restaurants and food retailers.

5. The AF will be financed by the EU (EUR4.7 million or US\$5.3 million) and will be complemented by EUR1.6 million (US\$1.8 million) of counterpart funding by the Government of Montenegro. The EU will also finance Bank-Executed activities and Trust Fund (TF) administrative costs in addition to the Recipient-Executed activities through an established Hybrid TF.

II. Background and Rationale for Additional Financing

Background

6. 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 some of the most vulnerable parts of society. 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 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, indicating that only 5% of agricultural employment is formal. This in turn implies that 95% 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, neither as production nor as consumption. The importance of agriculture is also expressed through the growing demand for agricultural products that contributes to a large and increasing trade deficit. Agricultural exports have been increasing by around 4 percent annually during the last 8 years, while agricultural imports have been increasing much faster, 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.

7. Montenegro's agricultural development is held back by constraints similar to those witnessed elsewhere in the region of Southeast Europe: (i) low levels of education among farmers and their 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 agricultural cooperatives that could improve 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. Comparing the agricultural value added per hectare of land with other countries in the region, it seems that agriculture in Montenegro has potential for growth.

8. In addition to productivity and competitiveness improvement, Montenegro's agriculture needs to address the prospect of regulatory integration with the EU. Both primary agricultural production and agro-processors will need to invest in new skills and new technologies to comply with demanding EU food safety regulations. At the same time, due to the progressive integration into the EU single market, Montenegro's agriculture will come under increasing pressure both domestically and in export markets. While EU regulations allow flexibility for 'small-scale' and 'traditional' food production, their implementation requires the development of national legislation that is aligned with EU rules and the development of local capacity. For larger food establishments, adherence to EU requirements is a must.

9. The EU offers financial support to candidate countries for regulatory alignment, increased competitiveness and institutional capacity building in the field of agriculture, as well as other sectors. In fact, Montenegro became eligible for the EU's pre-accession agriculture sector support – in the form of IPARD – after obtaining candidate country status in December 2010. IPARD serves a dual

purpose. On one hand, it functions as a familiarization tool for all involved agricultural stakeholders (e.g. authorities, extension services, financing agencies, agro-holdings, food establishments, suppliers), as it introduces some elements of the EU Common Agricultural Policy (CAP) matched with a more limited amount of financial resources. IPARD thus serves as ‘training wheels’ or ‘learning-by-doing’ for the introduction of the CAP following accession, when the country will need to comply with a wider set of rules and have the capacity to manage a larger amount of funds dedicated to agriculture. On the other hand, IPARD provides funds for investments into alignment with EU regulatory requirements in order to sustain a gradual transition and reduce the adjustment shock upon accession.

10. The actual disbursement of IPARD funds is subject to conditions, mainly legal and institutional (including, but not limited to, the Paying Agency premises complying with strict EU requirements), that a country needs to satisfy. Montenegro’s authorities have put considerable efforts into setting up the required legal and institutional framework for IPARD implementation.³ Following the capacity improvements at the Ministry of Agriculture and Rural Development (MARD) in terms of staff, technical and administrative ability to manage IPARD financial schemes, few steps are still required in order for the EU to grant Montenegro’s authorities access (in the form of “Conferral of Management”) to IPARD funds. In fact, Montenegro submitted the request for IPARD accreditation to the EU in August 2015 and is currently awaiting its evaluation, expected in early 2016, in order to receive the Conferral and gain full access to IPARD funds.

11. Since the early stages of Montenegro’s EU accession process, the European Commission and the World Bank have coordinated closely their activities in supporting Montenegro’s authorities and the agriculture sector towards unlocking access to IPARD. The MIDAS project was launched in July 2009 and has made an important contribution in assisting Montenegro’s authorities in achieving closer compliance with IPARD requirements through TA and investment in physical infrastructure. MIDAS has consistently met its PDOs and has overall proceeded at moderately satisfactory pace, with its grant program executed in a timely manner. MIDAS has provided key support during the set-up of the EU-required IPARD Paying Agency, to be completed soon, and also to the establishment of the Farm Registry.⁴ In what is of direct relevance to this AF, MIDAS has so far completed five successful grant-making rounds to agriculture holdings that made in total 1,467 applications out of which 794, or 54 percent, were approved. All funds available for grants (app. EUR7 million) have been contracted and almost 619 projects have already been completed (e.g. investments in new machinery, livestock, buildings rehabilitation and expansion, manure management) with about EUR6 million transferred to beneficiaries by September 2015. Related capacity building activities of all MARD Directorates involved in the design, preparation and implementation (Directorate for Rural Development, Directorate for IPARD Payments and the Extension Service) of the grant-making program, as well as the training of farmers, is proceeding in line with expectations and without significant difficulties. Throughout the implementation of the project, the principles and rules of IPARD have been gradually introduced and thus have assisted the Montenegro’s authorities in making progress in their alignment.⁵

³ The Ministry of Agriculture and Rural Development (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. MARD is also in the process of signing the Sectoral Agreement with the EU and receiving approval for the IPARD 2 Program for 2014 - 2020. In line with EU requirements, this document is conceived as a multi-annual development program for rural areas and proposes measures to be implemented under IPARD allocations and rules.

⁴ The rehabilitation for the building to house the future IPARD Paying Agency is on-going and expected to be finished by the end of 2015. The Farm Registry has been established according in line with IPARD requirements, and more than 900 farmers have already registered through the Extension Services. In parallel, the first version of the Registry’s software has been completed and is in a testing phase, while hardware equipment is being procured.

⁵ A good example of sensible relaxation of IPARD rules was used in the procurement procedures. The grant program rules required only one price quotation at the application stage, while three quotations were required only once the grants were approved/signed and the beneficiary needed to carry out the procurement. Instead, IPARD rules require three quotations already

12. The results of MIDAS and the established cooperation with EU resulted in a separate EU funded small project, the Montenegro EU/IPA Agriculture and Rural Development Institutions Building Project (P144994), hereafter *Montenegro IPARD Project*, which started in December 2014 and launched its first grant call in February 2015.⁶ The response proved particularly strong with 521 applications received, substantially over the target of 250 applications, reflecting the earlier success of MIDAS and the effective awareness campaign. As of October 2015, 291 grants have been contracted (which is 56 percent of applications), against a target of 130 contracted grants, with 100 percent of funds allocated.

13. In light of the good cooperation and positive results so far, the European Commission and the World Bank agreed to allocate further funds (EUR5.3 million or US\$6.0 million) to a new TF to be administered by the World Bank and fund further activities strengthening Montenegro's agriculture and the capacity of its public institutions.⁷ The Government of Montenegro agreed to co-finance the Recipient-Executed portion with EUR1.6 million (US\$1.8 million).

Rationale for Additional Financing

14. Montenegro's agriculture and food-processing sectors have a strong potential to increase rural incomes and create jobs. Opportunities exist in traditional sectors where productivity can grow substantially, but also in a number of niche sectors, such as wine-making, production of olive oil, organic produce, medicinal herbs, spices, honey, as well as mushroom and truffles harvesting.⁸ These non-traditional products are labor intensive and often benefit mountainous, poorer regions.

15. However, in order to tap the existing market potential (domestic supply and exports), investments in newer technologies, as well as the adoption of new farming techniques and introduction of food safety measures are required. As shown in *Table 1*, only 8 percent of the larger food establishments comply with EU food safety and hygiene standards according to recent survey and classification of food establishments. Improving the level of compliance will require significant investments, as the current level of non-compliance would lead to a post-accession shock which would likely result in forced closing of many establishments. Many of the targeted food establishments are located in the north and northeast of Montenegro, including some of the poorest regions in the country.

at the application stage - something that was considered an excessive burden for the applicant at the outset. The AF will follow the same logic.

⁶ Total funding for the Montenegro EU/IPA Agriculture and Rural Development Institutions Building Project amounts to EUR4.5 million, including the contribution of EUR1.2 million by the Government of Montenegro.

⁷ These funds are part of the EUR7.2 million IPARD allocation for Montenegro for the years 2011, 2012 and 2013 that could not be used due to the missing Conferral of Management.

⁸ For example, the value of mushrooms and berries exported in 2013 was US\$8.8 million, representing the fifth largest export category in value terms.

Table 1. Montenegro – Specialized Agro-Processors Categorization (December 2014)

Type of Food Establishment	Compliant with EU Food Safety Standards	Non-compliant with EU Food Safety Standards	Total	Compliance
Food of animal origin	3	169 ⁹	172	2%
By-products of animal origin	3	3	6	50%
Food of non-animal origin	12	46	58	21%
TOTAL	18	218	236	8%

Source: MARD.

16. Addressing this compliance gap among food establishments in Montenegro is the main objective of the AF. More specifically, the AF aims to: (i) increase the understanding of the EU food safety regulations (and the flexibility therein) among all stakeholders (inspectors, advisory services, food establishments, etc.) in Montenegro; (ii) increase the level of compliance of Montenegro’s food establishments with EU food safety regulations; and (iii) increase the capacity of Montenegro’s institutions in administering IPARD grants to the agro-processing industry. The AF will follow the successful methodology adopted by MIDAS and the Montenegro EU/IPARD Project by (a) securing funding for the provision of grants; and (b) by providing TA to MARD and its institutions on IPARD-like administration of funds, as well as introduction and monitoring of EU Food Safety Standards.

17. It is important to stress that the AF does not aim to directly support Montenegro’s authorities with the speeding up of IPARD accreditation, as MIDAS is already doing it. Rather, the AF importance is two-fold. *On the one hand*, it ensures that EU funds allocated to Montenegro for IPARD are used to support the modernization of food establishments, even while IPARD accreditation is not completed. If these funds would not be used through this AF, Montenegro would have missed the opportunity. *On the other hand*, both MIDAS and the AF contribute to the successful introduction of IPARD by gradually introducing its rules, thus generating a strong demand for IPARD financing, as well as progressively training Montenegro’s authorities in the implementation of IPARD. The immediate introduction of full-fledged IPARD requirements a few years ago – taking into account the level of preparation in Montenegro then – would have likely encountered major obstacles due to complicated procedures and, as a result, low demand.

18. In addition to expanding the range of beneficiaries of the original project to include agro-processors, an important aspect of the planned AF is also the extensive treatment of the flexibility foreseen within the EU food safety rules. In fact, the EU recognizes among others traditional foods as valuable heritage and allows, in so far as hygiene standards are not being compromised, significant flexibility in the application of its food safety regulations on a permanent basis. Few EU member states and candidate countries have fully and timely used this opportunity, yet in the case of Montenegro, the cooperation between EU and MIDAS has created the necessary pre-conditions for the flexibility to usefully benefit the development of food processing.

19. In practice, flexibility makes it easier for specific – and recognized – food establishments to meet EU standards, including in the case of ‘small scale’, ‘specific geographic location’ and ‘traditional’ food processing. The aim is to allow for the continuation of the production of foods in specific geographic location, or in small scale establishment, or with traditional characteristics, or the application of traditional methods of production, and reduce the administrative burdens and compliance

⁹ 41 of these 169 do not have a Hazard Analysis of Critical Control Points (HACCP) in place and 128 have various degrees of non-compliance.

costs for businesses with defined characteristics. The low production volumes and traditional production, processing and marketing practices used by the Montenegro’s food industry suggest that they may greatly benefit from the introduction of flexibility. In order to do so, Montenegro needs to design and introduce legislation that will include the detailed definition of ‘small scale’, ‘geographic location’, ‘traditional’ food processing etc., as well as the justification for such definitions.

20. The careful transposition of EU food safety rules, including their provisions on flexibility, is therefore key for the proposed AF. If not done correctly, the activities of the AF could support investments in upgrading that might not even be required, or even worse, some food establishments might decide to cease production due to their inability to introduce standards that may not be required. Unfortunately, the food safety legislation currently in force in Montenegro does not allow for full use of the flexibility contained in the EU rules. In part thanks to MIDAS support, the Government of Montenegro has already introduced the necessary changes in the new Food Safety Law approved by Parliament in September 2015.

III. Proposed Changes

Summary of Proposed Changes	
The proposed changes include: (i) expanding the Project Development Objective, and (ii) expanding the Result Framework in order to better capture the additional activities proposed. Given these changes, an additional loan covenant and condition will be added, the disbursement estimates will be revised, the description of project components and costs will be adjusted, and the implementation schedule will be updated accordingly.	
Change in Implementing Agency	Yes [] No [X]
Change in Project's Development Objectives	Yes [X] No []
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 [X] No []
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 [X] No []
Other Change(s)	Yes [] No [X]

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.

Change in Project's Development Objectives

Explanation:
 The proposed AF would serve to increase the scope of Montenegro Institutional Strengthening and Agriculture Development (MIDAS) Project and widen the typology of beneficiaries receiving grants with a methodology similar to the Instrument of Pre-accession Assistance for Rural Development (IPARD). IPARD-like grants will expand from agricultural holdings (farmers) to food establishments (agro-processors). Component 1, which currently provides grants to agricultural holdings, will be expanded to provide support also to food establishments in order to upgrade them to EU standards. Component 2 will be expanded to ensure that adequate support to the implementation of the grants is provided, including with regard to the institutional and legal framework required. The justification for such change is that Montenegro has already implemented a number of grant rounds supporting agriculture holdings, both under the MIDAS Project and the Montenegro EU/IPA Agriculture and Rural Development Institution Building Project. Previous IPARD-like rounds have increased the capacity of the grant administering institutions and grant beneficiaries who are learning the demanding IPARD-like application process. At this stage Montenegro is ready to move to the next level and introduce new measures to support the agro-processors that will soon need to be upgraded to align their production to the EU Food Safety requirements.

Proposed New PDO - Additional Financing (AF)

The new objectives of the Project 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:
 The Project Results Framework will need to be expanded in order to capture the impact of the expanded activities.

Compliance

Covenants - Additional Financing (Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project - P154111)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
F7SD	Schedule 2 - Section 1.A.4	By not later than sixty (60) days	29-Feb-2016	<input type="checkbox"/>		New

		from the Effectiveness Date, the Recipient, through MARD, shall update the GOM, in a manner acceptable to the World Bank				
--	--	--	--	--	--	--

Conditions

Source Of Fund	Name	Type
F7SD	Project Operational Manual (POM), paragraph 4.01 of the Grant Agreement	Effectiveness

Description of Condition
The POM has been updated by the Recipient, through MARD, in a manner acceptable to the World Bank

Risk	
Risk Category	Rating (H, S, M, L)
1. Political and Governance	Low
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
OVERALL	Moderate

Finance

Loan Closing Date - Additional Financing (Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project - P154 111)

Source of Funds	Proposed Additional Financing Loan Closing Date
Free-standing TFs for ECA SD Sector Unit	30-Jun-2018

Loan Closing Date(s) - Parent (Montenegro Institutional Development and Agriculture Strengthening (MIDAS) - P107473)

Explanation:
The Loan Closing date does not need to be extended. The project closing date will be extended from March

31, 2016 to June 30, 2018 to allow for implementation of the additional activities proposed under the additional financing.

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IBRD-77160	Effective	30-Jun-2014	31-Mar-2016	30-Jun-2018	30-Jun-2015, 31-Mar-2016

Change in Disbursement Estimates (including all sources of Financing)

Explanation:

Disbursement estimates affects only the EU Trust Fund. World Bank Loan (IBRD-77160) and GEF Grant (TF-93405) will close as planned on March 31, 2016

Expected Disbursements (in EUR Million)

Fiscal Year	2016	2017	2018	2019	2020
Annual	0.60	0.40	3.72	0.00	0.00
Cumulative	0.60	1.00	4.72	0.00	0.00

Allocations - Additional Financing (Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project- P154111)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement % (Type Total)
			Proposed	Proposed
F7SD	EUR	Sub-grants	3,900,000.00	75.00
F7SD	EUR	Goods, non-consulting services, consultants' services, works, training and operating costs	823,806.00	72.44
		Total:	4,723,806.00	

Components

Change to Components and Cost

Explanation:

There will be a change in components and cost. Activities under both Component 1 and Component 2 of the project will remain the same though their scope will expand. In particular, Component 1 will continue to finance sub-grants, but will broaden them to food establishments. Similarly, activities under component 2 will continue supporting the implementation and monitoring of the grants program, but will also include supporting the implementation of grants to agro-processors that will require an increased involvement in food safety, in particular in terms of veterinary administration and inspectors, whose capacity will need to be strengthened to comply with EU standards. Component 3 on project management will be closed.

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: Implementation of a grant scheme based on core IPARD rules	12.14	16.55	Revised

Component 2: Strengthening MAFWM's administrative and management capacity in accordance with EU pre-accession requirements	Component 2: Technical assistance to support implementation and monitoring	10.85	11.76	Revised
Component 3: Project Management, Administration and Monitoring	Component 3: Project Management, Administration and Monitoring	0.86	0	Marked for Deletion
	Total:	23.85	28.31	
Other Change(s)				
Implementing Agency Name	Type	Action		
Ministry of Agriculture and Rural Development	Implementing Agency	No Change		
Change in Implementation Schedule				
<p>Explanation:</p> <p>The closing date of the project will be extended from March 31, 2016 to June 30, 2018 to allow for implementation of the activities of the additional financing. The closing dates of the Loan and GEF Grants will not be extended.</p>				
Appraisal Summary				
Economic and Financial Analysis				
<p>Explanation:</p> <p>It is expected that the additional finance will increase the economic and financial benefits of the original project. While the original project supported only the efficiency of producers (farmers), the proposed additional financing will support also food establishments (agro-processors) along the value chain. This will contribute to the modernization of food safety systems and thus support Montenegro's negotiations on EU accession, in particularly concerning Chapter 12 on "Food Safety, Veterinary & Phytosanitary Policy". Ultimately, the key short term local benefit will be to mitigate the risk that local food processors will need to close because they are not compliant with EU food safety and hygiene standards.</p> <p>By increasing food safety, it is expected that the additional financing will in turn contribute to reducing the risk of food poisoning and foodborne diseases, while at the same time facilitating the adding of value to raw materials, and help access more profitable markets. It is important to note, however, that food safety is only one of the several bottlenecks to access European and other profitable markets. Therefore additional efforts will be needed to increase the export of food products.</p> <p>The financial analysis (or business plan) of each grant proposal will be reviewed specifically as part of the grant approval process. The project will provide TA so that business planning is not just a mere administrative requirement.</p>				
Technical Analysis				
<p>Explanation:</p>				

Investments in agro-processing is an area where the Ministry of Agriculture and Rural Development has limited experience. The extension services, for instance, have less knowledge on agro-processing than primary production. It will therefore be important to have external technical assistance available to ensure the technical feasibility of proposed investments. This will be also be guaranteed by grant applicants, considering that they will co-finance at least half of the investments (excluding taxes) and will thus have a direct interest in its success.

Social Analysis

Explanation:

The additional financing will not change social aspects of the existing grant scheme. The experience under MIDAS proved that the redress mechanism and transparency of the grant scheme contributes to generate trust in the political and economic system grant scheme will not change. By avoiding the likely closure of agro-processors upon EU accession due to non-compliance with food safety regulations, it is expected that the additional financing will provide solid social benefits.

Environmental Analysis

Explanation:

It is expected that improving hygiene conditions will provide health and environmental benefits. In some cases, the additional financing could also invest in compliance with other standards in addition to food safety, such as environmental standards. However it will not enforce strict cross-compliance (i.e., investment in food safety will be allowed even without full compliance with environmental standards)

It is expected that improving hygiene conditions will provide health and environmental benefits. In some cases, the AF could also invest in compliance with other standards in addition to food safety, such as environmental standards. However it will not enforce strict cross-compliance (i.e., investment in food safety will be allowed even without full compliance with environmental standards) because this is not the objective of the EU Trust Fund and it would be, at this stage, overambitious.

The environmental category B – partial assessment – of the project will remain unchanged, with no changes to safeguards. The following safeguards will continue to be triggered: Environmental Assessment (OP/BP 4.01), Projects on International Waterways (OP/BP 7.50), and Pest Management (OP 4.09). Safeguard aspects of both the MIDAS and the Montenegro EU-IPARD projects have consistently been rated as satisfactory.

Environmental Assessment. The support from the AF grant-making program may be used for a number of varied agro-processing activities, ranging from milk and meat processing to fruit and vegetables. However, the AF implementation will not result in any new significant environmental impacts and all grant applications will continue to be screened according to the established Environmental Management Framework (EMF)/Screening Procedure in order to be able to identify and exclude from financing those activities that are equivalent to a World Bank Category A. The MIDAS EMF was updated to reflect its applicability to the AF and was re-disclosed in country and through the World Bank Infoshop.

Projects on International Waterways. Most of Montenegro lies either in the Tara River Basin (Danube Catchment Area) or the catchment of the Adriatic Sea. The activities financed by sub-grants will be located on these waterways. Due to the fact that the AF will primarily target agro-processing, impacts on international waterways are expected, but with no definite knowledge about their nature and scope (the grants financed through the AF and their purpose will only be known at a later stage). A notification to

riparians (namely the International Commission for the Protection of the Danube River - and the Mediterranean Action Plan - Barcelona Convention) was sent out by MARD on March 06, 2015. No objections or comments had been received within the 45-day deadline specified in the letter, or by August 25, 2015 when MARD sent a letter notifying the World Bank team that no comments or requests were made by the riparian countries. Accordingly, the regional Vice President, Cyril Muller, approved advancing with project preparation.

Pest Management. The support to agro-processing and agriculture may lead to an increased use of pest management products, which would need to be controlled by the Integrated Pest Management Plan, as part of the original EMF.

Risk

Explanation:

The overall risk of the additional financing is rated as moderate. In fact, the proposed financing carries risks similar to those of MIDAS whose positive experience showed how to address such risk. The only exception concerns food safety at the level of food establishments which presents some new risks. Complying with complex EU food safety standards will be demanding, particularly for smaller processors. That is why the Government of Montenegro (including MARD and MIDAS) has been collaborating with the EU to mitigate associated risks. The key element to address these risks is the EU flexibility for small establishments and derogation for traditional products (see more details in *Annex 2*). The new Food Safety Law was approved by the Parliament in September 2015 and is essential for creating the legal environment for such flexibility in Montenegro. Detailed by-laws to allow proper implementation of the new law are under design.

Annex 1 - Revised Result Framework

Project Name:	Montenegro Additional Financing EU/IPA Agriculture and Rural Development Institution Building Project (P154111)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader(s):	Maurizio Guadagni	Requesting Unit:	ECCU4	Created by:	Silvia Mauri on 24-Mar-2015
Product Line:	Recipient Executed Activities	Responsible Unit:	GFA09	Modified by:	Maurizio Guadagni on 02-Nov-2015
Country:	Montenegro	Approval FY:	2016		
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.

Proposed Project Development Objective - Additional Financing (AF):

The new objectives of the Project 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.

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	<input type="checkbox"/>	Text	Value	Limited	Achieved. MARD	Fully compliant

	and track the use of rural development funds and to evaluate their impact in line with EU IPARD requirements.				coverage of monitoring and verification.	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.	monitoring and evaluation system, eligible for EU accreditation.
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
New	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			

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	Food safety system upgraded in EU compliant manner.	<input type="checkbox"/>	Text	Value	Reference Labs lacking equipment and/or facilities, BIPs and food processing establishments not meeting EU standards, animal by-products not	Partially 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	Lab accreditation completed, supply of BIP equipment, full monitoring of water and aquaculture products, food establishments meeting EU standards for approval

					safely disposed of	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 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	Overachieved. 619 commercially oriented agro-holdings	400 agro-holdings

					market driven support measures is 0 (zero)		
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			
New	Number of applications for Food Establishments Grant approved	<input type="checkbox"/>	Number	Value	0.00		150.00
				Date	23-Oct-2015		30-Jun-2018
				Comment			
New	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	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			
New	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	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			
Revised	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
Revised	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			
Revised	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
Revised	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			
No Change	Supports toward Montenegro IPARD accreditation	<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 PA 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 Unit or Plan.	Achieved. Directorate for Rural Development EU IPARD compatible in place, final IPARD Program II adopted by EU on July 20,	Final IPARD Program II submitted to EU

						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	Partially achieved. Paper-based Farm	Farm Register software and

					place.	Registry established and more than 900 farmers registered. Electronic Farm Registry software in testing phase.	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 safety system, no routine testing performed.	Achieved. Marine Biology Institute rehabilitated, provided with lab furniture and equipment, regular testing ongoing. In late February 2015 the MBI accredited Microbiological testing of sea water methods.	Full monitoring of sea waters and aquaculture products in line with national 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 Inspectors conducted.	Legal framework on safe disposal of animal by-products drafted.
				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	Procedures for classification of food establishments and annual control plans completed according to EU standards.
				Date			
				Comment			

					classification completed. Training to Veterinary Directorate and Inspectors conducted.		
				Date	23-Mar-2009	23-Oct-2015	31-Mar-2016
				Comment			

Annex 2 – Description of Modified and New Activities

21. The additional financing will maintain the main design of the on-going project. However, the project will be based on two Components (Component 1 – Implementation of a grant scheme based on core IPARD rules; and Component 2 – Technical Assistance (TA) to support implementation and monitoring) while Component 3 on Project Management, Administration and Monitoring will be dropped. A detailed project description is provided below.

Component 1: Implementation of a grant scheme based on core IPARD rules (total EUR5.2 million of which EUR3.9 million contribution by the EU, and EUR1.3 million contribution by the Government of Montenegro).

22. Building on the positive experience of the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project and the on-going project Montenegro EU/IPA Agriculture and Rural Development Institution Building project (P144994), provision of IPARD-like grants will remain the key project activity, representing around 83% of the AF. 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 Measure to be supported by the grants under this Component will be broadened, as the grant scheme will support beneficiaries in agro-processing industry in addition to agricultural holdings that have been supported by the project so far. The current focus on the measure 101 of the IPARD Axis 1 “*Investments in agricultural holdings to restructure and to upgrade to EU Standards*” will be expanded to include measure 103 “*Investments in the processing and marketing of agriculture and fishery products to restructure and upgrade to EU standards*”. The AF would also support the institutions involved in the implementation of grants for agro-processing industry so as to also ensure increased institutional capacity to deal with IPARD-like grants.

23. Activities included under Component 1 are the following:

- (a) Implementing a grant scheme, based on IPARD rules, to strengthen the Sector for Rural Development and the Sector for Payment at the Ministry of Agriculture and Rural Development (MARD) through the carrying out of the following activities.
 - i.) drafting the Grant Operational Manual (GOM) including, inter alia, rules and procedures of the grant scheme;
 - ii.) preparing and issuing calls for applications,
 - iii.) selecting applications;
 - iv.) signing of grant contracts between MARD and the final beneficiaries;
 - v.) authorizing and controlling commitments and payments;
 - vi.) carrying out on-the-spot checks;
 - vii.) accounting for commitments and payments; and
 - viii.) monitoring and evaluation of the implementation of the grants investments.
- (b) Strengthening the capacity of MARD and the government’s Technical Bodies (as defined in the Government Conclusion No. 06-336/3 of February 21, 2013), through the implementation of procedures introduced in the accreditation package.
- (c) Implementing a grievance redress and complaints mechanism building on the existing MIDAS procedures.

24. Details of the IPARD-like measures, such as specific activities to be financed, applicant selection criteria, investments requirements including environmental and social safeguards, and

administrative procedures for grants disbursement will be detailed in the GOM prepared by MARD under the supervision of the World Bank, and in line with future EU requirements for IPARD accreditation. The GOM, satisfactory to the Bank, will build on GOM previously used for the implementation of grant programs within MIDAS and the ongoing project.

25. The administration of the proposed grant scheme will provide MARD's Directorate for IPARD Payments and the relevant Technical Bodies with an opportunity to gain further practical experience in designing the measures to be supported, handling applications, contracts, and claims, and to test its management and control system developed during the implementation of MIDAS Grants program. It would also allow the Directorate for Rural Development the opportunity to practice and improve its design, management and coordination capacities.

26. **IPARD requirements.** As a general rule, the project will co-finance 50% of total eligible cost (the Eligible Public Expenditure does not include taxes) of each eligible investment in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them towards EU standards. The EU contribution will make up to 75% of the total eligible public expenditure and the Government of Montenegro will contribute the remaining 25% from the national agricultural budget. The outstanding 50% of the total eligible costs of the investments will be financed by private beneficiaries. The total investment expenses will be pre-financed by the beneficiaries of the grants. Reimbursements through the rural development grants program will be made based on the cost-sharing arrangements defined in the GOM.

27. **Eligible investments.** Eligible investments and activities to be supported under the grants Component, as well as their size, will be detailed in the GOM prepared for each round of the grants calls. Given the demand-driven nature of the grants scheme, determining *ex-ante* the nature of grants is hardly possible. Different rounds could target different groups of beneficiaries, including large- and medium-size food establishments, and small-scale establishments. Based on the preliminary work done to define the target beneficiaries as described below, two types of beneficiaries have been identified, namely: large and medium-size establishments (218 larger agro-processor) and about 2,000 small-scale "informal" establishments that are in practice agricultural holdings that add some value by doing a limited amount of agro-processing. It is expected that the size of investments will fall within the range of EUR15,000 and EUR250,000.

28. **For large and medium-size establishments** which must meet the full set of hygiene standards and are subject to formal registration/approval, eligible investments will be accurately identified and described, so as to provide the beneficiary the opportunity to upgrade and thus avoid the risk of closure for reasons of non-compliance following Montenegro's entry in the EU (unless some derogation has been agreed). For these establishments, investment requirements will most likely refer to improvement of facilities (infrastructural investments to comply with hygiene or environmental standards) and/or procurement of equipment for processing, transport, cool chains, and similar. However, in addition to hard investment, beneficiaries may need to receive some technical assistance to increase their knowledge of Good Hygiene Practices/Good Manufacturing Practices (GHP/GMP) and procedures based on the Hazard Analysis and Critical Control Point (HACCP), which are difficult to objectively measure, verify and support under the grant program. Accordingly, alternative budgetary resources will be provided for under Component 2 of the project.

29. **Screening/classification of food establishments.** An on-site assessment of all registered/approved establishments (172 establishments processing food of animal origin and 58 processing food of plant origin) was carried out by the Veterinary Administration and MARD in December 2014. This assessment classified all registered food establishment according to their compliance with EU food safety standards whose result is reported in *Table 1* of the main text of this

Project Paper. The results showed that only 8% of the establishments complies with EU rules, with non-compliance ratio being particularly high among the establishment processing food of animal origin. This initial classification will be further detailed by classifying non-complying establishments in three pre-established categories: category B (minor deviation), category C (major deviation) and category D (major non-compliance). This subdivision will provide an indication of the gaps in food safety rules implementation and indicate the estimated time and budgetary resources needed for achieving compliance.

30. **For small-scale establishments** which may be subject to and benefit from national rules introducing a more flexible application of hygiene standards, rather than upgrading facilities and/or equipment, it is expected that the main focus of project support would be to document and justify their compliance by means of detailed Standard Operating Procedures (SOPs) for traditional production methods, Technical Specifications for traditional products, Guides to Good Practice and similar, as appropriate. Therefore, for these establishments, it is expected that infrastructural investment requirements will be lower than for large establishments. Instead, small establishments will require more TA targeted to clusters of producers/processors of similar characteristics. The project has allocated sufficient resources for this purpose under Component 2.

31. **EU Food Safety flexibility** principles will be used as guidance in defining eligible investments for small-scale establishments. The EU in fact recognizes traditional foods as valuable heritage and allows, in so far as hygiene standards are not being compromised, the application of flexible national rules in order to:

- (a) continue the production of foods with traditional characteristics;
- (b) continue the application of traditional methods of production; and
- (c) reduce the administrative burdens and compliance costs for small businesses.

32. In particular, EU regulations prescribe several well defined cases of food production and marketing which may be subject to and benefit from flexible national rules. The most important among them are cases of:¹⁰

- (a) direct supply by the producer, of small quantities of primary products to the final consumer or to local retail establishments directly supplying the final consumer;
- (b) direct supply by the producer, of small quantities of raw milk to the final consumer or to local retail establishments directly supplying the final consumer;
- (c) direct supply of small quantities of wild game, by hunters to the final consumer or to local retail establishments directly supplying the final consumer;
- (d) direct supply by the producer of small quantities of meat from poultry or lagomorphs that have been slaughtered on the farm to the final consumer or to local retail establishments directly supplying such meat to the final consumer as fresh meat;
- (e) supply of foodstuffs of animal origin from one retail establishment to other retail establishments as a marginal, localized and restricted activity;
- (f) national rules aiming to enable the continued use of traditional methods of production of certain specific origin;
- (g) national rules aiming to accommodate the needs of milk processing establishments situated in regions that are subject to special geographical constraints;

¹⁰ A complete list of derogations/exceptions is contained in the Regulation (EC) No 853/2004.

- (h) adapting requirements aiming to accommodate the needs of food businesses with a low throughput: construction, layout and equipment for small dairy establishments and for small slaughterhouses; and
- (i) national rules granting derogations for foods with traditional characteristics.

33. There are approximately 2,000 registered small-/medium-size dairy farms supplying raw milk to dairy plants, and an undetermined, but probably higher, number of unregistered small-size dairy farms supplying milk and/or dairy products directly to the consumers or local retailers. The Veterinary Administration, with support by MIDAS, is planning to conduct a survey of a representative sample of small food establishments with particular emphasis on small dairy establishments, which may benefit from the derogations/exceptions and may be eligible for support. The information provided by the survey will be used to define eligible activities for these target group.

34. The implementation of the grant scheme will build on previous experience. Additionally, internal control procedures will be further improved in parallel with the capacity of staff and institutions involved, in order to increase their alignment with IPARD criteria and requirements. Through this process, MARD and the Technical Bodies will further increase their institutional capacity, while at the same time testing the procedures introduced in the national accreditation package in practice. During the grant scheme implementation, MARD will, to the extent possible, gradually introduce EU standards for grant investments.

35. 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 GOM lays 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: Technical assistance (TA) to support implementation and monitoring (*total EUR1.14 million of which EUR0.82 EU contribution, and EUR0.32 contribution by the Government of Montenegro*).

36. This Component will fund all the activities necessary to:

- (a) support the implementation and monitoring of the grant scheme, including the following:
 - (i) the implementation of a monitoring support system to measure results achieved by the grant scheme; (ii) the provision of support to the Sector Monitoring Committee (SMC) for Rural Development responsible for implementation of the monitoring arrangements, including the monitoring indicators; and (iii) the enhancement of knowledge and capacity in implementing the tasks foreseen under the future IPARD for the relevant staff of MARD's Directorates for Rural Development and for IPARD Payments, as well as of Technical Bodies, Advisory Services and members of the SMC, in particular through financing TA (including training, study tours, etc.) and equipment.
- (b) carry-out a baseline survey in the first year of project implementation and a final survey; carrying out public awareness of the project including dissemination of promotional material; providing support for the coordination, fiduciary requirements, monitoring and implementation of environmental and social safeguards, carrying audits of grant beneficiaries; and providing operational support for the implementation of the project.

37. The public awareness campaign will be in line with the EU visibility requirements, and will include the distribution of promotional material to illustrate the features of the grants program and dedicated session in the field for potential applicants. The awareness campaign will be conducted by a multi-disciplinary team that will include at least representatives of the MARD, the extension service, and a safeguards specialist.

38. Support under Component 2 will provide the MARD Directorates and Veterinary Administration, and the Inspections Directorate, with the opportunity to gain further practical experience in checking and verifying applicable hygiene standards and in implementing various official control methods and techniques by conducting and documenting mock inspections in the field. Furthermore, the engagement of the Extension Services in an advisory capacity during the upgrading process of the establishments will expand their current scope of activities and expertise, add value to the beneficiaries' technical insight and the quality of supporting documentation, enhance the sustainability of the investments and, conceivably, form a pool of qualified staff which may be more optimally re-deployed in future to strengthen the administrative capacity of MARD

39. The TA and capacity building activities supported by Component 2 include:

- (i) TA to complete and align the legal framework with the current and relevant body of EU law (*acquis communautaire*). Its objectives would aim at meeting EU hygiene standards and, where appropriate, other productivity, marketing and/or competitiveness standards. EU and national food hygiene standards will coincide once the secondary legislation detailing implementation of the new Food Safety Law will enter into force. For other non-hygiene standards, appropriate national legislation should be identified and referenced to, and gradually harmonized with the EU *acquis*;
- (ii) TA for large and medium-size producing/processing establishments (which are most likely to benefit from the grant scheme for improvements in facilities, infrastructure and/or equipment) to augment and sustain their investments by introducing GHP/GMP and HACCP-based procedures;
- (iii) TA for small-scale establishments (which may be subject to and benefit from derogation/exceptions in the application of hygiene standards) to document and justify their compliance by means of detailed SOPs for traditional production methods, Technical Specifications for traditional products, Guides to Good Practice and similar, as appropriate;
- (iv) Awareness raising on technical aspects of food hygiene among the beneficiaries;
- (v) Capacity-building of the Technical Bodies, the Extension Services and the Directorate for IPARD Payments, which may involve targeted TA, the supplying of equipment and training either inside the country or in study tour(s), and supporting them to perform better their official control, advisory or management duties, as appropriate.

19. It is important to note that the detailed scope of the above mentioned activities will be reviewed and adapted according to progress made by the Montenegro's administration in implementing the National Food Safety Strategy and associated action plans, as well as according to the progress of the pre-accession negotiations in relation to Chapter 12 ("Food safety, veterinary and phytosanitary policy"), and the available support provided by ongoing MIDAS, IPARD-like and other EU-funded projects.