

AUDITED PROJECT FINANCIAL STATEMENTS

Loan no. 2000001842, ASAP Grant no. 2000001841

Period covered: 1 June 2017 to 31 December 2018

Rural Clustering and Transformation Project (RCTP)

Prepared by the Independent Auditor

Received on 26 June 2019

The Audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of IFAD's Board of Directors, Management or Staff. These documents are made publicly available in accordance with the "IFAD Handbook for Financial Reporting and Auditing of IFAD-Financed Projects (2018)"

Crna Gora
MINISTARSTVO POLJOPRIVREDE
I RURALNOG RAZVOJA

Broj. 485-5/13-18

Podgorica, 26-06-2019 20__ god.

**Rural Clustering and Transformation Project
(RCTP)**

IFAD Loan Number: 2000001842

ASAP Grant Number: 2000001841

Implemented by
Ministry of Agriculture and Rural Development of Montenegro

**Special Purpose Financial Statements
With Independent Auditor's Report thereon
Period covered: June 01, 2017 - December 31, 2018**

Podgorica, June 2019

SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 01 JUNE 2017 TO 31 DECEMBER 2018
WITH INDEPENDENT AUDITOR'S REPORT THEREON

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Statement of Project Management's responsibilities for the preparation and presentation of the Special Purpose Financial Statements

This statement is made with regard to audit of special purpose financial statements of "Rural Clustering and Transformation Project ("RCTP") for the period June 01, 2017 to December 31, 2018.

The Project Coordination Unit ("PCU") of the Ministry of Agriculture and Rural Development of Montenegro ("MoARD") is responsible for the preparation of the special purpose financial statements of RCTP financed by Financing Agreement signed between Montenegro and the International Fund for Agricultural Development ("IFAD") and the Adaptation for Smallholder Agriculture Programme Trust Fund ("ASAP) dated 12 May, 2017 ("Financing Agreement"), that present fairly the RCTP's cash receipts and payments, and expenditures per categories and per components for the period June 01, 2017 to December 31, 2018, in accordance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" (IPSAS-Cash Basis) and financial reporting relevant requirements of IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects ("IFAD Handbook").

In preparing the special purpose financial statements, RCTP's management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the RCTP;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions, and which enable them to ensure that the special purpose financial statements of the Project comply with IPSAS-Cash Basis and the IFAD Handbook;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Financing Agreements, IFAD Handbook and other relevant rules, with due attention to economy and efficiency, and only for the purposes for which the financing was provided; and
- Preventing and detecting fraud and other errors.

To the best of our knowledge and belief, we hereby confirm the following:

- The accompanying special purpose financial statements of RCTP, set out on pages 5 to 20, are prepared, in all material respect, in accordance with the basis of preparation and accounting policies set out in Note 2 to the special financial statements and the related Financing Agreement. PFS are presented in the fair and objective manner in all material aspects and they do not contain materially significant incorrect information or omissions;
- There were no bad intentions and non-compliance with relevant regulations of the IFAD and other relevant regulations which could have an impact on the performance of the RCTP and presented special purpose financial statements. We adhere to all the provisions of the Financing Agreement and other rules and procedures laid down by the IFAD;

- The Project Management assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, deemed necessary for the audit. All presented and submitted documentation is complete and authentic;
- There were no subsequent events after December 31, 2018, which require adjustment of or disclosure in the accompanying special purpose financial statements;
- There have been no circumstances that could adversely affect the continuation of the RCTP operations, according to the principle of continuity of operations.

On behalf of the Project Management,

Podgorica, Montenegro

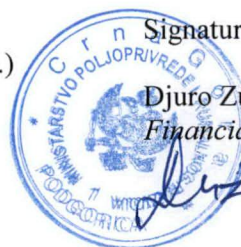
Date: 19 June 2019

Signature:

Igor Jovanovic
Project Coordinator



(L.S.)



Signature:

Djuro Zugic
Financial Manager



REPORT OF INDEPENDENT AUDITOR

To the Management of the "Rural Clustering and Transformation Project-RCTP"

Opinion

We have audited the accompanying special purpose financial statements (project financial statements-PFS) of the "Rural Clustering and Transformation Project (the RCTP or Project), financed by the International Fund for Agricultural Development (the "IFAD") under the Financing Agreement dated May 12, 2017 (the "Financing Agreement"), and implemented by PCU of MoARD, which comprise the Statement of sources and uses of funds (cash flows), Statement of Expenditure, Statement of Designated Accounts and Reconciliation, Withdrawal Application Statement for the period from June 01, 2017 to December 31, 2018, including a summary of significant accounting policies and notes to the special purpose financial statements, as set out on pages 5 to 20.

In our opinion:

- The accompanying project financial statements present fairly, in all material respects, the financial position of the RCTP as at 31 December 2018 and the results of its operations for the period from June 01, 2017 to December 31, 2018 on a basis consistent in all material respects with the basis of accounting described in Note 2 of the accompanying special purpose project financial statements;
- In addition, (a) with respect to Statement of Expenditure Withdrawal Schedule, adequate supporting documentation has been maintained to support expenditures incurred; and (b) such expenditures are eligible for financing under the Financing Agreement referred to in Note 1. Amounts withdrawn from the designated accounts on the basis of such SOEs were used for the purposes intended under the Financing Agreement;
- In addition, the accompanying Statement of Designated Accounts has been properly prepared, in all material respects, to present the cash receipts and disbursements of the Designated Accounts of the Project for the period from June 01, 2017 to December 31, 2018 in accordance with the IFAD guidelines.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibility for the Audit of Special-Purpose Financial Statements" section of our report. We are independent of the Project and Project Coordination Unit in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the special purpose financial statements, and we have fulfilled our other ethical responsibilities in accordance with IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Accounting and Restriction on Distribution as Use

Without modifying our opinion, we draw attention to Note 2 (page 13) which describes the basis for accounting and the purpose of these financial statements. These financial statements may not be suitable for any other purpose. These special purpose financial statements and auditor's report thereon are intended solely for the information and use of the Management of the Project, the Ministry of Agriculture and Rural Development of Montenegro/Government of Montenegro and the International Fund for Agricultural Development and are not intended to be and should not be used by anyone other than these specified parties.

Management's responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 (page 13) of the accompanying special purpose financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Podgorica, 19 June 2019

(L.S.)

VM KOD DOO, Podgorica

VM KOD d.o.o. Podgorica
Društvo za reviziju, finansijska vještačenja,
ekonomske procjene i konsalting

Veselin Milaciq, Audit Partner
Certified Auditor



Rural Clustering and Transformation Project (RCTP)
 Project funded by IFAD and implemented by MoARD
 IFAD LOAN Number 2000001842; ASAP Number 2000001841

STATEMENT OF SOURCES AND USES OF FUNDS
For the period from June 01, 2017 to December 31, 2018
(in EUR)

	Note	Amount
Balance of Funds as of 18 September 2017		-
Sources of funds (Financing)		
IFAD Loan	3	1,150,000
ASAP Grant	3	500,000
Government (taxes)	3	131,474
Government Budget	3	275,133
Municipalities	3	103,287
Beneficiaries contribution	3	92,601
Total sources of funds		2,252,495
Uses of funds (Project expenditures by categories)		
IFAD Loan		
Consultancies	4	33,671
Works	5	36,289
Grants	6	27,443
Training and workshop	7	39,959
Goods, services and inputs	8	1,639
Equipment, materials and vehicles	9	88,261
Recurrent costs	10	132,240
Sub-total		359,502
ASAP Grant		
Consultancies	4	6,116
Works	5	61,917
Grants	6	10,888
Sub-total		78,921
Government (taxes)		
Consultancies	4	6,465
Works	5	86,843
Grants	6	17,224
Training and workshop	7	4,470
Goods, services and inputs	8	336
Equipment, materials and vehicles	9	11,361
Recurrent costs	10	4,776
Sub-total		131,475
Government Budget		
Works	5	186,166
Equipment, materials and vehicles	9	47
Recurrent costs	10	88,919
Sub-total		275,132

STATEMENT OF SOURCES AND USES OF FUNDS
For the period from June 01, 2017 to December 31, 2018 (continued)
(in EUR)

	Note	Amount
Municipalities		
Works	5	103,287
Sub-total		103,287
Beneficiaries contribution		
Works	5	25,879
Grants	6	66,722
Sub-total		92,601
Total Project expenditures		1,040,918
Uses of funds (Project expenditures by components)		
Component 1: Value Chain Clustering for Resilient Rural Transformation	11	244,245
IFAD Loan		113,424
ASAP Grant		10,888
Government (taxes)		30,975
Government Budget		22,236
Beneficiaries		66,722
Component 2: Cluster Supportive Rural Infrastructure	12	527,999
IFAD Loan		56,477
ASAP Grant		68,033
Government (taxes)		88,157
Government Budget		186,166
Beneficiaries		25,879
Municipalities		103,287
Component 3: Project Management	13	268,674
IFAD Loan		189,601
Government (taxes)		12,343
Government Budget		66,730
Total Project expenditures by components		1,040,918
Balance of Funds as of 31 December 2018		1,211,577

Podgorica, Montenegro
 Date: June 01, 2019

Signature:

Igor Joyanovic
 Project Coordinator

(L.S.)



Signature:

Djuro Zugic
 Financial Manager

The accompanying notes on pages 12 to 20 form an integral part of these special financial statements.

IFR prepared separately for 2017 and for 2018 are enclosed as Annex 3.

Independent Auditor's Opinion - pages 3 to 4.

Rural Clustering and Transformation Project (RCTP)
 Project funded by IFAD and implemented by MoARD
 IFAD LOAN Number 2000001842; ASAP Number 2000001841

STATEMENT OF EXPENDITURE
For the period from June 01, 2017 to December 31, 2018
(in EUR)

Description	2017			2018			Cumulative for the period from 01 June 2017 to 31 Dec 2018		
	Actual amount	Budget amount	Variance %	Actual amount	Budget amount	Variance %	Actual amount	Budget amount	Variance %
IFAD Loan									
Consultancies	-	7,000	-	33,671	35,674	94.38	33,671	42,674	78.90
Works	-	-	-	36,289	37,200	97.55	36,289	37,200	97.55
Grants	-	-	-	27,443	29,248	93.83	27,443	29,248	93.83
Training and workshop	4,573	13,000	35.18	35,386	62,135	56.95	39,959	75,135	53.18
Goods, services and inputs	-	-	-	1,639	1,983	82.65	1,639	1,983	82.65
Equipment, materials and vehicles	51,884	91,247	56.86	36,377	40,719	89.34	88,261	131,966	66.88
Recurrent costs	29,527	47,600	62.03	102,712	110,129	93.26	132,239	157,729	83.84
Sub-total	85,984	158,847	54.13	273,517	317,088	86.26	359,501	475,935	75.53
ASAP Grant									
Consultancies	-	18,700	-	6,116	5,619	108.84	6,116	24,319	25.15
Works	-	-	-	61,917	46,284	133.78	61,917	46,284	133.78
Grants	-	-	-	10,888	15,000	75.59	10,888	15,000	75.59
Sub-total	-	18,700	-	78,921	66,903	117.96	78,921	85,603	92.19
Government (taxes)									
Consultancies	-	3,480	-	6,465	8,672	74.55	6,465	12,152	53.20
Works	-	-	-	86,843	78,641	110.43	86,843	78,641	110.43
Grants	-	-	-	17,224	15,531	110.90	17,224	15,531	110.90
Training and workshop	-	1,700	-	4,470	7,072	63.21	4,470	8,772	54.38
Goods, services and inputs	-	-	-	337	417	80.81	337	417	80.81
Equipment, materials and vehicles	9,858	9,685	101.79	1,503	781	192.45	11,361	10,466	108.55
Recurrent costs	-	1,400	-	4,776	1,773	269.37	4,776	3,173	150.52
Sub-total	9,858	16,265	96.04	121,618	112,887	107.73	131,476	129,152	101.79

Rural Clustering and Transformation Project (RCTP)
 Project funded by IFAD and implemented by MoARD
 IFAD LOAN Number 2000001842; ASAP Number 2000001841

STATEMENT OF EXPENDITURE
 For the period from June 01, 2017 to December 31, 2018 (continued)

Description	2017			2018			Cumulative for the period from 01 June 2017 to 31 Dec 2018		
	Actual amount	Budget amount	Variance %	Actual amount	Budget amount	Variance %	Actual amount	Budget amount	Variance %
Government Budget									
Works	-	-	-	186,166	175,584	106.03	186,166	175,584	106.03
Equipment, materials and vehicles	-	-	-	47	-	-	47	-	-
Recurrent costs	-	34,000	-	88,919	90,714	98.02	88,919	124,714	71.30
Sub-total	-	34,000	-	275,132	266,298	103.32	275,132	300,298	91.62
Municipalities									
Works	-	-	-	103,287	92,458	111.71	103,287	92,458	111.71
Sub-total	-	-	-	103,287	92,458	111.71	103,287	92,458	111.71
Beneficiaries contribution									
Works	-	-	-	25,879	23,093	112.06	25,879	23,093	112.06
Grants	-	-	-	66,722	20,000	333.61	66,722	20,000	333.61
Sub-total	-	-	-	92,601	43,093	214.89	92,601	43,093	214.89
SME contribution									
Grants	-	-	-	-	65,000	-	-	65,000	-
Sub-total	-	-	-	-	65,000	-	-	65,000	-
Total Project expenditures	95,842	227,812	42.07	945,076	963,727	98.06	1,040,918	1,191,539	87.36

Podgorica, Montenegro
 Signature:
 Igor Jovanovic, *Project Coordinator*

Date: June 01, 2019

(L.S.)

Signature:
 Djuro Zugic, *Financial Manager*

The accompanying notes on pages 12 to 20 form an integral part of these special financial statements.
 IFR prepared separately for 2017 and for 2018 are enclosed as Annex 3.
 Independent Auditor's Opinion - pages 3 to 4.

Rural Clustering and Transformation Project (RCTP)
 Project funded by IFAD and implemented by MoARD
 IFAD LOAN Number 2000001842; ASAP Number 2000001841

STATEMENT OF DESIGNATED ACCOUNTS AND RECONCILIATION
For the period from June 01, 2017 to December 31, 2018
(in EUR)

Account Number: [REDACTED]
 Depository Bank: [REDACTED]
 Address: [REDACTED]
 Ref. No: IFAD Loan #2000001842

Account Currency: in EUR	Amount
Balance as of June 01, 2017 (Opening balance)	-
Add:	
IFAD Advance/Replenishments:	
Date 22/09/2017 WA No. 1	150,000.00
Date 04/05/2018 WA No. 2	1,000,000.00
Deduct:	
Transfers to operating account (Note 3):	
Date from 09/10/2018 to 17/12/2018 (20 transfers)	359,502.21
Bank charges	-
Balance as of December 31, 2018 (Closing balance)	790,497.79

Account Number: [REDACTED]
 Depository Bank: [REDACTED]
 Address: [REDACTED]
 Ref. No: ASAP Trust Grant #2000001841

Account Currency: in EUR	Amount
Balance as of June 01, 2017 (Opening balance)	-
Add:	
IFAD Advance/Replenishments	
Date 03/05/2018 WA No. 1	500,000.00
Deduct:	
Transfers to operating account (Note 3):	
Date from 30/10/2018 to 17/12/2018 (4 transfers)	78,920.86
Bank charges	-
Balance as of December 31, 2018 (Closing balance)	421,079.14

Podgorica, Montenegro
 Date: 01 June 2019

Signature:
 Igor Jovanovic
 Project Director

(L.S.)

Signature:
 Djuro Zugic
 Financial Manager

The accompanying notes on pages 12 to 20 form an integral part of these special financial statements.
 IFR prepared separately for 2017 and for 2018 are enclosed as Annex 3.
 Independent Auditor's Opinion - pages 3 to 4.

Rural Clustering and Transformation Project (RCTP)
Project funded by IFAD and implemented by MoARD
IFAD LOAN Number 2000001842; ASAP Number 2000001841

DESIGNATED ACCOUNT RECONCILIATION STATEMENT
For the period from June 01, 2017 to December 31, 2018

Bank Account Number: [REDACTED]
Depository Bank: [REDACTED]
Ref. No: IFAD Loan #2000001842

	Amount in EUR
Section 1	
Total advanced by IFAD	1,150,000.00
Less total amount recovered by IFAD	-
Outstanding amount advanced by IFAD	1,150,000.00
Section 2	
Balance of Designated Account per attached bank statement as of date 31/12/2018	790,497.79
Plus balance of the Project Account	0.05
Total bank balances as of 31/12/2018	790,497.84
Plus total amount withdrawn from the Designated Account and not yet claimed for replenishment (Reason: Amount claimed with WA No: 03 from 14/02/2019)	359,502.16
Minus interest earned	-
Total advance accounted for	1,150,000.00

Bank Account Number: [REDACTED]
Depository Bank: [REDACTED]
Ref. No: IFAD Loan #2000001841

	Amount in EUR
Section 1	
Total advanced by IFAD	500,000.00
Less total amount recovered by IFAD	-
Outstanding amount advanced by IFAD	500,000.00
Section 2	
Balance of Designated Account per attached bank statement as of date 31/12/2018	421,079.14
Plus balance of the Project Account	-
Total bank balances as of 31/12/2018	421,079.14
Plus total amount withdrawn from the Designated Account and not yet claimed for replenishment	78,920.86
Minus interest earned	-
Total advance accounted for	500,000.00

Podgorica, Montenegro
Date: June 01, 2019

Signature:

Igor Jovanovic
Project Director

(L.S.)

Signature:

Djuro Zugic
Financial Manager

The accompanying notes on pages 12 to 20 form an integral part of these special financial statements.
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Rural Clustering and Transformation Project (RCTP)
 Project funded by IFAD and implemented by MoARD
 IFAD LOAN Number 2000001842; ASAP Number 2000001841

WITHDRAWAL APPLICATION STATEMENT
For the period from June 01, 2017 to December 31, 2018
(in EUR)

Withdrawal application number	Date	Initial deposit	Category Description							Rejected from IFAD	Net Reimbursed	
			1	2	3	4	5	6	7			
IFAD Loan - 2000001842												
Payment method-Replenishment												
WA No 1 (Advance withdrawal)	22/09/2017	150,000									-	150,000
WA No 2 (Advance withdrawal)	04/05/2018	1,000,000									-	1,000,000
Sub-total		1,150,000									-	1,150,000
ASAP Grant - 2000001841												
Payment method-Replenishment												
WA No 1 (Advance withdrawal)	03/05/2018	500,000									-	500,000
Sub-total		500,000									-	500,000
TOTAL		1,650,000										1,650,000

Podgorica, Montenegro
 Date: June,01 2019

Signature:

Igor Jovanovic
 Project Director



(L.S.)



Signature:
 Djuro Zugic
 Financial Manager



The accompanying notes on pages 12 to 20 form an integral part of these special financial statements.
 IFR prepared separately for 2017 and for 2018 are enclosed as Annex 3.
 Independent Auditor's Opinion - pages 3 to 4.

1. General information of the Project

1.1 The Project notes

Project Name:	“Rural Transformation and Clustering Project” (RCTP)
Financed by:	International Fund for Agricultural Development (IFAD)
Funded by:	Adaptation for Smallholders Agriculture Programme Trust Fund
Implementing Partner:	Directorate for Rural Development Department of the Ministry of Agriculture and Rural Development of Montenegro (MoARD)
Project ID:	2000001076
Location:	Montenegro
Responsible person:	Igor Jovanovic-Project Coordinator
Approval Date:	06/04/2017
Signing Date:	12/05/2017
Entry into Force Date:	12/05/2017
Available for Disbursement Date:	18/09/2017
Completion Date:	30/06/2023

The Rural Clustering and Transformation Project (RCTP- IFAD loan 2000001842 and ASAP Grant 20000001841) is the first IFAD financed project in Montenegro.

The project was approved by the IFAD Executive Board in April 2017, its Financing Agreement was signed between Montenegro and the International Fund for Agricultural Development (IFAD) and the Adaptation for Smallholders Agriculture Programme Trust Fund entered into force on 12 May 2017 and the completion date is scheduled for 30 June 2023.

The project consists of the following three Components:

- Value Chain Clustering for Resilient Rural Transformation which aims at facilitating Value-chain clustering for resilient transformation;
- Cluster Supportive Rural Infrastructure which includes refurbishing roads and improving water supply systems;
- Project Management.

1.2 The Project Budget

In accordance with Financing Agreement IFAD shall provide a Loan and an ASAP Trust Grant to the Borrower/Recipient (Montenegro), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of Financing Agreement. The amount of the Loan is three million eight hundred eighty thousand Euros (3,880,000 EUR). The amount of the ASAP Trust Grant is one million eight hundred eighty thousand Euros (1,880,000 EUR). The Borrower/Recipient shall provide counterpart financing for the Project in the amount of five million six hundred twenty thousand Euros (5,620,000 EUR) (Central Government, Local Municipalities). Additional projected party will be SMEs, Farmers and farmers' organizations (FOs).

1.3 The Project objectives

The project’s overall goal is to contribute to the transformation of smallholders’ livelihoods in northern Montenegro, enabling them to become more competitive and resilient to climate change. The RCTP development objective is to increase the participation of poor smallholders in inclusive, profitable and environmentally sustainable value chain (VCs), and to enhance the benefits they derive from these.

1.4 The Project Implementation

Before signing Financing Agreement IFAD has prepared Final project design report (PDR) dated on 31 March, 2017; Project 2000001076; Report No: 4489-ME.

Also, it is stipulated that IFAD's regulations are applied in the implementation of the project: IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Project, IFAD Project Procurement Guidelines, IFAD Procurement Handbook, IFAD's Loan Disbursement Handbook (LDH) and other relevant regulations.

The Lead Project Agency is MoARD. The financing will be administrated and the Project supervised by the IFAD.

Also, the following documents related to the project implementation were submitted:

- Letter to the Borrower/Recipient (LTB) dated on 12 May, 2017 with supported Annexes;
- Revision of the Letter to the Borrower/Recipient (LTB) relating to IFAD Loan 2000001842 and ASAP Grant 200001841-Procurement Thresholds, dated on 24 October, 2017.

Key staff to recruited or seconded from MoARD as follows: Coordinator, 2 Value Chain Experts, Monitoring and Evaluation (M&E) Officer, Finance officer, Procurement Officer, Administrative Officer), Rural Civil Engineer and Law Officer. In March 2018, Project Coordinator was replaced. Two Value Chain Specialists took over the responsibilities of Project Coordinator.

Two designated accounts have been opened to receive resources from Loan and ASAP Trust Grant accounts.

Overall Project oversight and implementation lies on Project Steering Committee (PSC), consisted of five representatives as members: Ministry of Agriculture and Rural Development, Ministry of Economy, Ministry of Finance, Ministry of Sustainable Development and Tourism and Union of Municipalities of Montenegro. The Project Coordination Unit (PCU) is managing and implementing the Project.

2. Basis of accounting and presentation

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and presented in accordance with Financial reporting guidelines of IFAD Handbook for Financial Reporting and Auditing for IFAD-Financed Projects ("IFAD Handbook").

2.2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

Cash basis of accounting: Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of project funds when the payments are made.

Reporting currency: The reporting currency of these special purpose financial statements is EUR.

Direct payments: Direct payments represent payments made by the Municipalities/Beneficiaries directly to third party/suppliers on behalf of the Project.

Expenditures: Expenditures are recognised when payment is made.

Budget: Expenditure budget is created taking into account all the necessary inputs.

Taxes: The taxes are paid in accordance with the tax regulation of the Montenegro.

Cash: Cash consists cash and bank balances.

Fixed assets: Fixed assets procured from the funds of the Project are expensed at the time of purchase. The Proect maintains a separate listing of fixed assets, which are carried at cost. Fixed assets schedule is presented in Note 14.

3. Sources of funds

Project financing

Sources of funding are provided by IFAD Loan, ASAP Grant, Government (taxes), Government Budget and contributions from Municipalities and Beneficiaries.

Sources of funds in the period (June 2017 - Dec 2018) are created by:

- IFAD advance/initial deposit paid on two designated accounts in accordance with the Financing Agreement, as shown in the Withdrawal Application Statement and Statement of Designated Accounts and Reconciliation;
- Government contribution in the form of tax exemption;
- Cash and in-kind contribution of Government of Montenegro in accordance with relevant Annual Work Plan and Budget;
- Direct payment from the Municipalities and other Beneficiaries to the suppliers, under tight control of project.

Budget operating account

The Project does not have open a specific account in a commercial bank but the money is transferred from Designated Accounts maintained by Ministry of Finance into the budget account of the MoARD budget (Account number [REDACTED] for Rural Development) and expenditures are done from that account. The budget spending is done through the public expenditures and accounting information system (SAP).

For the period from June 01, 2017 to December 31, 2018

Budget Account Number: [REDACTED] **for Rural Development**
Ministry of Finance of Montenegro - State Treasury
Ref. No: IFAD Loan #2000001842

Account Currency: in EUR	Amount in EUR
Balance as of June 01, 2017 (Opening balance)	-
Add:	
Transfers from designated account [REDACTED] (IFAD Loan)	359,502.21
Transfers from designated account [REDACTED] (ASAP Grant)	78,920.86
Deduct:	
Project Expenditure	438,423.07
Bank charges	-
Balance as of December 31, 2018 (Closing balance)	-

The payment of a supplier for works, the part financed by the Government budget, was made through the State Treasury-Program 3891 for Rural Development.

4. **Consultancies**

4.1. IFAD Loan

In EUR	01 June 2017-31 Dec 2018
Baseline study	24,671
Supervision of rural roads	6,488
Supervision of water supply	2,512
Total	33,671

4.2. ASAP Grants

In EUR	01 June 2017-31 Dec 2018
Feasibility study for rural roads and water supply investments	6,116
Total	6,116

4.3. Government (taxes)

In EUR	01 June 2017-31 Dec 2018
VAT exemption for the positions referred to in points 4.1 and 4.2	6,465
Total	6,465

5. **Works**

Works related on construction of rural roads, water ponds and multiple use water supply are financed as following:

In EUR	01 June 2017-31 Dec 2018
IFAD Loan - Construction of rural roads	36,289
ASAP Grant - Construction of water ponds and multiple use water supply	61,917
Government (taxes) - VAT exemption for the construction of rural roads, water ponds and multiple use water supply	86,843
Government Budget - Cash contribution of Government of Montenegro in accordance with relevant contracts for construction of rural roads	186,166
Municipalities - the contribution of seven (7) Municipalities in accordance with relevant contracts for construction of rural roads and water ponds and multiple use water supply	103,287
Beneficiaries contribution in accordance with relevant contracts for construction of rural roads and water ponds and multiple use water supply	25,879
Total	500,381

In accordance with contracts with contractors, it was the obligation of the municipalities to provide their own contribution and the contribution of the beneficiaries for the payment of works suppliers.

6. Grant

Grant refers to small grants for supporting value chain development through the RCTP project, for agricultural producers (Component 1). During the reporting period, 55 small grants for 4 commodities were approved (support paid to 46 beneficiaries), which are financed as following:

In EUR	01 June 2017-31 Dec 2018
IFAD Loan - Small grants for 4 commodities	27,443
ASAP Grant - Small grants for climate resilient investments	10,888
Government (taxes) - VAT exemption which is included in the invoices of goods and works suppliers related to small grants	17,224
Beneficiaries contribution in accordance with relevant contracts	66,722
Total	122,277

7. Training and workshop

7.1. IFAD Loan

In EUR	01 June 2017-31 Dec 2018
Start-up workshop	4,573
Training to business Skills Facilitator (BSF)	11,589
Consultant for developing training material on BST	5,450
Rapid cluster mapping and validation and workshops for validation of results of the mapping	7,706
Business Skills Training material and Farmer Diary	5,619
Promotion and information campaign	2,471
Incentive for BSF to facilitate BSC at Group level	646
International training	1,827
Other cost of workshops	78
Total	39,959

7.2. Government (taxes)

In EUR	01 June 2017-31 Dec 2018
VAT exemption for the positions referred to in point 7.1	4,470
Total	4,470

In accordance with relevant Montenegrin legislation, VAT is 21% for services, goods and works, while for the others specific services and goods is 7%.

8. Goods, services and inputs

8.1. IFAD Loan

In EUR	01 June 2017-31 Dec 2018
Mobile phone and package for RCTP team	1,639
Total	1,639

8.2. Government (taxes)

In EUR	01 June 2017-31 Dec 2018
VAT exemption for the positions referred to in point 8.1	336
Total	336

9. Equipment, materials and vehicles

9.1. IFAD Loan

In EUR	01 June 2017-31 Dec 2018
Purchase of three vehicles	51,213
Purchase of computer and peripherals, tablet devices for BSF and PCU staff and photocopier machine	7,828
IT project management Software development	29,220
Total	88,261

9.2. Government (taxes)

In EUR	01 June 2017-31 Dec 2018
VAT exemption for the positions referred to in point 9.1, that are the subject of exemption	11,361
Total	11,361

9.3. Government Budget

In EUR	01 June 2017-31 Dec 2018
Bank charges for IT software	47
Total	47

10. Recurrent costs

10.1. IFAD Loan

In EUR 01 June 2017-31 Dec 2018

Gross salary for PCU non-seconded staff, cost of offices rent, fuel for vehicles, office supplies, vehicle insurance and maintenance, overnights and other operating costs 132,240

Total **132,240**

By the end of February 2018, the tax for the top-up salary for seconded staff, in amount to 715.07 EUR, was paid from the IFAD Loan, and from March 2018 to December 2018 from the Government budget. Amount of 715.07 EUR is ineligible cost, but is not material.

10.2. Government Budget

In EUR 01 June 2017-31 Dec 2018

Tax for Top-up for seconded staff from March-December 2018 2,353

In-kind contribution:

Offices rent MOaRD-Podgorica for the period January 1st to December 31st 2018 24,000

Extension staff of MoARD for the period 01/01/ to 31/12/2018 22,236

Government salaries for seconded staff for 2018 (5 person) 40,330

Total **88,919**

10.3. Government (taxes)

In EUR 01 June 2017-31 Dec 2018

VAT exemption for cost of rent, fuel for vehicles, office supplies, vehicle insurance and maintenance and other operating costs, is presented in the point 10.1 4,776

Total **4,776**

11. Expenditures of Component 1: Value Chain Clustering for Resilient Rural Transformation

In EUR	01 June 2017-31 Dec 2018
Investment costs (sub-component 1.1)	34,935
IFAD Loan	31,008
Government (taxes)	3,927
VC financing facilities (sub-component 1.2)	122,277
IFAD Loan	27,443
ASAP Grant	10,888
Government (taxes)	17,224
Beneficiaries	66,722
Technical Assistance and Capacity Building on Climate Smart Agri-Cluster (sub-component 1.3)	48,150
IFAD Loan	40,400
Government (taxes)	7,750
Recurrent costs (sub-component 1.4)	38,883
IFAD Loan	14,573
Government (taxes)	2,074
Government Budget	22,236
Beneficiaries	
Total	244,245

12. Expenditures of Component 2: Cluster Supportive Rural Infrastructure

In EUR	01 June 2017-31 Dec 2018
Rural water supply (sub-component 2.1)	117,825
IFAD Loan	2,512
ASAP Grant	68,033
Government (taxes)	18,957
Beneficiaries	5,718
Municipalities	22,605
Rural road improvement (sub-component 2.2)	398,957
IFAD Loan	42,777
Government (taxes)	69,171
Government Budget	186,166
Beneficiaries	20,161
Municipalities	80,682
Recurrent costs (sub-component 2.3)	11,217
IFAD Loan	11,188
Government (taxes)	29
Total	527,999

13. Expenditures of Component 3: Project Management

These expenditures which were presented in the reporting period in the amount of EUR 268,674 relate to the costs of staff engaged to implement the project activities, the costs of the maintenance of the management vehicle and others.

14. Schedule of fixed assets

All project assets have been purchased to meet the needs of the organization for implementation of the Project and are being used in project objectives.

Fixed Assets register

No	Type of asset	Description of asset	Location	Date of Purchase	Supplier	Purchase Value in EUR excluded VAT
1.	Vehicle	Skoda Yeti Outdoor Ambition, 2.0 TDI 4x4 Registration no: PG CGE79, chassis number: TMBLD45L9H6053090	PCU Office in Niksic	December 07, 2017	"Auto Cacak" DOO, Podgorica	18,152.94
2.	Vehicle	Skoda Yeti Outdoor Ambition, 2.0 TDI 4x4 Registration no: PGCGE78, chassis number: TMBLD45L4H6053188	PCU Office in Bijelo Polje	December 07, 2017	"Auto Cacak" DOO, Podgorica	18,152.94
3.	Vehicle	Skoda Octavia FI Ambition, 1.6 TDI Registration no: PGCGE80, chassis number: TMBAG6NE8J0188050	PCU Office in Podgorica	December 07, 2017	"Auto Cacak" DOO, Podgorica	14,907.56
4.	Photocopier machines	Two photocopier machines PRN MFP HP MLJ M426fdn SB	PCU Offices in Niksic and Bijelo Polje	December 12, 2017	"G Tech" DOO, Podgorica	670.59
5.	Computers	Three lap-top computers HP 250 G6 Win 10 PRO/i3-6006u 4GB/500GB/15.6"HD	PCU Offices in Podgorica, Niksic and Bijelo Polje	January 16, 2018	"G Tech" DOO, Podgorica	2,015.40
6.	Computers	Four desk computers Lenovo S510 Win 10 PRO/Intel i3-6100/4GB/500GB/DWDRW/ Intel HD	PCU Office in Podgorica and Bijelo Polje and Niksic	January 16, 2018	"G Tech" DOO, Podgorica	2,687.20
7.	Tablet devices	Thirty Tablet devices Vivax TPC-804 3G	RCTP Municipalities	April 24, 2018	"Multicom retail" DOO, Pg	2,454.55
						59,041.18

During 2018, IT Project Management Software "TOMPRO" was procured and installed by the supplier DISS France, which is stated in the category "Equipment, materials and vehicles". In 2018, the amount of EUR 29,200 was paid on this grounds.

The procurement of all mentioned assets was financed from the IFAD Loan, while VAT in the form of tax exemption from the Government taxes.

Annex 1. Reconciliation between the amounts shown as received by the MoARD and disbursed by the IFAD

*For the period from June 01, 2017 to December 31, 2018
 (in EUR)*

A. IFAD Loan Number 2000001842

Expenditure Category	Application number	MoARD	IFAD	Difference
Advance for start-up costs	1	150,000	150,000	-
Advance or Initial deposit	2	1,000,000	1,000,000	-
Total		1,150,000	1,150,000	-

B. ASAP Grant Number 2000001841

Expenditure Category	Application number	MoARD	IFAD	Difference
Advance or Initial deposit	1	500,000	500,000	-
Total		500,000	500,000	-

Annex 2. Summary (Schedule listing) of withdrawal application

For the period from June 01, 2017 to December 31, 2018
 (in EUR)

A. IFAD Loan Number 2000001842

		Advance (until 31/12/2018 not yet claimed to IFAD under any WA)		
No	Withdrawal application number	Date received by IFAD	Amount in EUR	Remark
1.	WA 1 (ICP:WA-6JGLBLNC)	14 Sep 2017	150,000	Advance for start-up costs as per FA/Schedule 2, point 2
2.	WA 2 (ICP:WA-FQNJI7W4)	24 Apr 2018	1,000,000	Advance or initial deposit
Total			1,150,000	

- Banking details and comments: Payee name: RCTP credit funds; Bank details: Prva banka Crne Gore, AD, Podgorica; IBAN Account number: [REDACTED]; No objection from any side and Approved 18 Sep 2017.
 SWIFT: Prva banka Crne Gore; Billing user: Ministry of Finance of Montenegro; Order number [REDACTED]
- Banking details and comments: Payee name: RCTP credit funds, Bank details: Prva banka Crne Gore, AD, Podgorica; IBAN Account number: [REDACTED]; Submitted to IFAD 24 Apr 2018; Reviewed 24 Apr 2018 and Approved 25 and 26 Apr 2018; Disbursed 04 May 2018.
 SWIFT: Prva banka Crne Gore; Billing user: Ministry of Finance of Montenegro; Order number [REDACTED]

B. ASAP Grant Number 2000001841

		Advance (until 31/12/2018 not yet claimed to IFAD under any WA)		
No	Withdrawal application number	Date received by IFAD	Amount in EUR	Remark
1.	WA 1 (ICP:WA-66VOCA4Y)	24 Apr 2018	500,000	Advance or initial deposit as per FA and LTB
Total			500,000	

- Banking details and comments: Payee name: RCTP grant funds, Bank details: Prva banka Crne Gore, AD, Podgorica; IBAN Account number: [REDACTED]; Submitted to IFAD 24 Apr 2018; Reviewed 24 Apr 2018 and Approved 25 and 26 Apr 2018; Disbursed 03 May 2018.
 SWIFT Prva banka Crne Gore; Billing user: Ministry of Finance of Montenegro; Order number [REDACTED]