

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° : 2000001076

IFAD ASAP Grant No. 2000001841 / 200000184100

IFAD Loan No. 2000001842 / 200000184200

Period covered: 1 January 2019 – 31 December 2019

Rural Clustering And Transformation Project (RCTP)

Prepared by: Reviko doo

Received on 31 March 2020

The Audited project financial statements are documents owned by the Borrower/ Recipient. The views expressed herein do not necessarily represent those IFAD's Executive Board, Management or Staff. This document is made publicly available in accordance with the "Conceptual Framework on Financial Reporting and Auditing of IFAD-Financed Projects (2018)"

Datum prijema: 30-03-2020				
Org. jed.	Jed. klas. br.	Redni broj	Prilog	Vrijednost
485-431/19-23				

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

**Project Financial Statements
and Independent Auditor's Report
for the year ended 31 December 2019**

IFAD Loan Number: 2000001842

ASAP Grant Number: 2000001841

Implemented by
Ministry of Agriculture and Rural Development of Montenegro

Podgorica, March 2020

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MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT OF MONTENEGRO

**RURAL CLUSTERING AND TRANSFORMATION PROJECT (RCTP)
PROJECT COORDINATION UNIT (PCU)**

Rimski trg 46-PC Vektra, Podgorica

**Statement of the Project Management's Responsibility for Preparation and Presentation of the
Special Purpose Financial Statements**

This Statement is made with regard to the conducted audit of the Special purpose Financial Statements of the "Rural Clustering and Transformation Project ("RCTP") for the year ended 31 December 2019.

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 the RCTP, a project which has been funded by the 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 year ended 31 December 2019, in accordance with the International Public Sector Accounting Standards "Financial Reporting under the Cash Basis of Accounting" (IPSAS-Cash Basis) and financial reporting relevant requirements of the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects ("IFAD Handbook").

In preparing the Special purpose Financial Statements, the RCTP's management is responsible for the following:

- Proper selection and implementation of accounting policies;
- Fair presentation of information, including the accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Development, implementation and maintenance of an effective and sound system of internal controls, throughout the RCTP;
- Maintenance of adequate accounting records that are sufficient to show and explain the Project's transactions, and which enable them to ensure the compliance of the Special purpose Financial Statements of the Project with the 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
- Prevention and detection of 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 respects, in accordance with the basis of preparation and accounting policies set out in the 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 inaccurate 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 the 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 31 December, 2019, which require adjustment of or disclosure in the accompanying Special purpose Financial Statements;

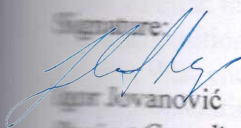
There have been no circumstances that could adversely affect the continuation of the RCTP operations, according to the principle of continuity of operations.

On behalf of the Project Management,

Podgorica, Montenegro

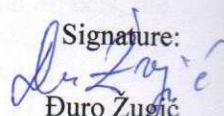
Date: 16 March 2020

Signature:


Igor Jovanović
Project Coordinator



Signature:


Đuro Žugic
Financial Manager

Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the Project 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 the ISAs will always detect a material misstatement if it exists. Misstatements can 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 Financial Statements.

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

- Identify and assess the risks of material misstatement of the Project Financial Statements, whether due to fraud or error, develop 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 the 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 develop audit procedures that are appropriate under the given 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 Project 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 the 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, 23 March 2020



Reviko d.o.o, Podgorica
Svetomir Aković
Svetomir Aković
Director and Certified Auditor

STATEMENT OF SOURCES AND USES OF FUNDS
For the year ended 31 December 2019

	Ref.	2019	Cumulative 2018	(in EUR) Cumulative 2019
Balance of Funds as of 1 January 2019		1,211,577	-	
Sources of funds (Financing)				
IFAD Loan	2.3.1	743,235	1,150,000	1,893,235
ASAP Grant	2.3.2	479,003	500,000	979,003
Government (Taxes)	2.3.3	671,900	131,474	803,374
Government Budget	2.3.4	929,245	275,133	1,204,378
Municipalities	2.3.5	698,235	103,287	801,522
Beneficiaries contribution	2.3.6	515,019	92,601	607,620
Total sources of funds		4,036,637	2,252,495	6,289,132
Uses of funds (Project expenditures by categories)				
IFAD Loan				
Consultancies	2.4.1	52,932	33,671	86,603
Works	2.4.2	448,692	36,289	484,981
Grants	2.4.3	289,378	27,443	316,821
Training and workshop	2.4.4	12,204	39,959	52,163
Goods, services and inputs	2.4.5	2,314	1,639	3,953
Equipment, materials and vehicles	2.4.6	-	88,261	88,261
Recurrent costs	2.4.7	141,405	132,240	273,645
	2.3.1	946,925	359,502	1,306,427
ASAP Grant				
Consultancies	2.4.1	38,814	6,116	44,930
Works	2.4.2	500,447	61,917	562,364
Grants	2.4.3	59,178	10,888	70,066
	2.3.2	598,439	78,921	677,360
Government (Taxes)				
Consultancies	2.4.1	19,267	6,465	25,732
Works	2.4.2	540,279	86,843	627,122
Grants	2.4.3	106,334	17,224	123,558
Training and workshop	2.4.4	90	4,470	4,560
Goods, services and inputs	2.4.5	486	336	822
Equipment, materials and vehicles	2.4.6	-	11,361	11,361
Recurrent costs	2.4.7	5,444	4,776	10,220
	2.3.3	671,900	131,475	803,375

The accompanying Notes on pages 19 to 28 form an integral part of these Special Financial Statements.
Independent Auditor's Opinion - pages 3 to 4.

STATEMENT OF SOURCES AND USES OF FUNDS
 For the year ended 31 December 2019 (continued)

	Ref.	2019	Cumulative 2018	(in EUR) Cumulative 2019
Government Budget				
Works	2.4.2	823,519	186,166	1009,685
Equipment, materials and vehicles	2.4.6	-	47	47
Recurrent costs		105,726	88,919	194,645
	2.3.4	929,245	275,132	1,204,377
Municipalities				
Works	2.4.2	698,235	103,287	801,522
	2.3.5	698,235	103,287	801,522
Beneficiaries contribution				
Works	2.4.2	160,068	25,879	185,947
Grants	2.4.3	354,951	66,722	421,673
	2.3.6	515,019	92,601	607,620
Total Project expenditures		4,359,763	1,040,918	5,400,681

Uses of funds (Project expenditures by components)

**Component 1: Value Chain Clustering
 for Resilient Rural Transformation**

IFAD Loan	337,438	113,424	450,862
ASAP Grant	59,178	10,888	70,066
Government (Taxes)	109,148	30,975	140,123
Government Budget	26,959	22,236	49,195
Beneficiaries	412,600	66,722	479,322
2.5.1	945,323	244,245	1,189,568

**Component 2: Cluster Supportive Rural
 Infrastructure**

IFAD Loan	519,611	56,477	576,088
ASAP Grant	539,261	68,033	607,294
Government (Taxes)	559,235	88,157	647,392
Government Budget	823,519	186,166	1,009,685
Beneficiaries	160,068	25,879	185,947
Municipalities	640,586	103,287	743,873
2.5.2	3,242,280	527,999	3,770,279

The accompanying Notes on pages 19 to 28 form an integral part of these Special Financial Statements.
 Independent Auditor's Opinion - pages 3 to 4.

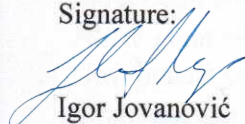
STATEMENT OF SOURCES AND USES OF FUNDS

For the year ended 31 December 2019 (continued)

	Ref.	2019	Cumulative 2018	Cumulative 2019
Component 3: Project Management				
IFAD Loan		89,876	189,601	279,477
Government (Taxes)		3,516	12,343	15,859
Government Budget		78,768	66,730	145,498
	2.5.3	172,160	268,674	440,834
Total Project expenditures by components		4,359,763	1,040,918	5,400,681
Balance of Funds at the end of the year		888,451	1,211,577	

Podgorica, Montenegro
Date: 01 March, 2020

Signature:



Igor Jovanović

Project Coordinator



Signature:



Đuro Žugić

Financial Manager

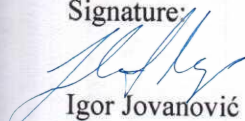
BALANCE SHEET
as of 31 December, 2019

Ref.	31 December 2019	31 December 2018
ASSETS		
Project expenditure under the IFAD Loan No. 2000001842	1,306,426	359,501
Project expenditure under the ASAP Grant No. 2000001841	677,360	78,921
Project expenditure under the Government contribution (Taxes)	803,374	131,474
Project expenditure under the Government Budget	1,204,378	275,133
Project expenditure under the Municipalities	801,522	103,287
Project expenditure under the Beneficiaries	607,620	92,601
Total project expenditures	5,400,680	1,040,917
Designated Account IFAD Loan No. 2000001842	586,808	790,498
Designated Account ASAP Grant No. 2000001841	301,644	421,079
Total cash and cash equivalents	888,452	1,211,577
TOTAL ASSETS	6,289,132	2,252,494
LIABILITIES		
IFAD loan No. 2000001842	1,893,235	1,150,000
ASAP grant No. 2000001841	979,003	500,000
Government contribution	2,007,752	406,607
Municipalities contribution	801,522	103,287
Beneficiaries contribution	607,620	92,601
	6,289,132	2,252,495
TOTAL LIABILITIES	6,289,132	2,252,495

Podgorica, Montenegro

Date: 01 March, 2020

Signature:


Igor Jovanović

Project Coordinator



Signature:


Đuro Žugić

Financial Manager

STATEMENT OF EXPENDITURE
For the year ended 31 December 2019

Description	2019			Cumulative 2018			Cumulative 2019		
	Actual	Planned	Variance %	Actual	Planned	Variance %	Actual	Planned	Variance %
IFAD Loan									
Consultancies	52,932	62,895	84.16	33,671	42,674	78.90	86,603	105,569	82.03
Works	448,692	357,188	125.62	36,289	37,200	97.55	484,981	394,388	122.97
Grants	289,378	230,000	125.82	27,443	29,248	93.83	316,821	259,248	122.21
Training and workshop	12,204	34,601	35.27	39,959	75,135	53.18	52,163	109,736	47.53
Goods, services and inputs	2,314	1,984	116.63	1,639	1,983	82.65	3,953	3,967	99.65
Equipment, materials and vehicles	-	-	-	88,261	131,966	66.88	88,261	131,966	66.88
Recurrent costs	141,405	150,784	93.78	132,239	157,729	83.84	273,644	308,513	88.70
	946,925	837,452	113.07	359,501	475,935	75.53	1,306,426	1,313,387	99.47
ASAP Grant									
Consultancies	38,814	33,233	116.79	6,116	24,319	25.15	44,930	57,552	78.07
Works	500,447	428,550	116.78	61,917	46,284	133.78	562,364	474,834	118.43
Grants	59,178	109,000	54.29	10,888	15,000	75.59	70,066	124,000	56.50
	598,439	570,783	104.85	78,921	85,603	92.19	677,360	656,386	103.20
Government (Taxes)									
Consultancies	19,267	20,185	95.45	6,465	12,152	53.20	25,732	32,337	79.57
Works	540,279	437,932	123.37	86,843	78,641	110.43	627,122	516,573	121.40
Grants	106,334	91,000	116.85	17,224	15,531	110.90	123,558	106,531	115.98
Training and workshop	90	3,629	2.49	4,470	8,772	54.38	4,560	12,401	36.77
Goods, services and inputs	486	368	132.05	337	417	80.81	823	785	104.83
Equipment, materials and vehicles	-	-	-	11,361	10,466	108.55	11,361	10,466	108.55
Recurrent costs	5,444	9,257	58.81	4,776	3,173	150.52	10,220	12,430	82.22
	671,900	562,370	119.48	131,476	129,152	101.79	803,376	691,522	116.17

STATEMENT OF EXPENDITURE

For the year ended 31 December 2019 (continued)

	2019			Cumulative 2018			Cumulative 2019		
	Actual	Planned	Variance %	Actual	Planned	Variance %	Actual	Planned	Variance %
Government Budget									
Works	823,519	655,525	125.63	186,166	175,584	106.03	1,009,685	831,109	121.49
Equipment, materials and vehicles	-	-	-	47	-	-	47	-	-
Recurrent costs	105,726	104,371	101.30	88,919	124,714	71.30	194,645	229,085	84.97
	929,245	759,896	122.29	275,132	300,298	91.62	1,204,377	1,060,194	113.60
Municipalities									
Works	640,586	514,797	124.43	103,287	92,458	111.71	743,873	607,255	122.50
	640,586	514,797	124.43	103,287	92,458	111.71	743,873	607,255	122.50
Beneficiaries contribution									
Works	160,068	128,655	124.42	25,879	23,093	112.06	185,947	151,748	122.54
Grants	354,951	203,500	174.42	66,722	20,000	333.61	421,673	223,500	188.67
	515,019	332,155	155.05	92,601	43,093	214.89	607,620	375,248	161.93
SME contribution									
Grants	57,649	180,000	32.03	-	65,000	-	57,649	245,000	23.53
	57,649	180,000	32.03	-	65,000	-	57,649	245,000	23.53
Total Project expenditures	4,359,763	3,757,454	116.03	1,040,918	1,191,539	87.36	5,400,681	4,948,993	109.13

Podgorica, Montenegro
Date: 01 March, 2020

Signature:

Igor Jovanović
Project Coordinator



Signature:

Duro Žugic
Financial Manager

STATEMENT OF DESIGNATED ACCOUNTS AND RECONCILIATION
For the year ended 31 December 2019

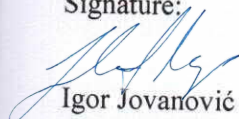
Account Number: [REDACTED]
Depository Bank: [REDACTED]
Address: [REDACTED]
Related credit: IFAD Loan No. 2000001842

	(in EUR)
Opening balance 1 January 2019	790,498
Add:	
IFAD Loan replenishments:	
Date 04/03/2019 WA No. 3	359,502
Date 24/10/2019 WA No. 4	383,733
	<hr/> 743,235
Deduct:	
Transfers to operating account:	
Date from 01/01/2019 to 31/12/2019 (17 transfers)	946,161
Bank charges	764
	<hr/> 946,925
Closing balance 31 December 2019	<hr/> <hr/> 586,808

Podgorica, Montenegro

Date: 01 March, 2020

Signature:


Igor Jovanović

Project Coordinator



Signature:


Đuro Žugić

Financial Manager

STATEMENT OF DESIGNATED ACCOUNTS AND RECONCILIATION (continued)
For the year ended 31 December 2019

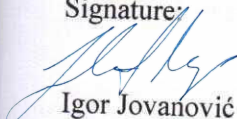
Account Number: [REDACTED]
Depository Bank: [REDACTED]
Address: [REDACTED]
Related credit: ASAP Grant No. 2000001841

	(in EUR)
Opening balance 1 January 2019	421,079
Add:	
ASAP Grant replenishments:	
Date 11/10/2019 WA No. 2	176,968
Date 17/12/2019 WA No. 3	302,035
	<u>479,003</u>
Deduct:	
Transfers to operating account:	
Date from 01/01/2019 to 31/12/2019 (6 transfers)	597,884
Bank charges	554
	<u>598,438</u>
Closing balance 31 December 2019	<u><u>301,644</u></u>

Podgorica, Montenegro

Date: 01 March, 2020

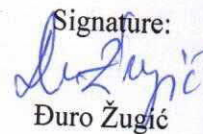
Signature:


Igor Jovanović

Project Coordinator



Signature:


Đuro Žugčić

Financial Manager

DESIGNATED ACCOUNT RECONCILIATION STATEMENT
For the year ended 31 December 2019

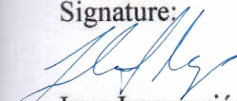
Bank Account Number: [REDACTED]
Depository Bank: [REDACTED]
Ref. No: IFAD Loan No. 2000001842

	(in EUR)
Section 1	
Total advanced by IFAD	1,150,000
Less total amount recovered by IFAD	-
Outstanding amount advanced by IFAD	1,150,000
Section 2	
Balance of Designated Account per bank statement as of 31/12/2019	586,808
Plus, balance of operating Account	-
Total bank balances as of 31/12/2019	586,808
Plus, amount withdrawn and not yet claimed (WA No: 05 from 14/01/2020)	563,122
Plus, amount claimed in previous applications and not yet credited (WA No:4)	70
Minus interest earned	-
Total advance accounted for	1,150,000

Podgorica, Montenegro

Date: 01 March, 2020

Signature:


Igor Jovanović

Project Coordinator



Signature:


Đuro Žugčić

Financial Manager

DESIGNATED ACCOUNT RECONCILIATION STATEMENT (continued)
For the year ended 31 December 2019

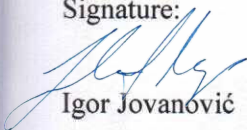
Bank Account Number: [REDACTED]
Depository Bank: [REDACTED]
Ref. No: ASAP Grant No. 2000001841

	(in EUR)
Section 1	
Total advanced by IFAD	500,000
Less total amount recovered by IFAD	-
Outstanding amount advanced by IFAD	500,000
Section 2	
Balance of Designated Account per bank statement as of 31/12/2019	301,644
Plus balance of operating Account	-
Total bank balances as of 31/12/2019	301,644
Plus amount withdrawn and not yet claimed (WA No: 04 from 20/12/2019)	198,356
Plus amount claimed in previous applications and not yet credited	-
Minus interest earned	-
Total advance accounted for	500,000

Podgorica, Montenegro

Date: 01 March, 2020

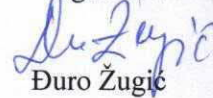
Signature:


Igor Jovanović

Project Coordinator



Signature:


Đuro Žugic

Financial Manager

WITHDRAWAL APPLICATION STATEMENT

For the year ended 31 December 2019

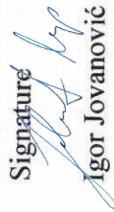
Withdrawal application number	Date	Total 2019	Category Description					Bank charges	Rejected from IFAD	Net Reimbursed
			1 Consultancies	2 Works	3 Grant	4 Training and workshops	5 Goods, services and inputs	6 Equipment, mat. and vehicles	7 Recurrent Costs	
IFAD Loan 2000001842										
Payment method- Replenishment										
WA No 3	04/03/2019	359,502	33,671	36,289	27,443	39,959	1,640	88,261	132,240	359,502
WA No 4 *	24/10/2019	383,803	1,477	-	280,154	7,001	1,513	-	93,657	383,733
Sub-total		743,305	35,148	36,289	307,597	46,960	3,153	88,261	225,897	743,235
ASAP Grant 2000001841										
Payment method- Replenishment										
WA No 2	11/10/2019	176,968	44,929	61,973	70,066	-	-	-	-	176,968
WA No 3	17/12/2019	302,035	-	302,035	-	-	-	-	-	302,035
Sub-total		479,003	44,929	364,008	70,066	-	-	-	-	479,003
TOTAL 2019		1,222,308	80,077	400,297	377,663	46,960	3,153	88,261	225,897	1,222,238

* The withdrawal application amounted to EUR 383,802.59. When transferring to the designated account, the bank reduced this amount by EUR 70.00 of commission, so that the inflow to the designated account amounted to € 383,732.59. The amount of EUR 70 was paid in the next accounting period, January 3, 2020.

Podgorica, Montenegro

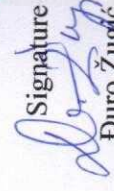
Date: 01 March, 2020

Signature



Igor Jovanović

Project Coordinator

Đuro Žugčić

Financial Manager

1. General information of the Project

1.1 The Project Notes

Project Name:	"Rural Clustering and Transformation Project" (RCTP)
Financed by:	International Fund for Agricultural Development (IFAD)
Funded by:	Adaptation for Smallholder 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 Jovanović-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 (the "RCTP" or "the Project") is the first IFAD financed project in Montenegro.

The Project was approved by the IFAD Executive Board in April 2017. Financing Agreement was signed on 12 May 2017, between Montenegro (the "Borrower/Recipient"), the International Fund for Agricultural Development ("Fund" or "IFAD") and the Adaptation for Smallholder Agriculture Programme Trust Fund ("ASAP Trust").

The Project completion date is scheduled for 30 June 2023.

The Project is implemented in seven (7) municipalities in the north of Montenegro: Nikšić, Šavnik, Žabljak, Berane, Mojkovac, Petnjica, and Bijelo Polje. At a later stage, Plužine and Andrijevica may be included.

The Lead Project Agency (LPA) is Ministry of Agriculture and Rural Development (MoARD). MoARD is responsible for the Project implementation.

The overall responsibility for the Project supervision, political guidance and implementation will rest with a specific Project Steering Committee (PSC) established by MoARD on 18 October 2017. The PSC consists of six members: Ministry of Agriculture and Rural Development (2 members), Ministry of Economy, Ministry of Finance, Ministry of Sustainable Development and Tourism and Union of Municipalities of Montenegro. The PSC Chairman is a MoARD member.

Also, according to the Financing Agreement, MoARD established Project Coordination Unit (PCU) for day-to-day management and implementation of the Project.

The PCU will conduct all the activities under the RCTP Project, including the key role in the project implementation, as well as in establishing the close cooperation with all the parties to the Project - the local government authorities, the stakeholders, business partners and contractors involved in the infrastructure construction phase, etc.

In addition, the PCU will have a key role in monitoring and documenting the progress in the Project implementation.

1.2 Project Components and Activities

The overall goal of the Project 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.

The Project shall consist of the two core components (Component 1 and Component 2) and Programme Coordination Component (Component 3).

- **Component 1: VC Clustering for Resilient Rural Transformation;**

This component aims at promoting the expansion of competitive clusters for a portfolio of products with confirmed market potential and comparative advantages for smallholder production. The Component will cover creation of clusters within three main VC, which have a high market potential: livestock (sheep/goat meat and dairy), berries and seed potatoes.

- **Component 2: Cluster Supportive Rural Infrastructure;**

The second Component will consist of cluster supportive rural infrastructure, to remove the bottlenecks hampering the consolidation and clustering of smallholders and village based agribusiness and to promote the adaptation of climate smart technologies. The component includes two sub-components:

- **Investment in Rural Water Supplies:** through this component the communities will be provided funds for investments in water supply systems, cattle watering system and irrigation system. These investments will include ponds and facilities for harvesting rain water for livestock watering, spring capping, gravity conveyance and distribution network with polyethylene pipes and other facilities as required by site specific conditions identified within the cluster.

- **Investment in Roads in Rural Areas:** These investments will be focused on improvements of the rural roads and especially ancillary structures that complement and strengthen project investments under this Project. The roads to be improved will comprise mainly of final stretches of local or uncategorized roads in rural areas. Eligible investments will also include road ancillaries such as small bridges, drainage facilities and erosion protection works to ensure climate resilience of the rehabilitated roads. This subcomponent aims to improve the quality of life and business of the rural population, enabling them to become better and more easily connected with other value-chain participants (suppliers, providers of various services, shops, customers ...).

- **Component 3: Project Management;**

This component includes the establishment of a Project Coordination Unit (PCU), as well as staff training in procurement, audits, programme management, monitoring and preparation of reports. This Component covers the management of the Project as well as the role of the main implementing partners. The PCU is responsible for implementing RCTP during the project life cycle.

13 Project Financing

The Project is financed from:

- IFAD Loan
- ASAP Grant
- Government contribution
- Municipality contribution and
- Beneficiaries contribution

In accordance with the Financing Agreement the IFAD provides a Loan and ASAP Trust provides a grant to the State of Montenegro, which the State, as Borrower/Recipient, uses to implement the Project in accordance with the terms and conditions of the Financing Agreement.

The State is the Borrower of the IFAD Loan No. 2000001842, amounting to EUR 3,880,000. Also, the State is the Borrower of the ASAP Trust Grant No. 2000001842, amounting to EUR 1,880,000. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of EUR 5,620,000 (Central Government, Local Municipalities). Additional projected party will be SMEs, Farmers and Farmers' Organizations (FOs).

Categories of eligible expenditure to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each category can be presented as follows:

Category description	IFAD Loan		ASAP Grant
	Allocated	New allocation from January 2019	Allocated
Consultancies	800,000	400,000	85,000
Works	665,000	1,560,000	940,000
Grants	580,000	580,000	765,000
Training and workshops	505,000	245,000	-
Goods, services and inputs	200,000	20,000	-
Equipment, materials and vehicles	130,000	75,000	-
Recurrent costs	805,000	805,000	-
Unallocated	195,000	195,000	90,000
Total	3,880,000	3,880,000	1,880,000

The IFAD approved the request of the Government of Montenegro to replace the amounts allocated under the Loan, on January 7, 2019.

2. Notes to the Project Financial Statements

2.1. Preparation and Presentation of Financial Statements

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

2.2. 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 throughout the periods presented.

Cash Basis Accounting

Project financing proceeds are 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 the third party/suppliers on behalf of the Project.

Expenditures

Expenditures are recognized when payment is made.

Budget

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

Designated Account

This is the total amount of the withdrawals from the IFAD Loan and ASAP Grant account for the Project.

Taxes

The taxes are paid in accordance with the tax regulations of Montenegro.

Cash

Cash consists of cash and bank balances.

Fixed assets

Fixed assets acquired out of the Project funds are expensed at the time of purchase. The Project maintains a separate listing of fixed assets, which are carried at cost. Fixed assets schedule is presented in Appendix 1.

2.3. Summary of Sources and Uses of Funds under the IFAD Loan No. 2000001842, ASAP Grant No. 2000001841, Government contribution, Municipalities contribution and Beneficiaries contribution

**2.3.1. Summary of Sources and Uses of Funds under the IFAD Loan No. 2000001842
 For the year ended 31 December 2019**

	Actual 2019	Cumulative 2018	Cumulative 2019
FINANCING			
<i>IFAD loan No. 2000001842</i>			
Initial deposit		1,150,000	1,150,000
Direct payments			
Replenishments	743,235		743,235
TOTAL FINANCING	743,235	1,150,000	1,893,235
PROJECT EXPENDITURE			
<i>By Category</i>			
Consultancies	52,932	33,671	86,603
Works	448,692	36,289	484,981
Grants	289,378	27,443	316,821
Training and workshop	12,204	39,959	52,163
Goods, services and inputs	2,314	1,639	3,953
Equipment, materials and vehicles	-	88,261	88,261
Recurrent costs	141,405	132,239	273,644
TOTAL EXPENDITURE	946,925	359,501	1,306,426

23.2. Summary of Sources and Uses of Funds under the ASAP Grant No. 2000001841
 For the year ended 31 December 2019

	Actual 2019	Cumulative 2018	Cumulative 2019
FINANCING			
<i>ASAP grant No. 2000001841</i>			
Initial deposit		500,000	500,000
Direct payments			
Replenishments	479,003		479,003
TOTAL FINANCING	479,003	500,000	979,003
PROJECT EXPENDITURE			
<i>By Category</i>			
Consultancies	38,831	6,116	44,930
Works	500,430	61,917	562,364
Grants	59,178	10,888	70,066
TOTAL EXPENDITURE	598,439	78,921	677,360

23.3. Summary of Sources and Uses of Funds under the Government contribution (Taxes)
 For the year ended 31 December 2019

	Actual 2019	Cumulative 2018	Cumulative 2019
FINANCING			
<i>Government contribution</i>			
Government contribution (Taxes)	671,900	131,474	803,374
Direct payments			
Replenishments			
TOTAL FINANCING	671,900	131,474	803,374
PROJECT EXPENDITURE			
<i>By Category</i>			
Consultancies	19,267	6,465	25,732
Works	540,279	86,841	627,120
Grants	106,334	17,224	123,558
Training and workshop	90	4,470	4,560
Goods, services and inputs	486	337	823
Equipment, materials and vehicles	-	11,361	11,361
Recurrent costs	5,444	4,776	10,220
TOTAL EXPENDITURE	671,900	131,474	803,374

2.3.4. Summary of Sources and Uses of Funds under the Government Budget contribution
 For the year ended 31 December 2019

	Actual 2019	Cumulative 2018	Cumulative 2019
FINANCING			
<i>Government Budget contribution</i>			
Direct payments to the suppliers	929,245	275,133	1,204,378
Replenishments			
TOTAL FINANCING	929,245	275,133	1,204,378
PROJECT EXPENDITURE			
<i>By Category</i>			
Consultancies			0
Works	823,519	186,166	1,009,685
Equipment, materials and vehicles	-	47	47
Recurrent costs	105,726	88,920	194,646
TOTAL EXPENDITURE	929,245	275,133	1,204,378

2.3.5. Summary of Sources and Uses of Funds under the Municipalities contribution
 For the year ended 31 December 2019

	Actual 2019	Cumulative 2018	(in EUR) Cumulative 2019
FINANCING			
<i>Municipalities Budget contribution</i>			
Direct payments to the suppliers	698,235	103,287	801,522
Replenishments			
TOTAL FINANCING	698,235	103,287	801,522
PROJECT EXPENDITURE			
<i>By Category</i>			
Works	640,586	103,287	743,873
Grants	57,649		57,649
TOTAL EXPENDITURE	698,235	103,287	801,522

2.3.6. Summary of Sources and Uses of Funds under the Beneficiaries contribution
 For the year ended 31 December 2019

	<u>Actual 2019</u>	<u>Cumulative 2018</u>	<u>Cumulative 2019</u>
FINANCING			
<i>Beneficiaries contribution</i>			
Direct payments to the suppliers	515,019	92,601	607,620
TOTAL FINANCING	515,019	92,601	607,620
PROJECT EXPENDITURE			
<i>By Category</i>			
Works	160,068	25,879	185,947
Grants	354,951	66,722	421,673
TOTAL EXPENDITURE	515,019	92,601	607,620

2.4. Expenditures by Categories

2.4.1. Consultancies

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	52,932	33,671	86,603
ASAP Grant	38,831	6,116	44,947
Government contribution (Taxes)	19,266	6,465	25,731
Total consultancies	111,029	46,252	157,281

Consulting services consist of Feasibility Study for Rural Roads and Water Supply Investments, Supervision of Roads and Water Supply Investments and Advisory Services.

2.4.2. Works

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	448,692	36,289	484,981
ASAP Grant	500,430	61,917	562,347
Government contribution (Taxes)	540,279	86,842	627,121
Government Budget contribution	823,519	186,166	1,009,685
Municipalities	640,586	103,287	743,873
Beneficiaries	160,068	25,879	185,947
Total Works	3,113,574	500,380	3,613,954

The works are related to construction of rural roads, water ponds and multiple-use water supply. These works are financed as follows:

- IFAD Loan - Construction of rural roads
- ASAP Grant- Construction of water ponds and multiple-use water supply
- Government contribution (Taxes) - VAT exemption for the construction of rural roads, water ponds and multiple-use water supply.
- Government Budget contribution- Cash contribution of the Government of Montenegro in accordance with the relevant contracts for construction of rural roads.
- Municipalities - The contribution of seven (7) Municipalities in accordance with the relevant contracts for construction of rural roads, water ponds and multiple-use water supply.
- Beneficiaries - in accordance with the relevant contracts for construction of rural roads and water ponds and multiple-use water supply

2.4.3. Grants

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	289,378	27,443	316,821
ASAP Grant	59,178	10,888	70,066
Government contribution (Taxes)	106,334	17,224	123,558
Municipalities	57,649	-	57,649
Beneficiaries	354,951	66,722	421,673
Total Grants	867,490	122,277	989,767

Grant refers to small grants for supporting value-chain development through the RCTP Project, for agricultural producers (Component 1). During 2019, 236 small grants for 4 commodities were approved (support paid to 235 beneficiaries).

Also, two Collecting centers were built in 2019 (Mojkovac and Niksic).

2.4.4. Training and Workshop

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	12,204	39,959	52,163
Government contribution (Taxes)	90	4,470	4,560
Total Training and Workshop	12,294	44,429	56,723

Training and workshop refer to International trainings for the PCU staff, accommodation costs for the IFAD Supervision Mission in 2019 in Montenegro and other trainings and workshops.

2.4.5. Goods, Services and Inputs

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	2,314	1,639	3,953
Government contribution (Taxes)	486	337	823
Total Goods, Services and Inputs	2,800	1,976	4,776

These costs refer on mobile phone costs for PCU staff.

2.4.6. Equipment, Materials and Vehicles

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	-	88,261	88,261
Government contribution (Taxes)	-	11,361	11,361
Government Budget contribution	-	47	47
Total Equipment, Materials and Vehicles	-	99,669	99,669

In 2019, no equipment, materials and vehicles were purchased.

2.4.7. Recurrent costs

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	141,405	132,239	273,644
Government contribution (Taxes)	5,444	4,776	10,220
Government Budget contribution	105,726	88,920	194,646
Total Equipment, Materials and Vehicles	252,575	225,935	478,510

Recurrent costs refer to gross salary for the PCU staff, office rental costs, fuel for vehicles, office supplies, vehicle insurance and maintenance, overnights and other operating costs.

2.5. Expenditures by Components

2.5.1 Expenditures under Component 1: Value-Chain Clustering for Resilient Rural Transformation

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	5,907	31,008	36,915
Government (Taxes)	77	3,927	4,004
Investment costs (Sub-component 1.1)	5,984	34,935	40,919
IFAD Loan	289,378	27,443	316,821
ASAP Grant	59,178	10,888	70,066
Government (Taxes)	106,334	17,224	123,558
Beneficiaries	412,600	66,722	479,322
VC Financing Facilities (Sub-component 1.2)	867,490	122,277	989,767
IFAD Loan	2,314	40,400	42,714
Government (Taxes)	486	7,750	8,236
Technical Assistance and Capacity Building on Climate-Smart Agro-Cluster (Sub-component 1.3)	2,800	48,150	50,950
IFAD Loan	39,839	14,573	54,412
Government (Taxes)	2,251	2,074	4,325
Government Budget	26,959	22,236	49,195
Recurrent costs (Sub-component 1.4)	69,049	38,883	107,932
Total Expenditures under Component 1	945,323	244,245	1,189,568

2.5.2. Expenditures under Component 2: Cluster Supportive Rural Infrastructure

	Actual 2019	Cumulative 2018	Cumulative 2019
IFAD Loan	14,475	2,512	16,987
ASAP Grant	511,527	68,033	579,560
Government (Taxes)	157,360	18,957	176,317
Beneficiaries	44,760	5,718	50,478
Municipalities	179,126	22,605	201,731
Rural Water Supply (Sub-component 2.1)	907,248	117,825	1,025,073
IFAD Loan	485,671	42,777	528,448
ASAP Grant	27,734		27,734
Government (Taxes)	401,875	69,171	471,046
Government Budget	823,519	186,166	1,009,685
Beneficiaries	115,308	20,161	135,469
Municipalities	461,460	80,682	542,142
Rural Road Improvement (Sub-component 2.2)	2,315,567	398,957	2,714,524
IFAD Loan	19,465	11,188	30,653
Government (Taxes)	-	29	29
Recurrent costs (Sub-component 2.3)	19,465	11,217	30,682
Total	3,242,280	527,999	3,770,279

2.5.3. Expenditures under Component 3: Project Management

These expenditures which were presented in the reporting period in the amount of EUR 172,160 (Cumulative 2018 - EUR 268,674) refer to the costs of staff engaged to implement the project activities, the maintenance costs of the management vehicle and others.

**Rural Clustering and Transformation Project (RCTP)
Project funded by IFAD and implemented by MoARD
IFAD Loan No. 2000001842; ASAP Grant No. 2000001841**

Appendix 1: SCHEDULE OF FIXED ASSETS

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

Fixed Assets Register

No	Type of asset	Description of asset	Location	Date of Purchase	Supplier	Purchase Value in EUR VAT excluded
1.	Vehicle	Skoda Yeti Outdoor Ambition, 2.0 TDI 4x4 Registration no: PG CGE79, chassis number: TMBLD45L9H6053090	PCU Office in Nikšić	December 07, 2017		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		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		14,907.56
4.	Photocopier machines	Two photocopier machines PRN MFP HP MLJ M426fdn SB	PCU Offices in Nikšić and Bijelo Polje	December 12, 2017		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, Nikšić and Bijelo Polje	January 16, 2018		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 Nikšić	January 16, 2018		2,687.20
7.	Tablet devices	Thirty Tablet devices Vivax TPC-804 3G	RCTP Municipalities	April 24, 2018		2,454.55
						59,041.18

During 2018, IT Project Management Software "TOMPRO" was procured and installed. In 2018, the amount of EUR 29,200 was paid for this purpose. The procurement of all mentioned assets was financed from the IFAD Loan, while the VAT in the form of tax exemption from the Government taxes. There was no new procurement in 2019.

Appendix 2. Reconciliation Between the Amounts Presented as Received by the MoARD and Disbursed by the IFAD

For the period from 1 June 2017 to 31 December 2019

A. IFAD Loan Number 2000001842

(in EUR)				
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	-
Replenishment	3	359,502	359,502	-
Replenishments	4 *	383,733	383,803	70
Total		1,893,235	1,893,305	70

* The withdrawal application amounted to EUR 383,802.59. When transferring to the designated account, the bank reduced this amount by EUR 70.00 for commission, and thus the inflow to the designated account amounted to EUR 383,732.59.

The amount of EUR 70 was paid in the next accounting period, on 3 January 2020.

B. ASAP Grant Number 2000001841

Expenditure Category	Application number	MoARD	IFAD	Difference
Advance or Initial deposit	1	500,000	500,000	-
Replenishment	2	176,968	176,968	-
Replenishments	3	302,035	302,035	-
Total		979,003	979,003	-