

# PROJECT PERFORMANCE ASSESSMENT REPORT

MONTENEGRO

## Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS)

Report No. 166621

DECEMBER 14, 2021



**IEG**  
INDEPENDENT  
EVALUATION GROUP

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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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**Report No.: 166621**

**PROJECT PERFORMANCE ASSESSMENT REPORT**

**Montenegro**

**Montenegro Institutional Development and Agriculture Strengthening  
Project (MIDAS)**

**(IBRD-P107473/Loan 77160, GEF-P110602/TF-93405,  
EU-P154111/TF-A1293, and IBRD-P159115/Loan 86430)**

December 14, 2021

Financial, Private Sector, and Sustainable Development

Independent Evaluation Group

## Abbreviations

ABP	animal by-product
AF	additional financing
AFSVPA	Administration for Food Safety, Veterinary and Phytosanitary Affairs
CGAP	Code of Good Agricultural Practices
EU	European Union
FAO	Food and Agriculture Organization
GEF	Global Environment Facility
IACS	Integrated Administration and Control System
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
IPARD	Instrument for Pre-Accession Assistance for Rural Development
ISO	International Organization for Standardization
MAFWM	Ministry of Agriculture, Forestry and Water Management
MIDAS	Montenegro Institutional Development and Agriculture Strengthening Project
M&E	monitoring and evaluation
PPAR	Project Performance Assessment Report
TF	trust fund
ToC	theory of change

*All dollar amounts are US dollars unless otherwise indicated.*

### IEG Management and PPAR Team

Director-General, Independent Evaluation	Ms. Alison Evans
Acting Director, Financial, Private Sector, and Sustainable Development	Mr. Oscar Calvo-Gonzalez
Manager, Infrastructure and Sustainable Development	Mr. Christopher Nelson
Task manager	Ms. Alexandra C. Horst
This report was prepared by Alexandra C. Horst, who assessed the project in January 2021. The report was peer reviewed by Nina Coates from FAO and panel reviewed by Ridley Nelson. Viktoriya Yevsyeyeva provided administrative support.	

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## Data

This is a Project Performance Assessment Report (PPAR) by the Independent Evaluation Group (IEG) of the World Bank Group on the Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS, P107473). This instrument and the methodology for this evaluation are discussed in appendix C. Following standard IEG procedure, copies of the draft PPAR were shared with relevant government officials for their review and comment; no comments came in.

### Montenegro Institutional Development and Agriculture Strengthening Project (P107473)

#### Basic Data

Country	Montenegro	World Bank financing commitment	
Global Practice	Agriculture and Food	Actual project cost	\$32.5 million
Project name	Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS)	Expected project total cost	\$26.2 million
Project ID	P107473	Actual IBRD amount disbursed	\$13.9 million (IBRD-77160); \$3.4 million (AF, IBRD-86430)
		Actual EU-TF amount disbursed	\$3.9 million (GEF, TF-93405); \$5.0 million (EU, TF-A1293)
Financing instrument	IPF, TF	Environmental assessment category	B
Financing source	IBRD, GEF, EU		

Note: AF = additional financing; EU = European Union; GEF = Global Environment Facility; IBRD = International Bank for Reconstruction and Development; IPF = investment project financing; TF = trust fund.

#### Dates

Event	Original Date	Actual Date
Approval	04/21/2009	04/21/2009
Effectiveness	06/1/2009	07/23/2009
Restructuring		05/20/2014 06/03/2015 03/28/2016 03/16/2018 03/27/2019
Midterm review	12/15/2011	11/28/2012
Closing	06/30/2014	09/30/2019

## Key Staff Responsible

<b>Management</b>	<b>Appraisal</b>	<b>Completion</b>
Project team leader	William R. Sutton	Silvia Mauri, Jeren Kabayeva
Practice manager	Dina Umali-Deining	Frauke Jungbluth
Senior Global Practice director	Juergen Voegele	Martien van Nieuwkoop
Regional director	Peter D. Thomson	Steven N. Schonberger
Country director	Jane Armitage	Linda Van Gelder

# Summary

## Background and Description

Montenegro has advanced in the accession process to join the European Union (EU) since obtaining candidacy status in 2010. Agriculture forms a priority sector for Montenegro's strategic development goal of increased quality of life. The role of agriculture in the economy has been slightly declining over time as production has moved toward construction and services, with tourism leading the shift. Nevertheless, the agriculture sector continues to be a key source of income for approximately one-quarter of the country's population, especially in rural areas. Advances in the Montenegrin agriculture sector have been achieved over the past decade through investments in modernizing primary agricultural production and processing, improvements in rural infrastructure, and diversification of economic activities in rural areas. However, important challenges remain, including the country's low adoption of modern technology, small and fragmented farms, underdeveloped processing, low application of food safety standards, and high dependence on food imports.

The World Bank has been actively involved in supporting Montenegro's efforts to transform its agricultural sector and ensure its alignment with EU requirements. Its main engagement has been through the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project, which was approved in 2009. MIDAS underwent five restructurings and received two additional financings, leading to a total implementation period of 10 years. The World Bank continues its commitment to, and financing of, the Montenegrin agriculture sector through the second-phase project MIDAS2, which was under implementation at the time of this assessment.

This Project Performance Assessment Report assesses the first phase of MIDAS. The project involved a wide range of activities to build capacity both at the institutional and production level, including the establishment of agencies, registries, and monitoring systems compliant with EU requirements, the development of regulations on food safety, the transfer of financial resources to farmers and agroprocessors in line with EU procedures, and agricultural advisory work.

## Results

MIDAS contributed to the improved delivery of government assistance for sustainable agriculture and rural development. A key milestone was Montenegro's accreditation by the EU to administer rural development measures that had been piloted under MIDAS. The main outcomes of those investments were improved primary production and agrifood processing capacity, better product quality, sales and income increases, and

employment generation. IEG interviews with project stakeholders during the performance assessment confirmed that MIDAS played a decisive role in these achievements, given (i) its capacity-building activities for Montenegro's central and regional extension and advisory services, which substantially improved them; (ii) its development of Montenegro's first Code of Good Agricultural Practices (CGAP), which was widely promoted and gradually mainstreamed as a requirement for accessing MIDAS funds; and (iii) its piloting of funds simulating the EU's Instrument for Pre-Accession Assistance for Rural Development (IPARD).

The project further increased the experience of Montenegrin authorities in administering rural development grants in accordance with EU-IPARD core rules. A key achievement supported by MIDAS was the creation, staffing, EU-compliant equipping, and, most importantly, EU accreditation of Montenegro's Directorate for Payment (in EU terms, Paying Agency) and the Directorate for Rural Development (in EU terms, Managing Authority). Both agencies are still operating as intended, and the IEG assessment mission found that staff and processes continue to make use of the operational manuals, checklists, and updated sector analyses supported by MIDAS for policy planning and programming. A related key aspect included the development, upgrading, and updating of the information, monitoring, and control systems of the Integrated Administration and Control System in compliance with EU requirements, which was a precondition for the start of Montenegro's negotiations with the EU.

MIDAS helped upgrade selected agricultural holdings and food establishments toward EU standards. A resulting outcome was the compliance of an increased number of Montenegro's food establishments (that is, small and large agroprocessors) with EU food safety standards. Compliance was verified by the Administration for Food Safety, Veterinary and Phytosanitary Affairs (AFSVPA), which had also received MIDAS's support to enhance its inspection and monitoring capacity and systems. The IEG assessment mission confirmed the sustained use of these systems and plans, and the continued relevance of the training provided to AFSVPA staff for current inspection and monitoring operations. Moreover, the socioeconomic assessment of food establishments at project completion showed that familiarity with requirements related to food safety standards was notably higher among IPARD-like grant recipients (95 percent) compared with unsuccessful applicants (77 percent) and control group food establishments (81 percent) who had not applied for MIDAS funds.

In addition, MIDAS strengthened critical elements of the larger food safety system in Montenegro. Key achievements included (i) the establishment of the first phytosanitary and veterinary border inspection post in the Port of Bar to comply with EU requirements; (ii) the upgrading of two national reference laboratories to international standards (the Veterinary Diagnostic Laboratory for monitoring tests in food safety and

animal health, and the Marine Biology Institute for monitoring sea water and aquaculture product quality); (iii) the alignment of national food safety laws and regulations with the EU *acquis communautaire* (the body of EU law) through the development of the new food safety law, which has guided the upgrades of food establishments; and (iv) the development of a regulatory framework for the safe management of animal by-products.

IEG assesses the risk to development outcomes as moderate, given the improved institutional capacity and incentives for producers and agroprocessors to continue the adoption of improved technologies and infrastructure, as well as the continued financial support to the agencies established under MIDAS in the active MIDAS2 project.

## **What Worked**

### **Quality of Preparation and Project Design**

The project design addressed a critical need for investments to support the production capacity of agricultural producers in Montenegro. Given Montenegro's large agrifood trade balance deficit, a government priority has been to increase domestic agricultural production capacity. MIDAS's productive grant investments and other financial and technical assistance helped address the sector's low levels of technology, farmers' limited investment sources and knowledge to adopt modern technologies, weak advisory and extension services, and limited capacity to meet food safety, environmental, and animal and plant health standards. According to surveys and the socioeconomic assessment, IPARD-like grant recipients reported higher production capacity and product quality, and increased not only their sales volume but also their sales value. This alone is a notable achievement, but there is additional value in terms of inclusion and economic empowerment because some types of processing supported by MIDAS are largely conducted by rural women.

Montenegro's declared goal of EU accession and the associated pathway of required steps considered in the project design facilitated implementation progress. The government of Montenegro's clear goal of EU accession significantly benefited reaching MIDAS-supported outcomes in three important ways. First, it ensured the government had strong ownership of project activities. Second, it guaranteed that activities had a clear focus on fulfilling the required actions outlined by the EU's preaccession process, both for agricultural producers and sector institutions. Third, it encouraged the government and the Ministry of Agriculture, Forestry and Water Management (MAFWM) to formulate and adopt technical and transparent criteria for grant investment selection in line with IPARD. This minimized the room for political

interference in the grant selection process and differed from the previously more ad hoc decision-making process on national support to agricultural producers.

The complementary capacity-building support to both agricultural producers and sector institutions helped address systemic weaknesses. The MIDAS design adopted a holistic approach to support the government in tackling various challenges in a coordinated fashion and to prepare the sector for future IPARD funding. The project's promotion of good agricultural practices and knowledge-sharing of EU quality and food safety standards among farmers was complemented by (i) strengthening the necessary related institutional capacity in support services (that is, increasing inspection, certification, and laboratory capacity); (ii) improving administrative competence (that is, setting up the EU-compliant Managing Authority and Paying Agency); and (iii) making the required changes to harmonize the national legislation with the EU acquis (that is, the 2015 Law on Food Safety). This coordinated combination of efforts at different levels in the agriculture sector enabled both agricultural producers and institutions to be ready for EU preaccession process requirements and modernize agricultural production.

### **Project Implementation and Supervision**

Piloting a “learning by doing” approach that mimicked IPARD procedures and gradually introduced measures eased the adoption of new practices and procedures among farmers and institutions. MIDAS supported a so-called IPARD-like grant program that simulated IPARD principles and guidelines and served as a pilot to prepare farmers and sector institutions to apply those principles and guidelines, using World Bank funds before IPARD accreditation and funding were made available to Montenegro by the EU. The various rounds of grant calls for IPARD-like funds under MIDAS had a twofold learning goal: (i) to allow farmers to understand and practice grant application and implementation procedures in line with IPARD guidelines; and (ii) to increase the institutional capacity of MAFWM, the MIDAS-supported future IPARD agencies (the Managing Authority and Paying Agency) and other sector institutions to manage and administer future IPARD funds. Moreover, the gradual implementation of different IPARD-like measures according to national capacity and priorities was a key advantage of the pilot grant program rounds under MIDAS to allow for the testing of different IPARD measures among the various beneficiary target groups of IPARD (such as farmers and agroprocessors) and the adaptation of administrative procedures by measure.

Investments in agroprocessing and inspection capacity enhanced compliance with EU food safety standards and increased the growth potential of Montenegro's agrifood processing industry. As a country transitions toward a higher stage of agrifood system transformation and a higher income category, the importance of primary agricultural

production diminishes relative to agrifood processing. It was essential for Montenegro to raise national food safety standards and align them with EU requirements so that it could successfully grow its agrifood processing industry and bring safe and high-quality agricultural produce to the market. Moreover, improving modern laboratory and inspection capacities allowed for enhanced traceability of products' origins and processing, which in turn can be expected to improve market access (both domestic and foreign). The coordinated and hands-on approach to capacity-building activities among sector institutions (such as AFSVPA, MAFWM, laboratories, and border inspection) and the strengthening of interinstitutional communication and information sharing among them, enhanced Montenegro's food safety monitoring of the overall food system.

## **What Didn't Work**

### **Quality of Preparation and Project Design**

The project design eased access to rural development assistance resources for agricultural producers and agroprocessors but did not sufficiently foresee financial and administrative constraints. Two main challenges during MIDAS implementation were the difficulties in obtaining (i) commercial credit for investments in agroprocessing and primary agricultural production; and (ii) building permits for agricultural land. Both issues were not new to World Bank lending operations in the rural sector and could have been assessed more carefully during project preparation.

Regarding financial constraints, it is important to consider that IPARD funds, and hence also the MIDAS-supported IPARD-like grant programs, were prefinanced, requiring selected grant recipients to provide a large up-front payment. Primary producers are at a substantial disadvantage in accessing commercial finance because they lack a credit history and rural land is often not accepted as collateral. None of the agricultural holdings that obtained IPARD-like grants prefinanced their investment through a commercial loan, and many had to rely on limited government-supported preferential credit lines of the Investment Development Fund of Montenegro.

Regarding administrative constraints, a considerable number of IPARD-like grant applicants faced challenges in obtaining building permits from municipal authorities for their investments, and several of them were consequently not able to obtain the grant funds. With the type of expected investments largely known from IPARD rules and previous World Bank operations in other EU accession countries, the issue could have been foreseen in the risk assessment during project preparation.

## **Project Implementation and Supervision**

Although the competitiveness of agricultural production was increased, the project could have piloted measures to strengthen market inclusion. MIDAS achieved several results in increasing the competitiveness of agricultural production and agroprocessing among MIDAS beneficiaries in terms of production capacity, product quality, and food safety standards. Despite these advances, a key concern was the strong competition from imported, and often cheaper, agricultural products. The IEG assessment confirmed this and considered it to be of particular importance for primary agricultural producers, who are typically small and have little negotiation power in relation to the buyer. As a result, the project could have drawn on the World Bank's different types of experiences and models for market integration and adapted and piloted these during project implementation. One option could have been to link project beneficiaries with the large and growing tourism sector.

IEG project ratings are described in appendix A. The evaluation methodology and evidence sources are described in appendix C.

## **Lessons**

This assessment offers the following lessons:

- A clear articulation of the expected transformation of the agriculture sector, and a logically associated and well-defined path to follow at the institutional and production level, is crucial in justifying reforms and achieving desired outcomes. The MIDAS case showed that aiming for change, such as for EU accession, can facilitate project implementation progress through strong government ownership of the project activities. It also helps to justify the essential reform processes (for example, the 2015 Law on Food Safety) and adjustments or restructuring of project activities (for example, expansion to agroprocessors) where the link to reaching the overall goal is evident.
- A practical “learning by doing” pilot approach can help identify and address bottlenecks and prepare the sector for new practices and procedures. In this case, the piloting and incremental approach adopted by MIDAS for implementing rural development grants in line with EU-IPARD procedures helped the sector's different stakeholders at institutional and production levels to strengthen their capacities, identify and address bottlenecks in implementation, and gain practical experience before expanding to the more complex actual IPARD measures. Utilizing project funds to confirm that stakeholders can meet required procedures for future funding is an excellent way to ensure the sustainability of project outcomes.

- Sector weaknesses need to be addressed in a holistic manner at institutional, administrative, regulatory, and production levels to comprehensively foster a country's agriculture sector competitiveness. MIDAS addressed interlinked systematic weaknesses through a complementary and holistic approach involving a diverse group of sector agents. It further coordinated its efforts with other donors and actors in the sector to create synergies and avoid duplication. Such complementary efforts at different levels in the agriculture sector allowed agricultural producers and institutions to prepare for the EU's preaccession process requirements and modernize agricultural production.
- Projects supporting compliance with market standards can help beneficiaries meet necessary conditions for market participation, but they do not guarantee market inclusion or expansion without connection support for new market linkages. MIDAS focused on enabling agricultural producers and agroprocessors to upgrade their standards but did not support them in fostering new market linkages. Such opportunity could have provided further benefits in terms of stable offtake market sales and building business relationships. The transition to commercial viability of producers requires additional steps that ensure market access.
- Access to finance for agricultural producers should be assessed at appraisal to test the extent to which limited credit is an overarching constraint to broader sector development. Although MIDAS successfully prepared agricultural producers and agroprocessors for focused IPARD support, its implementation also highlighted the larger underlying structural issue of the limited access of producers to rural finance, which would increase their capacity to prefinance sector investments. Addressing this issue would require separate targeted actions that would need to be embedded in project design or in complementary projects by the World Bank or other donors within a larger overall program.

Oscar Calvo-Gonzalez  
Acting Director, Financial, Private Sector, and Sustainable Development  
Independent Evaluation Group



# 1. Background, Context, and Design

## Background and Context

1.1 Montenegro is the smallest country in the Western Balkan region, an upper-middle-income country that faces the economic challenges of high unemployment and public debt. Since the early 2000s, a period that included its independence from the former Yugoslavia in 2006,<sup>1</sup> Montenegro had been following a steady path of economic growth until the 2008 global financial and the 2012 euro area debt crises (World Bank 2016a). The country of only approximately 622,000 inhabitants was on the path to recovery from the impact of these crises, fostered by investments in road infrastructure and robust tourism activity, when the coronavirus (COVID-19) pandemic hit in 2020. With high persistent unemployment rates of approximately 16 percent, a large fiscal deficit, and rising public debt, there is a need to create employment and economic opportunities to restore fiscal balance and accelerate long-term inclusive growth in Montenegro (World Bank 2016a).

1.2 Montenegro has advanced in the accession process to join the European Union (EU), including in the agriculture sector. Montenegro started negotiations with the EU in June 2012 and has made significant progress toward EU alignment in areas such as free movements of goods, agriculture and rural development, energy, employment and social policy, regional policy, and preparation for structural instruments (World Bank 2016a). However, more is needed to improve competitiveness and economic and monetary policy, and to strengthen the administrative capacity for ensuring complete alignment with the EU's *acquis communautaire*.<sup>2</sup> Despite the 2020 change in the government of Montenegro,<sup>3</sup> the country is expected to stay on the EU accession path, and agriculture will remain an important sector in the accession agenda. Montenegro has made significant progress in establishing the required institutions and systems and has developed capacity to implement the EU Instrument for Pre-Accession Assistance for Rural Development (IPARD).<sup>4</sup>

1.3 Agriculture forms a priority sector for Montenegro's strategic development goal of increased quality of life. The Montenegro Development Directions strategy for 2018 to 2021 identifies four driving sectors—tourism, energy, agriculture and rural development, and manufacturing—toward achieving the objective of “smart, sustainable and inclusive growth” (MIF 2017). The role of agriculture in the economy has been slightly declining over time as production has shifted toward construction and services, with tourism leading the shift: primary agriculture's contribution to gross domestic product (GDP) reduced from 7.7 percent of GDP in 2010 to 6.4 percent in 2019, and the agrifood processing contribution is less than one percent (World Bank 2020c).

Employment in primary agriculture has slightly increased over the same time period, from 6.2 percent in 2010 to 7.2 percent in 2019, but remains low compared with other Western Balkan countries at similar levels of agricultural contribution to GDP (table 1.1). Nevertheless, the sector continues to be a key source of income, especially for rural Montenegrins: approximately 50,000 families (that is, nearly one-quarter of the country's population) derive their income partly or entirely from agriculture, mostly through informal employment (World Bank 2017). Labor productivity in Montenegro is high compared with its regional peers but is still lagging and experiencing less growth than labor productivity in the EU (World Bank 2018).

**Table 1.1. Agriculture, Employment, and Value Added in the Western Balkans and EU**

	Employment in Agriculture (% of total employment)	Agriculture, Value Added (% of GDP)	Agriculture, Value Added (per worker, constant 2015 \$US)
Montenegro	7.15	6.39	21,575
European Union	4.37	1.62	28,741
North Macedonia	13.92	8.05	6,709
Serbia	15.61	5.95	6,936
Bosnia and Herzegovina	17.96	5.60	5,954
Albania	36.42	18.47	5,600
Kosovo	—	6.91	—

Source: World Development Indicators 2019 (latest data).

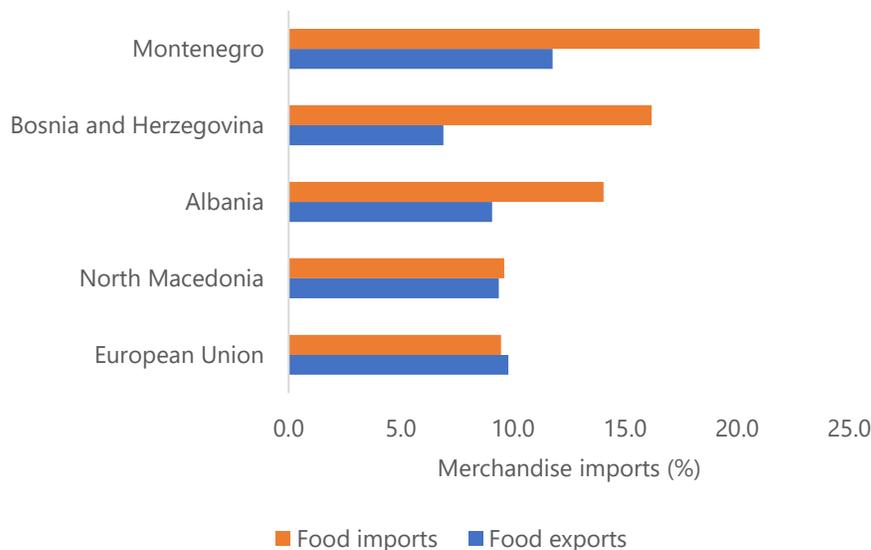
Note: Value added per worker data for North Macedonia from 2017. No employment and value added per worker data available for Kosovo. GDP = gross domestic product; — = not available.

1.4 Although advances in the Montenegrin agriculture sector have been achieved, important challenges remain. Historically, when Montenegro was part of the former Yugoslavia, large parts of agricultural land were uncultivated or used only part of the time, mainly because of strong government interventions in the form of food price controls and market subsidization (Giovarelli and Bledsoe 2001). Over the past decade, the government of Montenegro has made investments to modernize the primary agricultural production, processing, and marketing of agricultural products, financed improvements to and development of rural infrastructure, and fostered diversification of economic activities in rural areas (MIF 2017). However, remaining challenges include (i) a low level of adoption of modern technologies and production of high-quality products; (ii) small average farm size (72 percent of agricultural holdings are less than one to two hectares in size) and highly fragmented plots because of incomplete land use planning; (iii) slow uptake in development of aggregators that could improve collecting, storing, packaging, and marketing of produce; (iv) an almost undeveloped agrifood processing sector and low application of food safety standards; and (v) the effects of climate change, especially increased weather-related natural disasters like droughts and floods (World Bank 2016a). As is common in the Western Balkans, the absence of

producer organizations or cooperatives prevents aggregation and the achievement of economies of scale.

1.5 Montenegro is highly dependent on food imports, and agricultural exports are concentrated in a few products. Much of Montenegro’s fragmented agricultural production takes place in remote, mountainous areas with low accessibility to regional markets, inhibiting trade of agricultural products (World Bank 2018). Agricultural production volume is low compared with regional peers, and domestic production cannot satisfy domestic demand, especially during the tourism season. As a result, food is a significant import product and Montenegro has a persistently large agrifood trade balance deficit (agricultural exports increased by approximately 4 percent annually between 2005 and 2014, whereas agricultural imports increased by approximately 16 percent annually, which means they quadrupled over the 2005 and 2014 time frame [MIF 2017; World Bank 2016a). More recent 2018 data show that 21 percent of merchandise imports are food imports (figure 1.1), and agricultural products account for 20 percent of total imports (MAFWM 2019b). Beverages (mostly wine) and meat are the main agricultural export products but make up only approximately 5 percent and 2 percent of total exports, respectively. Montenegro’s main trading partners are neighboring Serbia and other Central European free trade agreement countries, with the Port of Bar on the Adriatic Sea being the country’s key trading hub for container and bulk shipments.

**Figure 1.1. Food Imports and Exports in the Western Balkans and EU**



Source: World Development Indicators 2019.  
 Note: Data for Montenegro and Albania from 2018. No data for Serbia.

1.6 Sector studies and strategies emphasize opportunities in local food demand and agritourism. The 2015–20 Montenegro Agriculture Sector Strategy and Action Plan highlighted the limitations of the country’s ability to compete in an international market of large-scale production, low unit costs, and standardized products. Instead, it recommended focusing on increasing the domestic production capacity of high-quality traditional and organic products to “mainstream” them, fulfill local demand, and attract agritourism. Increasing productivity and introducing EU food safety standards in primary agriculture and agrimanufacturing were identified as important long-term goals of the Montenegrin agriculture sector (MIF 2017). Other sector diagnostics have underlined the limitations of agrifood exports but emphasized opportunities in nontraditional niche products that are labor intensive and benefit mountainous, poorer regions, such as wine and olive oil, organic production, medicinal herbs and spices, honey, and mushroom and truffle harvesting (World Bank 2016a).<sup>5</sup>

## **Objective, Design, and Financing**

1.7 The World Bank has been actively involved in supporting Montenegro’s efforts to transform the agricultural sector and ensure its alignment with EU requirements. Since the early stages of Montenegro’s EU accession process, the World Bank has closely coordinated its activities with the European Commission to support Montenegro’s authorities and the agricultural sector toward unlocking access to the IPARD. Its main engagement was through the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project, which was approved in 2009 and closed in 2019.<sup>6</sup> This Project Performance Assessment Report (PPAR) examines the progress made under MIDAS and its sustainability. This assessment took place amid the continuing finance period through the second-phase project MIDAS2, which is not included in this PPAR because it was not yet completed and self-evaluated at the time of this assessment.

### **Objective**

1.8 The original project development objective was to “improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU pre-accession requirements.” Original financing was expected to be a \$15.7 million loan from the International Bank for Reconstruction and Development (IBRD) and a \$4 million grant from the Global Environment Facility (GEF). The Global Environment Objective was to “mainstream sustainable land use and natural resource management into MAFWM’s [the Ministry of Agriculture, Forestry and Water Management] policies, programs and investments” (World Bank 2009).<sup>7</sup> The project design and components are described in appendix A.

## Theory of Change

1.9 The theory of change (ToC) of MIDAS is tightly woven into the government of Montenegro's EU accession objective. It was designed to support Montenegro in establishing and strengthening the structures and capacity needed to adhere to the EU preaccession process and regulations and to build readiness for uptake (that is, "absorption") of IPARD funds, once they were accredited. MIDAS activities addressed several constraining factors in Montenegrin agriculture, such as the low level of modern technology and knowledge of improved practices among the majority smallholder farmers, limited resources for on-farm investments, and institutional constraints such as weak advisory services, lack of experience and agencies to implement IPARD-like measures, and low regulation and inspection capacity to meet EU food safety requirements. The ToC in figure 1.2 displays the pathways that MIDAS pursued.

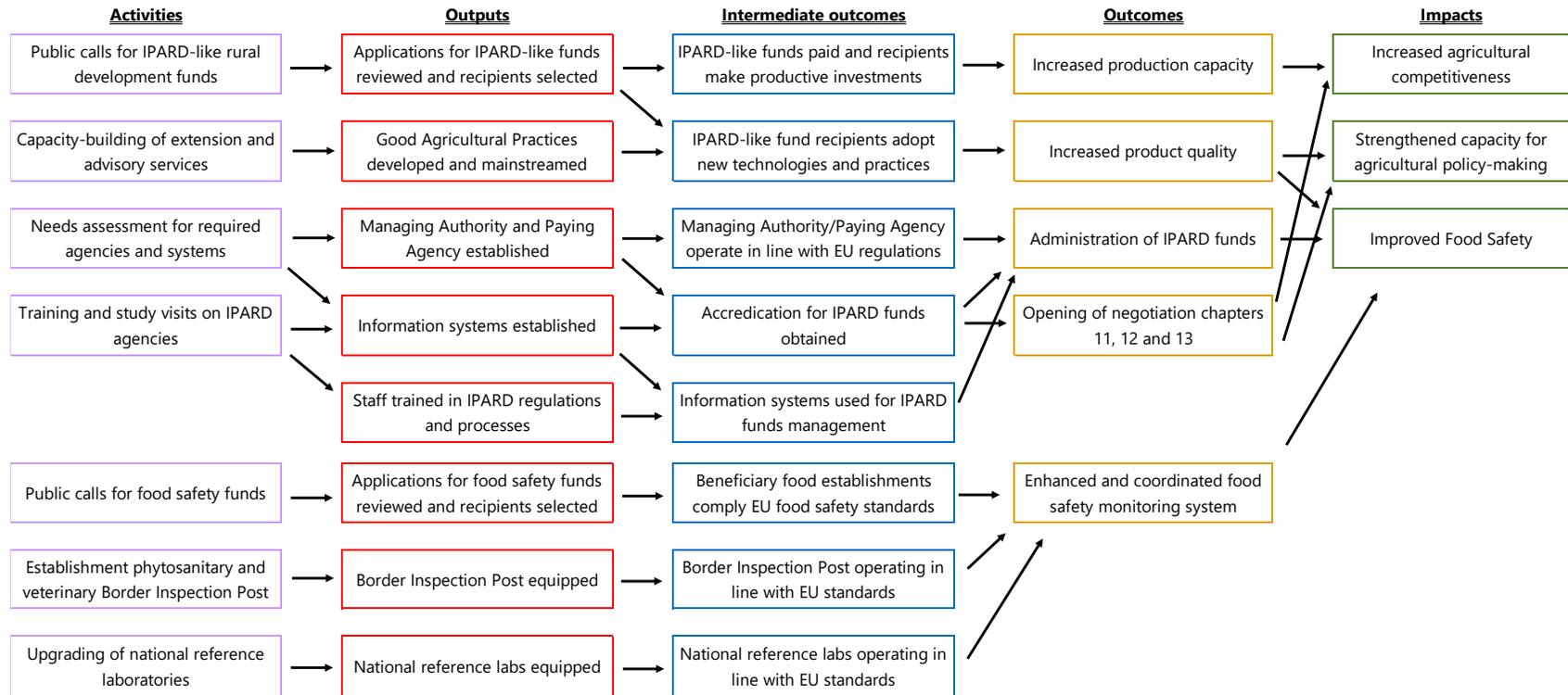
1.10 Key activities of MIDAS were several rounds of public calls and selection processes for "IPARD-like" rural development funds; that is, matching grant funds that simulated IPARD principles and guidelines, targeted at eligible farmers and agroprocessors.<sup>8</sup> A complementary activity was the strengthening of Montenegro's public advisory services to support farmers and eligible beneficiaries in the grant fund proposal development. MIDAS also supported the capacity-building of extension and advisory services to improve the knowledge transfer provided by these services to agricultural producers and the development of Montenegro's Code of Good Agricultural Practices (CGAP) to mainstream them into MAFWM support programs (for example, all project fund beneficiaries had to comply with CGAP practices). The ToC link was the assumption that the familiarization of agricultural producers with EU requirements and modern practices would strengthen their capacity to absorb rural development funds and lead to modernization of farm-level agricultural production, which in turn would result in increased production capacity and product quality improvements.

1.11 Moreover, based on an institutional needs assessment for EU compliance, MIDAS supported the establishment of critical agencies (that is, the future Managing Authority and Paying Agency, as referred to in EU terms) and information systems (that is, components of the Integrated Administration and Control System).<sup>9</sup> These activities were conducted with the objective of Montenegro becoming accredited by the EU to access and effectively manage and administer IPARD funds.

1.12 A third category of key MIDAS activities was strengthening critical elements of the food safety system. The ToC link was that the objective of becoming compliant with EU food safety standards would lead to a range of benefits to consumers and producers. Key achievements included the establishment of the first phytosanitary and veterinary border inspection post in the Port of Bar to comply with EU requirements, the upgrading of

national reference laboratories to international standards, and the alignment of national food safety laws and regulations with the EU acquis. In addition, MIDAS also provided matching grant investments to upgrade agricultural producers and food establishments to meet food safety standards and satisfy EU cross-compliance requirements on food safety.

**Figure 1.2. Simplified Theory of Change**



Source: Independent Evaluation Group.

Note: EU = European Union; IPARD = Instrument for Pre-Accession Assistance for Rural Development.

## 2. What Worked, What Didn't Work, and Why?

2.1 This section is structured into three parts. The first part assesses the main outcomes as articulated in the results framework for MIDAS. A more detailed description of the project's targets and achievements is provided in appendix A. The second part explains what worked and why results were achieved. The third part explains what didn't work and why results were not achieved. To make the assessment, IEG conducted a desk analysis of project documentation, stakeholder interviews, and phone interviews with project beneficiaries during a virtual assessment mission in January and February 2021.

### Results

2.2 The assessment of outcomes is structured according to the three objectives of MIDAS: (i) improving the delivery of government assistance for sustainable agricultural and rural development in a manner consistent with the EU's preaccession requirements; (ii) increasing the experience of Montenegrin authorities in administering rural development grants in accordance with EU-IPARD core rules; and (iii) upgrading of selected agricultural holdings and food establishments toward EU standards.

#### Improving Delivery of Government Assistance for Sustainable Agricultural and Rural Development.

2.3 A key milestone under this objective was Montenegro's accreditation by the EU to administer rural development measures that had been piloted under MIDAS in the IPARD (2013) and IPARD II (2014 to 2020) programs in 2015.<sup>10</sup> The corresponding national program of IPARD measures, "Rural Development Plan for Montenegro (2015–2020)," was still active during the assessment mission, with preparations for the follow-on plan ongoing. The Implementation Completion and Results Report (ICR) Review highlighted that the main outcomes related to the MIDAS pilot of IPARD-like investments were improved production or agrifood processing capacity (or both) and better product quality (table 2.1), based on the findings of farmer surveys and a socioeconomic assessment (World Bank 2020b).

**Table 2.1. Outcomes Reported by IPARD-Like 2 Grant Recipients**

<b>Outcome</b>	<b>Reported by % of Grant Recipients</b>
Familiarity with CGAP	35.5
Increase in processing capacities	57.6
Increase in product quality	45.8
Production or processing time reduced	35.6

<b>Outcome</b>	<b>Reported by % of Grant Recipients</b>
Value of sales increased	9.4
Income increased	7.7
Generated new permanent jobs	59.35

Source: MAFWM 2019c.

Note: CGAP = Code of Good Agricultural Practices.

2.4 These outcomes were confirmed by the stakeholder and beneficiary interviews during the IEG assessment mission (appendix C describes the interview methodology). Moreover, the measure on “agri-environment-climate and organic farming,” which had also been piloted with EU-like direct payment implementation under MIDAS and is continued under MIDAS2, was integrated into the Rural Development Plan as well, through direct payments financed with national support funds.<sup>11</sup> At project completion, the target of agricultural holdings adopting agri-environmental measures had been exceeded by 39 percent, and the socioeconomic assessment recorded a higher familiarity with CGAP and environmental protection measures among MIDAS beneficiaries compared with control group farmers (36 percent versus 20 percent) and their importance for increasing product quality (37 percent versus 21 percent) (MAFWM 2019a). The assessment mission was informed that the ex post spot controls, which occur up to five years after the investment, had detected only four cases out of 246 ex post controls with IPARD-like grant recipients because of noncompliance with CGAP or nonpossession of part of the supported mechanization. This is not surprising, given the requirement for agricultural holdings and agroprocessors to comply with practices or use their investments to be eligible for IPARD or national funds. A further achievement related to this objective is the higher than expected generation of demand for MIDAS-supported IPARD-like investments: MIDAS exceeded the project targets for matching grant funding and successful applicants with €7.7 million and 658 beneficiary agricultural holdings, respectively (World Bank 2020a). Other related project outcome targets were also met or exceeded, as described in the ICR (World Bank 2020a).

2.5 Interviews with project stakeholders during the assessment mission suggested that MIDAS played a decisive role in the achievement of the expected outcomes under this objective and Montenegro’s related access to IPARD funds. Crucial activities mentioned repeatedly by different interviewees were (i) MIDAS capacity-building activities for Montenegro’s central and regional extension and advisory services to support the introduction and related cross-compliance monitoring that, according to different stakeholders, substantially improved their services; (ii) the development of Montenegro’s first CGAP, which was widely promoted and gradually mainstreamed as a requirement for accessing national and IPARD funds; and (iii) the piloting of different IPARD-like measures and related study visits to other EU accession countries in the

region, which helped develop the country's Rural Development Plan and enable it to be accepted by the EU, and the smooth IPARD funds execution after accreditation.

## **Increasing Experience of Montenegrin Authorities in Administering Rural Development Grants**

2.6 The second objective is strongly interlinked with the first objective, as managerial and administrative capacity are necessary to effectively pilot, program, and disburse or absorb IPARD funds. Hence, a key achievement—which was also underlined in all assessment mission interviews with stakeholders—was the creation, staffing, EU-compliant equipping, and, most importantly, EU accreditation of Montenegro's Directorate for Payment (in EU terms, Paying Agency) and the Directorate for Rural Development (in EU terms, Managing Authority) in MAFWM. Both agencies are still operating as intended, and the assessment mission found that staff and processes continued to make use of, for example, the operational manuals, checklists, and updated sector analyses supported by MIDAS for their policy planning and programming.

2.7 Another important aspect of the institutional capacity-building supported by MIDAS included the development, upgrading, and updating of an information, monitoring, and control system that adhered to EU requirements and served as a precondition to starting negotiations with the EU: the Integrated Administration and Control System (IACS), which includes (i) a farm register with an integrated animal identification and registration system; (ii) a land parcel identification system; and (iii) cadaster maps of vineyards, olive and fruit orchards, and other digital and interconnected databases.<sup>12</sup> More specifically, the assessment mission was informed that the number of agricultural holdings in the farm register had increased from 130 in 2014 to 13,986 by March 2021 (an increase of approximately 2,000 registered holdings per year since 2016). This is a positive development, but the majority of the approximately 43,000 agricultural holdings in Montenegro are still not registered and hence are ineligible to access government and IPARD support, so the benefits are not yet as broadly distributed as they could be.

2.8 MIDAS also supported the development of the monitoring and evaluation (M&E) system that tracks indicators and targets for each rural development measure of the IPARD program and informs the monitoring committee on future strategy development processes. The establishment or upgrading of these systems was a precondition for the accreditation of Montenegro to obtain IPARD funds. An important outcome of these activities mentioned during the assessment mission was that their digital format and continued use in the daily application of the agencies has led to increased efficiency in the IPARD fund application and selection process, through improvements including (i) quicker checking and cross-referencing of applicant data, as

key information is available in the farm register; (ii) easier detection of missing documents or noncompliance with IPARD eligibility criteria; and (iii) efficient review of cost proposals given the reference price database.

2.9 Stakeholder interviews during the assessment mission also highlighted the increased collaboration among different sector institutions and stronger interlinks among their services (for example, the Paying Agency, Managing Authority, and MAFWM). Further, some of the MIDAS-supported systems are used for additional purposes, such as sector analyses (the farm register) and traceability of animal products (the animal identification and registration system), and some donors active in Montenegro mentioned that they strongly rely on parts of the IACS for their own operations and beneficiary selection processes (the reference price database).

2.10 It is important to note that MIDAS did not operate in isolation but coordinated its technical and financial assistance under the second objective with parallel EU twinning projects for Montenegro.<sup>13</sup> Interviews with stakeholders underlined that this coordination of the World Bank MIDAS task team and the EU representatives in Montenegro was crucial for efficiently advancing EU-compliant systems and procedures. MAFWM ensured that MIDAS and EU efforts were complementary to each other, with each taking on specific tasks to address gaps in capacity and avoid duplication. Several stakeholders mentioned during the assessment that MIDAS was able to provide more demand-driven and timely assistance compared with the long planning period needed for EU support with limited flexibility to adjust activities afterward. MIDAS was recognized as being responsive and proactive in adjusting support to changing needs and as having a practical hands-on approach (for example, study visits to new EU Member States in the region and technical assistance from EU experts).

## **Upgrading of Selected Agricultural Holdings and Food Establishments**

2.11 One major outcome of this objective was the compliance of an increased number of Montenegro's food establishments (that is, small and large agroprocessors) with EU food safety standards: 18 of 282 were EU-compliant by the October 2015 baseline, 224 by March 2019—exceeding the target of 120—and 285 at the time of the assessment mission in February 2021. The continued growth is illustrative of the sustainability of the project's impact. Ninety-eight food establishments had obtained grant financing through MIDAS to upgrade their facilities to EU standards, whereas the remainder had organized the financing of the upgrades themselves. Compliance was verified as per the classification of food establishments through inspectors and subsequent approval for operations from the Administration for Food Safety, Veterinary and Phytosanitary Affairs (AFSVPA).<sup>14</sup> AFSVPA was established in 2016 and received—similar to the

Veterinary Directorate in MAFWM before its establishment—MIDAS’s support for enhancing its inspection and monitoring capacity, including equipment and technical assistance for the establishment and staff training related to the inaugural classification system of food establishments, multiannual control and sampling plans, inspection manuals, standard operating procedures, checklists in line with International Organization for Standardization (ISO) standard 17020 and the EU aquis,<sup>15</sup> and updating of the animal identification and registration system that became part of the IACS (World Bank 2020a).

2.12 The assessment mission confirmed the sustained use of these systems and plans and the continued relevance of the training provided to AFSVPA staff for current inspection and monitoring operations. The mission was also informed that all food establishments in Montenegro since the closure of MIDAS have been required to comply with EU food safety standards (Category I) as a condition of obtaining approval for operations and that all food establishments have established procedures according to Hazard Analysis Critical Control Point principles.<sup>16</sup> AFSVPA further shared a list of Montenegrin food establishments complying with the requirements and exporting agricultural products to the EU: 16 for food (meat, fish, milk, eggs, intestines) and 4 for animal by-products (ABPs). It is important to note that, similar to the institutional capacity-building activities, MIDAS support took place in coordination with and complementary to EU activities and funding for the development of food safety and phytosanitary services in Montenegro. Hence, it is not possible to fully disentangle the attribution of MIDAS to the institutional capacity-building of AFSVPA. Moreover, the socioeconomic assessment of food establishments at project completion showed that familiarity with requirements related to food safety standards was notably higher among IPARD-like grant recipients (95 percent) compared with unsuccessful applicants (77 percent) and control group food establishments (81 percent) that had not applied for IPARD-like grants (MAFWM 2019b).

2.13 In addition, it is important to recognize the broader social impacts on smallholder and women producers of MIDAS’s contribution and technical assistance to the expansion of formally registered primary food production and processing on farms. A case in point is the registered (raw) milk processing facilities that became compliant with the EU flexibility rules under the hygiene package for small and medium enterprises:<sup>17</sup> in 2017, there were 278 agricultural holdings registered as milk processors, whereas by December 2020 the number had increased to 2,465 (1,441 holdings with up to 50 liters of raw milk processed per day and 1,025 with more than 50 liters processed per day). This is an important achievement by itself, but of additional value is the inclusion and economic empowerment aspect because (raw) milk processing (such as cheese and cream making) is predominantly conducted by rural women.

2.14 Further outcomes from MIDAS interventions in other elements of the food safety system were confirmed during the assessment mission. First, the two MIDAS-supported and EU-accredited national reference laboratories—the Veterinary Diagnostic Laboratory for monitoring tests in food safety and animal health and the Marine Biology Institute for monitoring sea water and aquaculture product quality—continue to operate and apply the equipment and training received through MIDAS on a daily basis. The directors of both laboratories highlighted in their respective interviews that their testing capacity (for example, modern equipment, accreditation of testing methodologies), monitoring scope (for example, larger areas covered by water quality monitoring), and efficiency (for example, turnaround time of test results) had increased significantly because of MIDAS support. Their modernization has enhanced Montenegro’s food system capacity and accession process to the EU as a result of its conformity with EU regulations for national reference laboratories. Second, the border inspection post at the Port of Bar continues to operate as an EU point of entry, given its compliance with EU veterinary and phytosanitary border control requirements with the help of MIDAS support, and benefits from good connections with large regional centers. Third, MIDAS support led to the alignment of national laws and regulations with the EU acquis, in particular the development of the new food safety law that was instituted in 2015 and has since guided the upgrades of food establishments. Another aspect of food safety that MIDAS support pursued was the development of a legal and regulatory framework for the safe management of ABPs. Although MIDAS’s focus was limited to generating baseline knowledge, training veterinary inspectors, and developing a strategic plan, the follow-on project, MIDAS2, has a clear focus on upgrading establishments for ABPs and developing an official, comprehensive control system for the safe disposal or processing of ABPs (World Bank 2017).

## **What Worked**

### **Design and Preparation**

2.15 The project design addressed a critical need for investments to support the production capacity of agricultural producers in Montenegro. Montenegro is highly dependent on agrifood imports, with a large agrifood trade balance deficit and limited export potential of agricultural products. A resulting sector priority of the government has been to increase domestic production capacity in the agriculture sector, with a focus on high-quality traditional and niche products to better serve the domestic market demand (MIF 2017). Campaigns to promote traditional food and encourage Montenegrins to “eat local” have been carried out. Moreover, agritourism has been identified as an area with great potential, including the provision of locally sourced food to meet high demand from tourists and accommodation establishments during the

tourism season (World Bank 2016a). In 2019, Montenegro received 14.5 million tourists (96 percent of whom were foreign) for overnight stays compared with 7.9 million in 2010 (Monstat 2021). This stands in comparison to the country's population of approximately 622,000 people.

2.16 To take advantage of this growing domestic demand amid increasing per capita income in recent years—in combination with the country's process toward EU accession—investments were (and continue to be) needed to modernize the agriculture sector to increase production and create a reliable and high-quality food supply that meets food demand and safety standards. The IPARD-like investments and other financial and technical assistance provided through MIDAS helped address the sector's low levels of technology, farmers' limited investment sources and knowledge to adopt modern technologies, weak advisory and extension services, and limited capacity to meet food safety, environmental, animal, and plant health standards. According to assessment surveys with 1,573 agricultural holdings,<sup>18</sup> 83 percent of IPARD-like grant recipients reported higher production capacity through improved and more efficient production conditions and higher yields. Approximately one-third of grant recipients had used the funds to increase their livestock and approximately one-quarter to obtain new machinery, key drivers for the average increased production capacity reported of approximately 40 percent (MAFWM 2019a). Similar results were found by the socioeconomic assessment of the IPARD-like grants for food safety upgrades in food establishments and agroprocessors (mostly meat and dairy):<sup>19</sup> 58 percent of grant recipients reported having higher processing capacity and 46 percent higher product quality, resulting in an 8 percent income increase over time. A missed opportunity in these assessments is the lack of comparison among the surveyed grant recipients and control group farmers.

2.17 In addition, MIDAS also contributed to increasing the number of registered agricultural holdings in the register of food establishments and to raising the confidence of primary agricultural producers to undertake new activities, such as expanding into rural tourism markets. There is anecdotal evidence that several MIDAS beneficiaries have become leading participants in the country's agritourism market and in-country producers. This is in line with the findings of the socioeconomic assessment of MIDAS that most interviewed agricultural producers also stated that they have no problems (56 percent), or problems only to a limited extent (39 percent), with selling their products (MAFWM 2019a). A comparison between 2018 and 2017 showed that IPARD-like grant recipients had increased not only their sales volume but also their sales value on the domestic market by 9.4 percent (MAFWM 2019c).

2.18 Montenegro's declared goal of EU accession and the associated pathway of required steps considered in the project design facilitated implementation progress. The

EU acquis sets the rights and binding obligations of EU Member States. It is divided into 35 chapters, which are negotiating chapters between candidate countries and the EU. Before accession, a candidate country is obliged to assume all of the EU acquis and to be capable of implementing it effectively (EC 2021). Montenegro obtained EU candidate country status in 2010 and hence agreed to follow a highly regulated preaccession process, which led to the start of EU preaccession negotiations with Montenegro in June 2012.

2.19 The clear long-term goal of the government of Montenegro toward EU accession significantly benefited reaching the achievement of MIDAS-supported outcomes in three important ways. First, it ensured that the government had strong ownership of the project activities. Second, it guaranteed that activities had a clear focus on fulfilling the required actions outlined by the EU preaccession process, both for agricultural producers and sector institutions. Third, it encouraged the government and MAFWM to formulate and adopt clear, preset technical and transparent criteria for grant investment selection in line with IPARD. This minimized the room for political interference in the grant selection process and differed from the previously more ad hoc decision-making process on national support to agricultural producers.

2.20 As a result, MIDAS activities supported the government in reaching EU preaccession negotiation opening benchmarks for the three EU acquis chapters related to agriculture and fisheries: negotiations opened for chapter 12 (Food Safety, Veterinary and Phytosanitary Policy) and chapter 13 (Fisheries) in June 2016 and for chapter 11 (Agriculture and Rural Development) in December 2016. These are key milestones in the EU preaccession process for the government in accessing considerable IPARD funds, as agriculture is one of the most important and best-funded sectors in the EU. It is the only economic sector aside from fisheries for which the EU has a common policy, the Common Agricultural Policy. The Common Agricultural Policy is the EU's largest single budget item, accounting for approximately 40 percent of the EU budget (World Bank 2018).

2.21 The complementary capacity-building support to both agricultural producers and sector institutions helped address systemic weaknesses. At project appraisal, capacities were low both in terms of modern agricultural practices and standardized production and in terms of support services and administrative capacity (World Bank 2009, 2016a). In response, the MIDAS design adopted a holistic approach to support the government of Montenegro in tackling various challenges in a coordinated fashion and to prepare the sector for future IPARD funding. The project's promotion of the CGAP and knowledge-sharing of EU quality and food safety standards and requirements among farmers was complemented by (i) strengthening the necessary related institutional capacity in support services (that is, increasing inspection, certification,

laboratory capacity, and advisory services); (ii) administrative competence (that is, setting up the EU-compliant Managing Authority and Paying Agency); and (iii) required changes to harmonize the national legislation with the EU acquis (that is, the 2015 Law on Food Safety). This coordinated combination of efforts at different levels in the agriculture sector enabled both agricultural producers and institutions to be ready for EU preaccession process requirements and modernize agricultural production.

2.22 The outcomes of these efforts have been described earlier in the Results section. Moreover, they are underlined by the high number of cumulated applicants to IPARD-like and IPARD funds and selected recipients, based on Paying Agency data at the time of the assessment mission. Between 2014 and 2019, 862 agricultural holdings and agroprocessors applied for the different IPARD-like measures, of which 424 received actual grant funding in the amount of €8,979,582. Between 2018 and 2020, 666 agricultural holdings and agroprocessors applied for actual IPARD measures, of which so far 180 (27 percent) have received actual grant funding in the amount of €8,5269,620. It is important to consider that there is a lag from application to selection, contracting, and actual payment, but the year-by-year data show an increase in IPARD payments processed in 2020 compared with 2019. This clear illustration of the impact of the project is indicative of the transformation expected in the early stages and shows the considerable progress made in the transition for farmers preparing to engage with the EU market.

## **Implementation and Supervision**

2.23 Piloting a “learning by doing” approach that mimicked IPARD procedures and gradually introduced measures eased the adoption of new practices and procedures among farmers and institutions. MIDAS supported MAFWM in establishing a so-called “IPARD-like” grant program that simulated IPARD principles and guidelines and served as a pilot to prepare farmers and sector institutions to apply those principles and guidelines, using World Bank funds before IPARD accreditation and funding were made available to the government of Montenegro by the EU. The various rounds of grant calls for IPARD-like funds under MIDAS had a twofold learning goal: (i) to allow farmers to understand and practice grant application and implementation procedures in line with IPARD guidelines; and (ii) to increase the institutional capacity of MAFWM, the MIDAS-supported future IPARD agencies (Managing Authority and Paying Agency), and other sector institutions to manage and administer future IPARD funds. They also helped MAFWM in the early identification of bottlenecks in the IPARD-like grant program administration. For that, MIDAS conducted and analyzed surveys with IPARD-like grant applicants and assessed areas for improvement to make corrective adjustments in the next round of grant calls (World Bank 2020a).

2.24 Moreover, the gradual implementation of different IPARD-like measures according to national capacity and priorities was a key advantage of the pilot grant program rounds under MIDAS. MIDAS initially focused on the grant calls for the IPARD-like measure of “Investments in Physical Assets of Agricultural Holdings” (simulating IPARD Measure 101) and then expanded toward “Agri-Environment-Climate and Organic Farming” (simulating IPARD Measure 104) and “Investments in Physical Assets Concerning Processing and Marketing of Agricultural and Fisheries Products” (simulating IPARD Measure 3). This allowed for the testing of different IPARD measures among the various beneficiary target groups of IPARD (such as farmers and agroprocessors) and the adaptation of administrative procedures by IPARD measure.

2.25 A further “learning by doing” feature of MIDAS that was highlighted by numerous assessment mission interviewees was the study visits by MAFWM staff to the Paying Agencies and Managing Authorities of other EU accession or new EU countries in the region (for example, Croatia, North Macedonia, and Slovenia). This practical knowledge exchange among civil servants with the same (future) tasks in countries at different stages of EU accession was an important preparation for Montenegro to gather lessons and avoid mistakes in formulating its national IPARD program.<sup>20</sup>

2.26 Overall, the project’s implementation approach of gradual “learning by doing” pilot activities was a realistic and effective way of delivering results in preparation for EU preaccession. In late October 2017, Montenegro’s national IPARD program was accepted by the EU and the country obtained its first IPARD accreditation, entrustment for budget implementation, to manage the execution of measures 1 and 3 under the IPARD II Program for the Development of Agriculture and Rural Areas in Montenegro (2014–2020). Thereby, the country received access to significant IPARD funding. Given the experience with MIDAS-supported IPARD-like grants for those measures, the number of applicants to the IPARD calls for Measure 1 (launched in February 2018) and Measure 3 (launched in April 2018) was high: 389 applications for measures 1 and 45 applications for Measure 3 (World Bank 2020a). At the time of the assessment mission, the number of applications for IPARD measures 1 and 3 had increased by 180 and 52, respectively. Of the total amount of approximately €95.8 million requested by applicants between 2018 and March 2021, €43.4 million had been selected and contracted and €8.54 million (20 percent) had been paid out (most in 2020). It is an indication of increased processing efficiency that almost the same amount was paid out to IPARD recipients between 2019 and March 2021 (over approximately two years) as to IPARD-like recipients between 2016 and 2019 (over approximately four years), despite the somewhat stricter conditions of actual IPARD funds, which require longer processing time per application. Furthermore, approximately 10 percent of successful IPARD-like

grant recipients have been successful in securing additional IPARD-like or IPARD funds.

2.27 Investments in agroprocessing and inspection capacity enhanced compliance with EU food safety standards and increased the growth potential of Montenegro's agrifood processing industry. Primary agriculture production forms a higher share of Montenegro's GDP than the agrifood processing industry. As a country transitions toward a higher stage of agrifood systems transformation and income category, the importance of primary agricultural production diminishes relative to agrifood processing, and in the context of Montenegro, it "puts pressure on Montenegro's agriculture sector to compete both in domestic and in export markets" (World Bank 2016a). Such a transition calls for modern supply chains and compliance with quality standards in terms of both production and agroprocessing. Montenegro raising national food safety standards and aligning them with EU requirements was essential to successfully grow the agrifood processing industry and to support safe and high-quality agricultural produce in the market. Moreover, modern laboratory and inspection capacities allow for enhanced traceability of the products' origins and processing, which in turn can be expected to improve market access, both domestic and foreign.

2.28 The main outcomes of MIDAS's diverse support in Montenegro's food safety system and agroprocessing have been described in the Results section, based on findings from project documents and the assessment mission. During the latter, IEG additionally conducted phone interviews with a representative sample of 25 percent of IPARD-like grant recipients for food safety upgrades (appendix C describes the sampling methodology). The findings show that all interviewed food establishments ( $n = 20$ ) continue to use the equipment financed through MIDAS. The most stated benefits were (i) compliance with national and EU food safety standards to be able to sell nationally and apply for export licenses (95 percent of those interviewed); (ii) increased production capacity (100 percent) by an average of approximately 25 percent; (iii) improved product quality (95 percent); and (iv) introduction of new (such as frozen) products (50 percent) or new packaging (10 percent) because of the new equipment. Half of the respondents gave the unsolicited answer that another benefit was an increase in hygiene practices because of the new equipment, either because of its physical condition (as in the case of upgrading to stainless steel) or ease of cleaning compared with the previous conditions. In terms of offtake markets, 75 percent of the interviewed food establishments highlighted their expansion to new markets, particularly in the coastal areas that are tourism destinations, or sales to local or national supermarket chains. Thirty-five percent mentioned that they had obtained export licenses and were exporting (including to the EU, in the case of 25 percent of establishments). Of the food establishments that continued to sell to the same buyer(s), 60 percent mentioned that they were receiving a

higher price than before the use of the MIDAS-supported equipment because of the resulting higher quality (these were all milk producers). These results are in line with project documentation, assessment mission interviews, and the expected outcomes for upgrades in food safety standards among agrifood processors. One caveat is the small number of food establishments IEG was able to interview given the travel limitations because of the COVID-19 pandemic.

## **What Didn't Work**

### **Design and Preparation**

2.29 The project design eased access to rural development assistance resources for agricultural producers and agroprocessors but did not sufficiently foresee financial and administrative constraints. Two main challenges mentioned in MIDAS project documents and assessment mission interviews are the difficulties of obtaining (i) commercial credit for investments in agroprocessing and primary agricultural production; and (ii) building permits for agricultural land. Both issues were not new to World Bank lending operations in the rural sector and could have been assessed more carefully during project preparation.

2.30 Regarding financial constraints, it is important to consider that IPARD funds, and hence also the MIDAS-supported IPARD-like grant programs, were prefinanced: in other words, they required selected grant recipients to provide the full amount of needed funds for their investment plan in advance, and only after the investment had been approved by the national IPARD agency would IPARD-like grants of typically 50 percent of the investment be returned to the producer. Hence, this requires a large up-front payment that many agricultural producers or agroprocessors are not able to make without access to commercial finance. The socioeconomic assessment results showed that the food establishments supported to upgrade their food safety standards—which are typically larger and more likely to have a credit history, compared with most of Montenegro's primary agricultural holdings—had to rely on bank loans (48 percent) to finance their IPARD-like investments, and 37 percent of them mentioned that the biggest challenge they faced was securing such a loan (MAFWM 2019b). Nevertheless, the completion report mentioned that fewer food establishments than the end-of-project target received grant payments, and approximately €1.2 million remained unspent (and was hence reallocated) because of the difficulties encountered by some food establishments selected for IPARD-like grants in obtaining financing or building permits for their investments (World Bank 2020a).

2.31 Primary producers were at a substantial disadvantage and often did not even attempt to access commercial finance because they lacked a credit history and rural land

is typically not accepted as collateral. Women producers were at an even larger disadvantage because they lacked property rights in their names, were often in informal employment, and had low financial literacy (Horst et al. 2020). Competition for agricultural financial services in Montenegro is low (World Bank 2018). As a result, none of the agricultural holdings that obtained IPARD-like grants prefinanced their investment through a commercial loan and many had to rely on the government-supported preferential credit lines of the Investment Development Fund of Montenegro (MAFWM 2019b; World Bank 2020a). According to assessment mission interviews, the Investment Development Fund has limitations in lending capacity size and processing capacity that cause delays and is not able to address the primary sector's financing needs. The completion report of MIDAS recognized the access to finance issue and highlighted the need for "crowding-in more commercial lending to the agrifood sector" (World Bank 2020a) but had not included active measures in the project design to address it. There was no engagement with the International Finance Corporation, which could have been explored as an option to support improved access to commercial finance for MIDAS beneficiaries.

2.32 Regarding administrative constraints, a considerable number of IPARD-like grant applicants faced challenges in obtaining building permits from municipal authorities for their investments, and several of them were consequently not able to obtain the grant funds. This problem related to regulatory and administrative conditions for spatial plans for agricultural land at the time of MIDAS design and initial implementation. With the type of expected investments largely known from IPARD rules and previous World Bank operations in other EU accession countries, the issue could have been foreseen in the risk assessment during project preparation.

2.33 Although access to finance was understood as a critical risk and mitigation measures were described in the Project Appraisal Document, potential problems with processes and issuance of building permits on agricultural land were not considered (World Bank 2009). When the problem became evident during implementation, the project was proactive in resolving the issue with several municipal authorities and the responsible ministry. As a result, the spatial plan for agricultural land in several municipalities was changed to allow for building permit issuance (World Bank 2020a), which is considered a key achievement for subsequent and future investments on agricultural land.

## **Implementation and Supervision**

2.34 Although the competitiveness of agricultural production was increased, the project could have piloted measures to strengthen market linkages. This assessment recognized several results achieved in increasing the competitiveness of agricultural

production and agroprocessing among MIDAS beneficiaries in terms of production capacity, product quality, and food standards. Despite these advances, a key concern mentioned in project documents was the strong competition from imported and often cheaper agricultural products, as well as unfair competition because of informality that limits opportunities for domestic agricultural product sales (MAFWM 2019b). These issues were confirmed by the assessment mission interviews and were considered to be of particular importance for primary agricultural producers, which are typically small and have little negotiation power in relation to a buyer. Although not a formal project objective, incorporating measures to strengthen the market linkages of agroprocessors, and primary producers in particular, could have fortified the results achieved under MIDAS. The project could have drawn on different types of experiences and models for (smallholder) market integration and adapted and piloted these during project implementation. One option could have been linking project beneficiaries with the large and growing tourism sector, for example through connecting them with restaurants, hostels, or hotels in tourist hot spots. It is clear that further support would have been needed from the project to ensure reliable and consistent product supply and quality, but piloting such an approach could have presented a unique opportunity to ensure a secure market and foster business relationships to promote local food, building on World Bank experience elsewhere.

2.35 Finally, it is important to highlight that MIDAS implementation and results are very specific to the EU and EU accession context. As such, its success factors and challenges are relevant for other EU candidacy countries but less applicable to countries outside this regional context. Nevertheless, some broader lessons can be drawn from the MIDAS experience that serve in other contexts as well, such as the importance of piloting planned government interventions through a “learning by doing” approach, having a holistic capacity-building strategy for a sector, and rigorously assessing underlying constraints such as access to finance or administrative hurdles.

### **3. Lessons**

3.1 A clear articulation of the expected transformation of the agriculture sector, and a logically associated and well-defined path to follow at the institutional and production level, is crucial in justifying reforms and achieving desired outcomes. The MIDAS case showed that aiming for change, such as for EU accession, can facilitate project implementation progress through strong government ownership of the project activities. It also helps to justify the essential reform processes (such as the establishment of the 2015 Law on Food Safety) and adjustments or restructuring of project activities (such as expansion to agroprocessors) where the link to reaching the overall goal is evident.

3.2 A practical “learning by doing” pilot approach can help identify and address bottlenecks and prepare the sector for new practices and procedures. In this case, the piloting and incremental approach adopted by MIDAS for implementing rural development grants in line with EU-IPARD procedures helped the sector’s different stakeholders at institutional and production levels to strengthen their capacities, identify and address bottlenecks in implementation, and gain practical experience before expanding to the more complex actual IPARD measures. Utilizing project funds to confirm that stakeholders can meet required procedures for future funding is an excellent way to ensure the sustainability of project outcomes.

3.3 Sector weaknesses need to be addressed in a holistic manner at institutional, administrative, regulatory, and production levels to comprehensively foster a country’s agriculture sector competitiveness. MIDAS addressed interlinked systematic weaknesses through a complementary and holistic approach involving a diverse group of sector agents. It further coordinated its efforts with other donors and actors in the sector to create synergies and avoid duplication. Such complementary efforts at different levels in the agriculture sector allowed agricultural producers and institutions to prepare for EU preaccession process requirements and modernize agricultural production.

3.4 Projects supporting compliance with market standards can help beneficiaries meet necessary conditions for market participation, but they do not guarantee market inclusion or expansion without connection support for new market linkages. MIDAS focused on enabling agricultural producer and agroprocessors to upgrade their standards but did not support them in fostering new market linkages. This opportunity could have provided further benefits in terms of stable offtake market sales and building business relationships. The transition to commercial viability of producers requires additional steps that ensure market access.

3.5 Access to finance for agricultural producers should be assessed at appraisal to test the extent to which limited credit is an overarching constraint to broader sector development. Although MIDAS successfully prepared agricultural producers and agroprocessors for focused IPARD support, its implementation also highlighted the larger underlying structural issue of limited access to rural finance that would increase producers’ capacity to prefinance sector investments. Addressing this issue would require separate targeted actions that would need to be embedded in the project design or in complementary projects by the World Bank or other donors within a larger overall program.

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<sup>1</sup> A referendum led to the foundation of Montenegro and its independence from the former Yugoslavia in 2006.

<sup>2</sup> The *acquis communautaire*, also referred to as the European Union (EU) *acquis*, comprises all of the founding rights and obligations of the EU, and its adoption is a condition of EU accession.

<sup>3</sup> Former president Milo Djukanovic, who was in power with the Democratic Party of Socialists for nearly 30 years, lost in the parliamentary elections in August 2020, and a new coalition government was formed in December 2020 under prime minister Zdravko Krivokapic.

<sup>4</sup> The Instrument for Pre-Accession Assistance for Rural Development (IPARD) is part of the EU's assistance supporting the transformation of the agriculture sector in EU candidacy countries. IPARD funds are managed by the candidate country's own institutions.

<sup>5</sup> Despite Montenegro's small size, the agroclimate and landscape vary significantly from the north to the south and coastal areas, allowing for diverse agricultural production: olive and citrus fruit production dominate on the coast, vegetable production and vineyards dominate in the center and near the agglomerations of Nikšić and Podgorica, and livestock production dominates in the north.

<sup>6</sup> The Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project underwent five restructurings and received two additional financings, leading to a total implementation period of 10 years. In December 2015, the first additional financing with €4.72 million from EU grants through a World Bank-administered trust fund was approved and the project development objective revised, expanding the original project development objective by two elements to more granularly specify the intended objectives: "(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" (World Bank 2020a).

<sup>7</sup> During MIDAS implementation, the name of the Ministry of Agriculture, Forestry and Water Management (MAFWM) was changed to the Ministry of Agriculture and Rural Development. At the time of this assessment, the ministry name had changed back to MAFWM.

<sup>8</sup> A matching grant is a one-off, non-reimbursable transfer to project beneficiaries for a specific purpose, on the condition that the recipient contributes a matching amount for the same purpose such as technical assistance, asset investment, or financing of working capital (IFAD 2012).

<sup>9</sup> The Integrated Administration and Control System (IACS) is an obligatory system used by EU Member States for the management and control of payments made to farmers under the Common Agricultural Policy. The IACS uses advanced techniques to check parcels by aerial or satellite photography and to cross-check farmers' claims with computer databases. It also ensures that payment irregularities are revealed and queries are followed up.

<sup>10</sup> The IPARD program for each preaccession country is based on different measures set at the European level. IPARD measures focus on different aspects of agriculture and rural

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development. Each country presents its program of IPARD measures to the European Commission for approval. When approved, IPARD measures are managed by countries' national institutions and IPARD agencies. Montenegro has been accredited for three measures piloted in MIDAS: Measure 101, "Investments in agricultural holdings to restructure and upgrade to the EU standards," Measure 103, "Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to the EU standards," and Measure 302, "Development and diversification of rural economy."

<sup>11</sup> EU farmers receive support in the form of direct payments on the condition that they comply with strict rules on human and animal health and welfare, plant health, and the environment. Additional payments are available, for example for farming methods that go beyond basic environmental protection or for farmers working in areas with natural constraints.

<sup>12</sup> More information on the IACS and related processes can be found at [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/financing-cap/financial-assurance/managing-payments\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/financing-cap/financial-assurance/managing-payments_en).

<sup>13</sup> Twinning is an EU instrument for institutional cooperation among the public administrations of EU Member States and beneficiary or partner countries. Twinning projects bring together public sector expertise from EU Member States and beneficiary countries to provide support for the transposition, implementation, and enforcement of the EU legislation, building up the capacities of beneficiary countries' public administration throughout the accession process. In Montenegro, two twinning projects took place during the MIDAS project implementation: the IPA 2008 twinning project from 2010 to 2012 and the IPA 2011 from 2013 to 2015.

<sup>14</sup> There are three categories of food establishments in Montenegro, as per Article 122 of the 2015 Law on Food Safety. Category 1: food establishment is compliant with EU food safety standards and issued with an approval for operations; Category 2: noncompliance detected during inspection, and food establishment has six months to eliminate it as a condition of obtaining approval for operations; and Category 3: noncompliance has not been eliminated, and food establishment has 180 days to eliminate it as a condition of obtaining approval for operations. The Law on Food Safety applies to all stages of the production and distribution of food and feed, but does not apply to the primary production of food or feed for private domestic consumption, the preparation, handling, or storage of food for private domestic consumption, or feed used for feeding food-producing animals for private domestic consumption (MEK 2015).

<sup>15</sup> According to the International Organization for Standardization, ISO/IEC 17020:2012 specifies requirements for the competence of bodies performing inspection and for the impartiality and consistency of their inspection activities.

<sup>16</sup> Hazard Analysis Critical Control Point is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement, and handling, to manufacturing, distribution, and consumption of the finished product.

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<sup>17</sup> The EU legislation (“The Hygiene Package”) includes provisions for flexible application of hygiene requirements in small and medium enterprises, which was also adopted by MAFWM during MIDAS implementation to raise the quality and safety of local products and traceability.

<sup>18</sup> Of the 1,573 surveyed agricultural holdings, 711 were IPARD-like grant recipients, or successful applicants, 655 were farmers who had applied but not received an IPARD-like grant, or unsuccessful applicants, and 207 were control group farmers who had not applied for IPARD-like grants.

<sup>19</sup> The socioeconomic assessment interviewed 182 agricultural producers and agroprocessors, of which 85 had applied for IPARD-like funds and 97 were the control group (MAFWM 2019b).

<sup>20</sup> Each EU candidate country presents its program of IPARD measures to the European Commission for approval. When approved, IPARD measures are managed by the countries’ national institutions and IPARD agencies.

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## Appendix A. Project Design and Ratings

**Project design.** The Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project involved a wide range of activities to build capacity both at the institutional and production level, including the establishment of agencies, registries, and monitoring systems as required by the European Union (EU), the strengthening of regulations on food safety, the transfer of financial resources to farmers and agroprocessors in line with Instrument for Pre-Accession Assistance for Rural Development regulations, and agricultural advisory work. The three components of MIDAS—with planned and actual financing amounts by funding source—were as follows:

**Component 1:** Strengthening the Ministry of Agriculture, Forestry and Water Management’s rural development program (Appraisal estimate: IBRD original financing and GEF grant: €8.5 million; actual cost: IBRD original financing and GEF grant: €7.11 million; EU grant: €3.92 million; IBRD Additional Financing: €0.97 million). This component aimed (i) to improve the delivery of the government assistance for sustainable agriculture and rural development consistent with the EU’s preaccession requirements, and (ii) to mainstream good agricultural practices, including sustainable land use and natural resource management, into the policies, programs, and investments of the Ministry of Agriculture, Forestry and Water Management (MAFWM).

**Component 2:** Strengthening MAFWM’s administrative and management capacity in accordance with EU preaccession requirements (Appraisal estimate: IBRD original financing and GEF grant: €7.6 million; actual cost: IBRD original financing and GEF grant: €6.03 million; EU grant: €1.95 million; IBRD Additional Financing: €1.84 million). This component complemented component 1 through (i) the establishment of key agencies to plan and program the assistance for sustainable agricultural and rural development and to administer the related funds in line with EU requirements (the future Managing Authority and Paying Agency), (ii) the development of improved agricultural information and monitoring systems that meet EU requirements, and (iii) the modernization of the food safety system according to EU standards.

**Component 3:** Project management, administration, and monitoring (Appraisal estimate: IBRD original financing and GEF grant: €0.6 million; actual cost: original financing and GEF grant: €0.85 million; IBRD Additional Financing: €0.18 million). This component entailed the project implementation and coordination through the establishment of a project, and monitoring and evaluation of project activities and impact.

**Table A.1. Montenegro Institutional Development and Agriculture Strengthening Project (P107473, MIDAS)**

Indicator	ICR	ICRR	PPAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Overall efficacy	Substantial	Substantial	Substantial
Bank performance	Satisfactory	Satisfactory	Satisfactory
Quality of monitoring and evaluation	Substantial	Substantial	Substantial

Note: The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Global Practice. The Implementation Completion and Results Report Review (ICRR) is an intermediate Independent Evaluation Group product that seeks to independently validate the findings of the ICR. MIDAS = Montenegro Institutional Development and Agriculture Strengthening project; PPAR = Project Performance Assessment Report.

**Table A.2. Ratings Table: ICRR and PPAR**

ICRR	PPAR
<p>Relevance of objectives</p> <p>The Implementation Completion and Results Report Review (ICRR) indicated that the project development objective (PDO) was highly relevant at appraisal and at the time of the ICRR, given the clear ambition of the (revised) PDO, the continued relevance at completion, and the connection of the PDO to the World Bank’s higher-level objectives of reducing poverty and enhancing shared prosperity. At appraisal, the project objectives were strongly aligned with the government of Montenegro’s development priorities as described in its 2006 Food Production and Rural Development Strategy, which promoted rural development and competitiveness, food safety, sustainable resource management, and adequate standards of living in rural areas. In addition, Montenegro’s European Union (EU) integration process documents specified the need for improvements in the administrative capacity to manage agricultural policy and to modernize the agriculture sector. The activities of the Montenegro Institutional Development and Agriculture Strengthening project (MIDAS) were designed to address both needs. Moreover, the project objective was consistent with the fiscal year (FY)07–10 Country Partnership Strategy for Montenegro, which highlighted the three strategic priorities of (i) enhancing sustainable economic growth through increasing economic freedoms and strengthening the role of the private sector, (ii) building institutions and the rule of law, and (iii) improving standards of living for citizens.</p> <p>At project completion, the project objectives remained relevant in accordance with the government of Montenegro’s 2015–2020 Strategy for Development of Agriculture and Rural Areas that supported (i) the development of an effective, innovative, and</p>	<p>This Project Performance Assessment Report (PPAR) rates the relevance of objectives of MIDAS as <b>high</b>. The objective of MIDAS was relevant at appraisal and remains so at the time of this PPAR when the follow-on project MIDAS2 is operational. MIDAS was in line with Country Partnership Strategy FY07–10, and given the government of Montenegro’s continued focus on fostering agricultural competitiveness and accelerating the EU accession process, also with the current CPF FY16–20. Similarly, MIDAS was aligned to the government of Montenegro’s strategic priorities at appraisal—as formulated in the 2006 Food Production and Rural Development Strategy—and at completion to the 2015–2020 Strategy for Development of Agriculture and Rural Areas.</p>

sustainable agrifood sector that provides healthy, high-quality, specialized food products that can meet demand and compete on the EU market, (ii) the development of economic activity and creation of jobs in rural areas, with special emphasis on rural tourism and short supply chain in the production of quality products and services and sustainable use of natural resources, and (iii) the promotion of rural development and social services to improve quality of life in rural areas and reduce the migration of the rural population to urban areas. MIDAS contributed to these strategic objectives, as its activities (i) strengthened the competitiveness of the agricultural sector and supported diversification toward high-value products intended for export and tourist markets, and (ii) improved quality of life in rural areas. Moreover, MIDAS was in line with the FY16–20 Country Partnership Framework (CPF) for Montenegro, especially the objective of focus area 2 to expand access to economic opportunities. MIDAS supported economic opportunities in rural areas by increasing access to funding for the agriculture and agroprocessing sector, preparing beneficiaries to comply with EU requirements and access EU Instrument for Pre-Accession Assistance for Rural Development (IPARD) funds, and promoting agro-environmental measures.

#### Efficacy

The ICRR rated the overall efficacy of MIDAS as substantial. It split the efficacy analysis into the three parts of the PDO, as follows.

The achievement of objective 1—to improve delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's preaccession requirements—was rated substantial, given the evidence in the Implementation Completion and Results Report (ICR) on MIDAS's success in addressing constraining factors at the farm level through the provision of investment funding via calls for subprojects for farmers, agricultural holdings and large agrifood processors, complemented by demand-driven technical assistance and advisory services to support beneficiaries in business plan proposals, knowledge of EU-IPARD requirements, and modern agricultural practices. At project completion, 658 eligible agricultural holdings received such funds at project completion and 1,511 beneficiaries had adopted modern agricultural technologies and improved production practices, although the ICRR highlighted that there are some shortcomings in the demonstration of continued adoption of improved and agro-environmental practices. At the institutional level, the ICR presented evidence that MIDAS had strengthened the capacity of the Ministry of

This PPAR rates the efficacy of MIDAS as **substantial** because it achieved or exceeded all project outcomes targeted in the results framework at project completion.

This assessment found that MIDAS substantially improved the production capacity and compliance with CGAP at the farm level and the administrative and monitoring capacity at the institutional level, in line with EU preaccession requirements. A milestone result was the accreditation of Montenegro and its sector institutions in 2015 by the EU to administer rural development measures that had been piloted under MIDAS. The country is working to further expand to other IPARD measures at the time of this assessment, building on the capacity and systems supported under MIDAS. There is evidence based on stakeholder interviews that MIDAS fostered increased collaboration among sector institutions, and stronger interlinks among their services, and that some of the MIDAS-supported systems are used for additional purposes, such as sector analyses or traceability of animal products. Another important outcome was the compliance of an increased number of Montenegro's food establishments with EU food safety standards, based on MIDAS's technical and financial support. IEG interviews with beneficiary food establishment found that the most stated benefits were related to compliance with national and EU food safety

<b>ICRR</b>	<b>PPAR</b>
<p>Agriculture, Forestry and Water Management (MAFWM) through the development and dissemination of the country's first Code of Good Agricultural Practices (CGAP) and the piloting of EU-compatible direct payment implementation, which were adopted as policy measures by MAFWM at project closure.</p> <p>The achievement of objective 2—to increase the experience of the Montenegrin authorities in administering rural development grants in accordance with EU-IPARD core rules—was rated substantial because of MIDAS's key role in developing the institutional capacity and systems required by the EU to plan, program, disburse, and monitor rural development grant funds provided by IPARD (once approved by the EU); that is, the establishment of the Proto-Paying Agency and the Managing Authority. Related to that was the MIDAS support for the programming and establishment of, as well as training in, various information systems required by EU guidelines, in particular key components of an Integrated Administration and Control System and monitoring and evaluation (M&amp;E) system.</p> <p>The achievement of objective 3—to support a selected number of agricultural holdings and food establishments in upgrading toward EU standards—was rated modest. Although the ICR presented achievements for 224 agricultural holdings and food establishments in upgrading toward EU food safety standards (of which 98 were through financial support from MIDAS) and the project supported modernizing key components in the food safety system (the establishment of EU-compliant border inspection posts at the Port of Bar and the upgrade of two national reference laboratories for monitoring sea water and aquaculture product quality and performing veterinary diagnostics), there was insufficient outcome evidence, given that most indicators for this objective were output-oriented.</p>	<p>standards to be able to sell nationally, expand to new markets, and apply for export licenses. Additional benefits mentioned were increased production capacity of an average of approximately 25 percent, improved product quality, introduction of new products, and new packaging because of the MIDAS-supported equipment. However, the assessment also found that the project did not sufficiently foresee administrative (such as building permits) and financial constraints, in particular for the majority smallholder agricultural producers in Montenegro. Regarding finance, the prefinancing conditions of IPARD(like) funds typically require access to commercial finance, which puts smallholders at a disadvantage because they may lack a credit history, rural land is often not accepted as collateral, and the preferential credit lines of the Investment Development Fund are limited. IEG further finds that MIDAS could have put more emphasis on strengthening market linkages.</p>

ICRR	PPAR
<p>Efficiency</p> <p>The ICRR rated efficiency as substantial, given MIDAS’s solid internal rates of return and robust results from the sensitivity analysis, despite some shortcomings in the economic analysis and administrative efficiency. The ex ante economic and financial analysis (EFA) for subcomponents 1.1, 1.2, 2.1, and 2.2 (representing 88 percent of total project cost) was based on a cost-benefit analysis that estimated an economic internal rate of return for these components of 19 percent (over the period 2009 to 2016). The EFA of subcomponent 2.3 (representing 8.6 percent of total project costs) applied a cost-efficiency analysis that estimated a financial internal rate of return of 12 percent. The ex post EFA considered all rounds of financing for MIDAS (that is, original IBRD loan and GEF grant, additional financing (AF) of EU grant, AF of IBRD loan). It focused on the analysis of grant-financed investments and improved advisory services provided under component 1 (and partially linked to the institutional strengthening of component 2). No separate EFA was conducted for the activities supported under subcomponent 2.3. The financial analysis was based on eight illustrative models, with varying financial internal rates of return from 13 percent (milk production manure disposal) to 54 percent (honey). The ex post economic analysis was prepared based on the same eight illustrative models and estimated an economic internal rate of return of 24.1 percent and ENPV of \$12.4 million. Regarding administrative efficiency, the ICRR criticized the fact that the proportionate cost of component 3 for project management was 8.5 percent at project closure, compared with the estimated 3.6 percent at appraisal, and that MIDAS experienced initial delays in executing some project activities.</p>	<p>This PPAR rates the efficiency of MIDAS as <b>substantial</b>, based on the robust EFA at project completion and adequate rates of financial return.</p> <p>The assessment did not conduct a systematic review and recalculation of the financial return of the illustrative models used in the ex post EFA. However, its qualitative assessment of food establishments and review of production capacity and quality data for primary producers did not provide supporting evidence to substantially question the EFA’s assumptions in the ICR analysis.</p> <p>Moreover, there are number of expected longer-term benefits from the project, which are difficult to quantify and could not have been reflected in the immediate subprojects. Such benefits could potentially raise the project’s rate of return significantly, including particularly (i) the institutional and process reforms supported by MIDAS, which can be expected to contribute to growth in the agriculture sector in the future and to lowering sector management costs at the institutional levels; (ii) the leveraging of more investment funds for the agriculture sector from EU sources, that is, IPARD; and (iii) the increased control of animal diseases.</p>
<p>Outcome</p> <p>The ICRR rated overall outcome as satisfactory, based on minor shortcomings in the achievement of its objectives, efficiency, and relevance. Relevance of objectives was rated high, as MIDAS objectives were relevant to both the former and current national priorities and World Bank sector strategies. The achievement of the revised tri-part PDO was rated substantial, given that all targeted project outcomes were either fully achieved or exceeded at project completion and the ICR provided adequate evidence. Efficiency was rated substantial, given the project’s sound economic rate of return and the robust results of the sensitivity analysis.</p>	<p>This PPAR rates the overall outcome of MIDAS as <b>satisfactory</b>, given the <b>substantial</b> rating for relevance, efficacy, and efficiency.</p>
<p>Risk to development outcome</p> <p>The ICRR associated the risk to development outcome with challenges (i) in maintaining the adoption of improved practices—in particular agro-</p>	<p>This PPAR rates the risk to the development outcome of MIDAS as <b>modest</b>. This assessment considers the risk as low, at least in the short term, given the ongoing follow-</p>

ICRR	PPAR
<p>environmental—among beneficiary farmers and agroprocessors and ensuring scale-up for widespread improvements in food production, and (ii) the implementation of the food safety measures supported by MIDAS, which generated plans, manuals, and regulations but had not put them into practice by project closure. These challenges were expected to be (at least partially) addressed through the ongoing follow-on project MIDAS2, given its objective of improved agricultural competitiveness and a dedicated component on food safety, veterinary, and phytosanitary services. Further aspects that were considered to have a potential impact on the development outcome were (i) the need for further strengthen and diversify technical components of Montenegro’s Agricultural Knowledge and Innovation System to ensure that agricultural producers and agroprocessors are supported and sufficiently prepared to adapt to emerging issues like climate change, digital transformation, and changing market demand, (ii) the importance of “the right policy mix” to advance the agrifood system transformation in Montenegro, such as an increased shift toward de-coupled (that is, area based) payments and direct payments to encourage private investments and reduce the distortionary effects of coupled payments, and (iii) the need for evidence-based policy decision-making in the agrifood sector, related to the further development of sector M&amp;E systems to assess the development impacts of ongoing policy reforms and guide future sector strategies.</p>	<p>on project MIDAS2, which builds on the outcomes from MIDAS and provides continued financial resources to the agencies supported under MIDAS. However, given the recent change in government, the development of support for activities toward the EU accession remains to be seen. The country is expected to stay on the EU accession path and agriculture to remain an important sector in the accession agenda, but there is an element of uncertainty after the continuous EU accession path of the previous administration.</p>

Bank performance

*Quality at entry*

The ICRR rated quality at entry as satisfactory. Adequate preparatory work was conducted for MIDAS considering the uncertainty surrounding when preaccession negotiations with the EU would start (Montenegro had applied for EU membership in December 2008, but preaccession negotiations started in December 2010). The project team was considerate of the careful formulation of the PDO and results framework indicators. The institutional capacity of MAFWM and other sector agencies was assessed as weak and the World Bank team put emphasis on strengthening this capacity to (i) ensure ownership by the government of Montenegro, and (ii) prepare national agencies for the preaccession and accession requirements of the EU. The team was proactive in collaborating with the EU innovative in adopting a “learning by doing” approach to simulate IPARD funding procedures and requirements with MIDAS project funds to pilot the process and thereby gain practical experience and prepare farmers and sector

This PPAR rates the quality at entry as **satisfactory**. This assessment concurs with the ICRR, as project preparation and appraisal considered recommendations and lessons from previous projects in the region. It focused on building capacity that would be beneficial to the agriculture sector and its institutions, regardless of Montenegro’s EU candidacy status. However, the assessment found that the project fell short in sufficiently considering administrative and financial constraints in its design, which would later affect implementation. Nevertheless, the results targets of MIDAS were adequate.

ICRR	PPAR
<p>institutions for the later expected “real” IPARD funds and related systems, processes, and tools.</p> <p><i>Quality of supervision</i></p> <p>The ICRR rated quality of supervision as satisfactory. The ICRR acknowledges that MIDAS was implemented largely according to its design, and actually widened its focus both in terms of activities (for example, expanded PDO, including eligibility of agroprocessors, and so on), funding (the project had two AFs with an EU grant and an IBRD loan) and duration (total closing date extension of five years and three months). MIDAS was restructured five times (plus two AFs), partly to respond to client needs and expanding activities to more IPARD-compatible investments but also because of delays related to capacity constraints in hiring adequate local expertise. Regular supervision missions took place with adequate expertise in staffing and site visits. Regular public awareness campaigns and beneficiary surveys were carried out. The continuous involvement and regional presence of the co-Task Team Leader (as well as the safeguards specialists) ensured continuity and a responsiveness to the client implementing agencies. In the last couple years of project implementation, preparation for the follow-on operation MIDAS2 was conducted by the same core World Bank task team and the project management team of MIDAS, building on the experience of MIDAS and preserving the institutional memory.</p>	<p>This PPAR rates the quality of supervision as <b>satisfactory</b>. This assessment concurs with the ICRR, as supervision was adequately implemented, and the project benefited from the local presence of key task team members. Supervision missions resulted in solid aide-mémoire and progress reporting. The frequent restructurings demonstrate the commitment of the World Bank team to acknowledging the need for adjustment and willingness to adapt or expand activities based on progress and client demand. Further, the preparation and appraisal of MIDAS2 shows the government of Montenegro’s trust in the World Bank’s performance and vision to expand MIDAS activities. Finally, IEG acknowledges that supervision in a project with a substantial “learning by doing” element is often challenging.</p>
<p>Overall bank performance</p> <p>The ICRR rated bank performance as satisfactory, based on the assessment of quality at design and quality of supervision.</p>	<p>This PPAR rates the overall bank performance as <b>satisfactory</b>. The quality at entry and quality of supervision were both rated as satisfactory.</p>
<p>Monitoring and evaluation</p> <p>The ICRR rated quality of monitoring and evaluation (M&amp;E) as substantial. Regarding design, the ICRR acknowledged the adequacy of the project’s complementary activities at the (i) agricultural producer and agroprocessing level, and (ii) institutional level, and the related implicit theory of change. The ICRR further pointed to challenges with the broad formulation of the PDO indicators, especially to assess the impacts of the strengthening of public extension and advisory services and food safety of food establishments, but recognized the adequacy of several intermediate results indicators that provided more details on the steps that would need to be taken to achieve the respective PDO indicator targets. Regarding implementation, the results framework was adjusted to better align with the revised tri-part PDO and activities. However, the ICRR criticized the fact that the added indicators were output-oriented and that only a few of the PDO and intermediary results indicators had a baseline. Despite these shortcomings, the results</p>	<p>This PPAR rates the M&amp;E of MIDAS as <b>satisfactory</b>. The assessment concurs with the ICRR in that the M&amp;E design was adequate, its implementation satisfactory and flexible, given several adjustments in the results framework, and its use sufficient to guide project management and preparation of MIDAS2.</p>

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**ICRR**

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**PPAR**

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framework generally provided a sufficient basis for the presentation of evidence on the impact of most of MIDAS's activities and achievements toward the PDO. Regarding use, the MIDAS M&E system became a useful project management tool to adapt project implementation for grant calls of component 1 and aided World Bank supervisory missions.

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*Note:* AF = additional financing; CGAP = Code of Good Agricultural Practices; CPF = Country Partnership Framework; EFA = economic and financial analysis; EU = European Union; GEF = Global Environment Facility; IBRD = International Bank for Reconstruction and Development; ICR = Implementation Completion and Results Report; ICRR = Implementation Completion and Results Report Review; IEG = Independent Evaluation Group; IPARD = Instrument for Pre-Accession Assistance for Rural Development; MAFWM = Ministry of Agriculture, Forestry and Water Management; MIDAS = Montenegro Institutional Development and Agriculture Strengthening project; M&E = monitoring and evaluation; PDO = project development objective; PPAR = Project Performance Assessment Report.

# Appendix B. Fiduciary, Environmental, and Social Aspects

## Financial Management

Fiduciary management of the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project was done through consultant services by the Technical Services Unit (TSU) of the Montenegrin Ministry of Finance. TSU was operational before MIDAS and services were performed on a pro rata basis with other World Bank projects in Montenegro. The Implementation Completion and Results Report (ICR) of MIDAS highlighted that TSU prepared quarterly unaudited financial reports and annual audited financial statements on time and in an adequate manner. Financial management was adequate throughout the implementation period and all audit reports were unqualified. The ICR underlines that auditors issued clean opinions on the project financial statements for each project year and that audit reports had no accompanying management letters, given that no issues or recommendations were identified.

## Procurement

Procurement of MIDAS was also performed by TSU, which had extensive experience in World Bank procurement procedures and bidding documents from previous World Bank projects. However, although TSU's procurement capacity was considered adequate, the risk of procurement delays was rated high at appraisal because of the expanding scope of work for TSU. The ICR highlighted that MIDAS experienced delays in the first two years of implementation as a result of TSU's staff capacity constraints. After that, procurement of MIDAS was largely adequate and there were no major complaints during bidding processes. A review of the project procurement capacity and risk of TSU, conducted in May 2017 during the preparation of the MIDAS2 project, found that TSU had shown satisfactory performance on the procurement for World Bank-financed projects.

## Environmental and Social Safeguards

**Environmental safeguards.** The ICR reported that there were no significant adverse environmental issues or impacts during project implementation and that environmental safeguard performance was consistently rated as satisfactory. MIDAS was classified as environmental category B. It triggered the environmental operational safeguard policies of Environmental Assessment (EA) (OP 4.10), Natural Habitats (OP 4.04), Pest Management (4.09), Forests (OP 4.36), and Projects in International Waterways (OP 7.50). The ICR reported that during project preparation an environmental management

plan was prepared and found to be satisfactory by the World Bank. None of the project restructurings led to changes in the environmental category or safeguard policies, but the project adapted environmental screening procedures for the Environmental Management Framework and Environmental and Social Management Framework of the 2015 restructuring and the additional grant financing.

The ICR further highlighted that MIDAS adopted mitigation measures outlined in an environmental management plan for each activity to minimize negative environmental impacts. For the farm-level and agroprocessing investments financed through the matching grants under component 1, the project incorporated eligibility and screening criteria in the operational manual and the grants operational manual, and developed guidelines for the preparation of subproject-specific environmental assessments or environmental management plans, as well as for specific practices and standards to be adopted based on their assessed environmental impact. The ICR did not report in detail on the environmental performance of the supported beneficiaries, but the results framework states that 278 agricultural households adopted agro-environmental measures (compared with a target of 200) and that 224 agroprocessors were compliant toward EU food safety and hygiene regulations at project closure (compared with a target of 120). For the activities under component 2, separate environmental management plans were prepared for the Marine Biology Institute, the border inspection post in Bar, and the Proto-Paying Agency. The ICR highlighted that the project built technical and administrative capacity to better monitor and manage environmental compliance, such as through the development of a legal and regulatory framework for animal by-products.

**Social safeguards.** The ICR reported that no adverse social issues or impacts were reported and no major complaints or grievances on environmental or social management were filed during project implementation. MIDAS triggered the social operational safeguard policies of Physical Cultural Resources (OP 4.11) because of the refurbishment of the Marine Biology Laboratory, which is housed in a historically listed building. The Involuntary Resettlement (OP 4.12) safeguard was triggered and a Resettlement Policy Framework prepared because of the possibility that land may have needed to be acquired for the construction of a building for the Proto-Paying Agency. This did not materialize, as existing facilities were used. The criteria and screening mechanism for investments supported under component 1 excluded the financing of proposals that may have resulted in the displacement of any third party formally or informally occupying or using the land, and grant applicants had to provide written consent from the owner to use the land.

## Appendix C. Methods

This report is a Project Performance Assessment Report (PPAR). This instrument and its methodology are described at <https://ieg.worldbankgroup.org/methodology/PPAR>.

This PPAR is based largely on (i) virtual semistructured, open-ended interviews with relevant ministries, project implementers, donors, and other stakeholders of the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project; (ii) phone interviews with grant recipient food establishments for food safety upgrades; (iii) virtual interviews with World Bank staff; (iv) review of project documents, including the project surveys, socioeconomic assessment, and sector reports published by the World Bank or other development partners; and (v) analysis of secondary country and sector data. Given the coronavirus (COVID-19) pandemic, in-person interviews, site visits, and infrastructure verifications were not conducted.

The virtual stakeholder interviews were conducted using the Zoom conference room software. The semistructured interview questions focused on generating lessons from the project and on specific questions relating to (i) the project implementation model; (ii) the decision to expand interventions toward food safety investments in food establishments; the (iii) effects of the project on production capacity, food safety management, institutional capacity, and European Union (EU) accession progress; (iv) the innovations and challenges of the Instrument for Pre-Accession Assistance for Rural Development (IPARD)-like program; and (v) the effects of the food safety upgrade pilots.

For the phone interviews, the Independent Evaluation Group (IEG) selected a sample of 25 percent of food establishments that had received grants for food safety upgrades based on the following criteria:

**Geographic coverage.** The MIDAS food safety upgrade grants had been administered in all three regions of Montenegro (the central, northern, and southern regions) and in 17 out of the country's 23 municipalities. There were 77 beneficiary food establishments that had received the IPARD-like grant payment, most of which were in the central region (53 beneficiaries, or 69 percent of total), followed by the northern region (18 beneficiaries; 23 percent) and southern region (6 beneficiaries; 8 percent). The IEG sample was representative of this geographical coverage, with 14 interviewees of the total 20 in the central region (70 percent), 5 in the north (25 percent), and 1 in the south (5 percent), also considering a representative municipal distribution within each region.

**Production type.** IEG divided beneficiary food establishments by their production type: of the 77 total food establishments, 26 (34 percent) produced milk, 20 (26 percent)

produced fruit or vegetables, 14 (18 percent) were engaged in meat processing 7 (9 percent) in wine, 7 (9 percent) were meat slaughterhouses and 3 (4 percent) were fisheries. The IEG sample was largely representative of this distribution, with 6 interviewees of the total 20 in active in milk (30 percent), 6 in fruit and vegetables (30 percent), 4 in meat processing (20 percent), 2 in wine, and 2 in meat slaughtering (10 percent each). Fisheries were not included in the sample, given the small total number ( $n = 3$ ) of beneficiaries.

**Investment size.** IEG divided beneficiary food establishments in each municipality into two categories: (i) establishments that had received equal to or more than the average IPARD-like grant amount in the municipalities, and (ii) establishments that had received less than this amount. To ensure broad coverage of the different investment sizes, half of the sample establishments ( $n = 10$ ) were purposively selected to be in the low investment category and half ( $n = 10$ ) were in the high investment category.

Based on these criteria, IEG sampled 20 of the 77 IPARD-like grant recipients for food safety upgrades and interviewed them by phone. Table C.1 shows the distribution across the three project regions.

**Table C.1. MIDAS Food Safety Upgrade Grant Recipients and IEG Sample**

	Total Recipients (no.)	Share of Total (%)	IEG Sample (no.)	Share of Sample (%)
Central region	53	69	14	70
Milk	22	29	5	25
Meat processing	12	16	4	20
Fruit and vegetables	8	10	2	10
Wine	7	9	2	10
Meat—slaughterhouse	4	5	1	5
Northern region	18	23	6	30
Fruit and vegetables	10	13	3	15
Milk	4	5	2	10
Meat processing	2	3	0	0
Meat—slaughterhouse	2	3	1	5
Southern region	6	8	1	5
Fishery and aquaculture	3	4	0	0
Fruit and vegetables	2	3	1	5
Meat—slaughterhouse	1	1	0	0
Total	77	—	20	—

Source: Independent Evaluation Group.

Note: — = not applicable.

The semistructured phone interview questions focused on five areas: (i) current use and condition of the grant investment; (ii) main benefits obtained through the grant investment; (iii) main challenges related to the grant investment; (iv) changes in food safety practices for supplying primary producers; and (v) effects on grant recipients' ability to obtain other funding.

In all interviews—both virtual and phone—IEG described its role to all interviewees and informed them that this work related to an objectives-based evaluation of the projects. IEG described the evaluation approach of the PPAR and informed participants that it would interview stakeholders at multiple levels and that the information would be triangulated. Interviewees were assured about the confidentiality of their responses and that nothing they said would be directly attributed to them. IEG also informed all interviewees on how to access the PPAR report once it is finalized.

## Appendix D. EU Accession and Terminology

**Common Agricultural Policy (CAP).** The CAP is the set of legislation and practices adopted by the European Union (EU) to provide a common, unified policy on agriculture. The initial measures were introduced in 1962, and since then they have been adapted and undergone several reforms. The CAP's main goals are ensuring the living standards of farmers and maintaining the stability and security of the supply of food at affordable prices, at the same time as preserving rural areas. The basic principles of CAP are as follows:

- The single market: all Member States form a single market with uniform rules with regard to both the common market and trade with third countries.
- The EU's priority is to avoid market distortions and establish stability in the supply of agricultural products.
- Financial solidarity is pertinent to all EU Member States, without exception. The Member States contribute toward CAP expenses, but not all the Member States contribute in equal parts.

**Instrument for Pre-Accession Assistance for Rural Development (IPARD).** The EU preaccession assistance for rural development to candidate countries is granted through the IPARD. To start using the IPARD funds, each candidate country needs to fulfill two key conditions: (i) prepare the IPARD program tailored to the country's needs to be accepted by the European Commission (EC), and (ii) build institutions for the management, implementation, and financial management of IPARD funds to which the management right will be transferred by the EC. This was earlier called *accreditation* and is now referred to as *entrustment of budget implementation tasks for EU-IPARD funds*. The institution for the implementation and financial management of IPARD funds is generally called the *Paying Agency*.

**EU *acquis communautaire*.** Accession to the EU is conditioned by the adoption of the *acquis communautaire*, which comprises all of the founding rights and obligations of the EU and its institutional framework. The *acquis* is divided into 35 chapters, which are at the same time considered negotiating chapters. Before accession, each country is obliged to assume all the *acquis* and to be capable of implementing it effectively. If a candidate country considers that for justifiable reasons it will require a longer period for harmonization with a particular chapter, it may request during negotiations on that chapter a so-called transitional period. In certain cases, candidate countries may also request derogations from the *acquis*, which are permanent exceptions in particular areas.

In Montenegro, the Ministry of Agriculture, Forestry and Water Management (MAFWM) oversees the following three negotiating chapters:

**Chapter 11—Agriculture and Rural Development.** The EU acquis in the area of agriculture and rural development covers a number of mandatory rules, many of which are directly applicable. Their proper application and their effective enforcement by the public administration are essential for the functioning of the CAP. Proper application and efficient implementation of the CAP is dependent on having established a Paying Agency and a system for management and control such as the Integrated Administration and Control System, as well as capacities for the implementation of rural development measures, direct payment schemes, and the common market organization for various agricultural products.

**Chapter 12—Food Safety, Veterinary and Phytosanitary Policy.** The acquis in this area aims to ensure a high level of protection for consumer health and the health and well-being of animals and plants, while at the same time preventing the spread of infectious and parasitic diseases and organisms harmful to plants in the EU. This chapter also includes regulations related to genetically modified organisms. The EU applies an integrated approach from the field to the table, which includes three mutually supportive parts:

- Food safety: hygiene rules for food production and distribution, official control, and mechanisms for ensuring food safety;
- Veterinary policy: rules on animals and animal product distribution, animal health, official control of third-country imports, and monitoring of animal migration; and
- Phytosanitary oversight: rules on the control of harmful organisms in plants and plant materials, market placement of plant protection products, seeds and planting materials, control of pesticide residue in plant products.

**Chapter 13—Fisheries.** Fisheries is an important industry in EU countries. The EU's Common Fisheries Policy covers the exploitation and management of renewable fisheries resources, as well as issues of market regulation, structural policy, oversight, control, and international cooperation in fisheries. The Common Fisheries Policy used to be part of the CAP but was articulated as a separate policy after the EU accession of countries with large fishing fleets and maritime resources and the need to solve emerging problems, such as the protection of fish resources.