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ANNEX

ANNEX

to the

Commission Implementing Decision

**amending Implementing Decision C(2022) 9162 on the financing of the Annual action
plan in favour of Montenegro for 2022**

ANNEX



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THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX II

of the Commission Implementing Decision on the annual action plan in favour of Montenegro for 2022

Action Document – EU for Public Administration Reform

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	EU for Public Administration Reform Annual action plan in favour of Montenegro for 2022
OPSYS	ACT-60844/JAD.1003560, JAD.1404280
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe Initiative	No
Zone benefiting from the action	The action shall be carried out in Montenegro
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 2: Good governance, EU acquis alignment, good neighbourly relations and strategic communication Thematic Priority 1: Good governance
Sustainable Development Goals (SDGs)	Main SDG (1 only): 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels Other significant SDGs (up to 9) and where appropriate, targets: 5. Achieve gender equality and empower all women and girls

	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all			
DAC code(s) ¹	150 – Government and Civil Society 15110 – Public sector policy and administrative management (50%) 15111 - Public finance management (PFM) (50%)			
Main Delivery Channel	Recipient Government – 12001			
Markers ² (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	X	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	X	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition ³	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>

¹ DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab 'purpose codes' in the following document: <http://www.oecd.org/dac/financing-sustainable-development/development-financestandards/dacandcrscodelists.htm>

² For guidance, see <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/> Go to "Data collection and resources for reporters", select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive.

If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).

³ Please check the [Handbook on the OECD-DAC Nutrition Policy Marker](#)

	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
Internal markers⁴	Policy objectives	Not targeted	Significant objective	Principal objective
	Connectivity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Digitalisation	<input type="checkbox"/>	<input type="checkbox"/>	X
	Migration ⁵	X	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	X	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget line: 15.020101.01 Total estimated cost: EUR 16 600 000 Total amount of EU budget contribution EUR 16 600 000, of which: EUR 13 100 000 for budget support EUR 3 500 000 for complementary support			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support Direct Management through: - Budget Support (Sector Reform Performance Contract) - Procurement (complementary assistance) Indirect Management with the Centre of Excellence in Finance (CEF) (complementary assistance)			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Governance, Rule of Law, PAR Digital Transition Human Capital Development			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023			

⁴ These markers have a different scope/rationale than the DAC codes. They are drawn from the level of budget allocation and emphasis given to the action in terms main objective(s) selected. The definition of objectives, results, activities in description of the action should be in line with this section.

⁵ For detailed information on programming migration and forced displacement, please have a look at the [thematic guidance note](#) on migration and forced displacement; for information on the migration marker please look at annex 2 of the thematic guidance note.

Final date for concluding contribution delegation agreements, procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Indicative operational implementation period	72 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

1.2. Summary of the Action

Public administration reform (PAR) is considered as one of the three fundamentals of the **Enlargement Strategy 2015**⁶, alongside rule of law and economic reforms. As such, Public Administration Reform continues to be a priority of the Government of Montenegro (GoM). An accountable, transparent and well-functioning public administration is not only a democratic right of citizens but also a precondition for quality services and a key driver of economic growth and competitiveness. It is integrally linked to rule of law, especially in terms of prevention of corruption, as it enhances the transparency, predictability and accountability of public institutions. It is also key in the promotion of gender equality and women's empowerment. Furthermore, Public Finance Management (PFM) represents an integral part of PAR, focusing on fiscal sustainability and sound management of public resources for the achievement of government objectives.

The **general objective** of the Action "*Support to the modernization and professionalization of public administration in Montenegro*" is to improve citizens' quality of life and economic growth by creating a well-functioning, digital and accessible public administration.

This objective will be achieved through the implementation of the Public Administration Reform Strategy 2022-2026 (PAR Strategy) and the Public Finance Management Reform Programme 2022-2026 (PFM Programme).

The **specific objectives** are directly linked to the priorities of the PAR Strategy and the PFM Programme, focusing on those topics that are common to both strategic documents and therefore imply a coordinated approach (as part of the country's priorities) for their implementation: credible and sustainable public policies, efficient service delivery based on the needs of citizens and business, increased accountability and transparency of the work of public institutions, including transparent public financing, better mechanisms for human resource management (HRM) in public administration, strengthened administrative capacities for efficient absorption and management of EU funds related to two pilot sectors (environment and social affairs/employment), and more efficient public investment management system.

The specific objectives of this Action are closely interlinked, thus promoting a **sectoral approach**, and are focused on overcoming identified challenges in the area of PAR and PFM through intense policy dialogue in the context of the EU accession process.

⁶ 52014DC0700 -Enlargement Strategy and Main Challenges 2014-15.

The purpose of this Action is aligned with the priorities of **IPA III Programming Framework, Window 2**, where the overall objective of the EU's assistance is to promote good governance, increase the compliance with Union's values and their alignment with the Union's rules, standards and practices in the relevant areas. Window 2, in particular, aims to address public administration reform, including digital transformation and public financial management at all levels of government, as well as legislative and institutional alignment with the EU *acquis*.

Resourceful management of public affairs may bring many benefits: lower administrative costs, better formulation and implementation of public policies together with more effective service delivery for citizens, as well as an improved environment for the private sector. These crucial aspects are directly interlinked with the **DAC marker "Participation development/good governance"**, which refers to participatory development, democratisation and good governance and which is focused on improving transparency of public management – this links explicitly to this action document.

By supporting the implementation of the PAR and PFM strategies, this Action will also indirectly contribute to *Gender equality and women's and girl's empowerment*. This will be achieved through supporting gender equality and gender mainstreaming in the public administration and in the management of public financial resources.

The Action will be implemented through a Sector Reform Performance Contract (SRPC) with complementary activities. The EU contribution for strengthening the EU-related structures related to the pilot sectors of environment and climate change and social affairs/employment with new/additional recruits will cover only part of this cost during the implementation period (EU contribution of EUR 2.6 million to the estimated cost for the public budget of EUR 6 million, counting at least 100 extra staff for a period of three years), while salaries for this staff will be completely picked up by the state thereafter.

2. RATIONALE

2.1. Context

Resilient democratic institutions that operate by means of an efficient, well-structured and transparent public administration, implementing credible policies and competently managing human resources directly underpin the process of democratic and economic reforms. The capacity of the state administration, both at central and local level, to provide uniform application of legal and strategic framework and to ensure good governance standards in both PAR and PFM areas directly affects the provision of public services and, ultimately, the quality of life of citizen and competitiveness of businesses.

Next to rule of law and economic governance, PAR belongs to the priority list, according to the Commission's "fundamentals first" approach to the enlargement policy. Similarly, IPA III Programming Framework reaffirms PAR as one of the three vital pillars of the enlargement process and defines it as a cornerstone for the effective implementation of EU policies and EU *acquis*.

Aligned with specific priorities of **IPA III Programming Framework**, Thematic Priority 1 for Window 2, the PAR strategy and the PFM programme are focusing on the following objectives: improving the organisation of administration and its functional set up; digitalization of citizens-oriented public services and public finance system; increased transparency of public institutions and public finance (open data and transparency of the state budget); better mechanisms for human resource management and for improving policy development and coordination; enhanced managerial accountability and delegation of authority; strategic policy planning linked to Medium Term Budgetary Framework and further development of programme-based budgeting.

The **Western Balkans Strategy**⁷ lays down the priorities and specific challenges for the Western Balkans on their path to the EU accession. This Action focuses on good governance and well-functioning public administration that are recognised as of fundamental importance for successful political and economic reforms and for implementing EU rules and standards in the WB Strategy.

The **Commission's Economic and Investment Plan for the Western Balkans**⁸ aims to support a long-term economic recovery backed by a green and digital transition. This will ultimately have a positive impact on economic growth, EU accession reforms and the Western Balkans' approximation to the EU Single Market. This Action is in line with the national strategic framework (in particular the PAR Strategy and the draft PFM Reform Programme but also the Economic Reform Programme, the Strategy on Trade Facilitation and the Public Procurement Strategy), including the Economic and Investment Plan, highlighting the importance of strengthening the Western Balkans' economic convergence to the EU by fostering the digitalisation of governments, public services and businesses.

The Economic and Investment Plan for the Western Balkans is closely linked to the **Digital Agenda for Europe**⁹ and Digital Single Market Strategy for Europe¹⁰, the standards of which were integrated in Montenegro's Strategy for the Information Society Development 2020. Similarly, the new PAR Strategic document 2022-2026 identifies digital transformation of the government as one of the Government's top priorities in the coming period.

The **Annual Action Programme for Montenegro for the year 2017 Part 2** contributed to the achievement of the objectives identified in the Indicative Strategy Paper for Montenegro for the period 2014-2020, strengthening and complementing the existing EU support to the Democracy and Governance sector by focusing on the area of Public Administration Reform. The Programme included a PAR Sector Budget Support (SBS) with the general objective to contribute to sustainable growth and to improve competitiveness through the creation of a more transparent, efficient and service-oriented public administration.

The **PAR Strategy 2022-2026** was conceived on the basis of the results achieved by the previous PAR strategy. It was developed through an open and inclusive process and was adopted in December 2021. The vision of the PAR Strategy 2022-2026 is a professional public administration that provides quality services to end users and has adequate capacity to join the European Union. Joint building of responsible, efficient, transparent public administration, focused on the needs of citizens and the economy will be reached through 5 strategic objectives:

- ~ Organization and work of public administration in function of citizens' needs
- ~ Citizens and the economy use quality services of public administration
- ~ Professional public administration
- ~ Transparent and open public administration
- ~ Policy planning with citizens and for citizens

The PAR Strategy recognized the importance of the PFM reform for further development of all sectors of the economy and better quality of life for all citizens.

The **PFM Reform Programme 2022 – 2026**, in line with the Government's commitment to the EU integration process, follows the obligations arising from the negotiation process. It will build on the results achieved by the previous strategy, aiming at: strengthened fiscal framework and budget planning, including strengthening capacities for improved macroeconomic forecasting and identification and monitoring of fiscal risks; improved medium-term budgetary planning and programme-based budgeting; improved public investment management and public debt

⁷ COM(2018) 65 - A credible enlargement perspective for and enhanced EU engagement with the Western Balkans.

⁸ COM(2020)641 - An Economic and Investment Plan for the Western Balkans.

⁹ COM(2010)245 final - A Digital Agenda for Europe

¹⁰ COM(2015) 192 final - A Digital Single Market Strategy for Europe

management; more efficient budget execution, including revenue collection, public procurement, state aid and payroll system; transition to accrual accounting; better management of non-financial state assets and cadastre; enhanced monitoring, financial reporting and financial control, including Public Internal Financial Control (PIFC); improved external audit; upgraded Anti-Fraud Coordination Service (AFCOS); more efficient Audit Authority and operationalization of the budget inspection function. (Lessons learned are outlined below in section 3.4.)

Coordination with EU and other donors/partners

In order to further contribute to the achievement of the objectives identified in the EU strategic and enlargement documents, a **Special Group on PAR** was formed in 2014, as a forum for formal policy dialogue between the Government of Montenegro (GoM) and the European Commission, monitoring the developments of the country in the sector. Findings and joint conclusions from the meetings are used as inputs for strategic planning in the area of PAR and PFM and for the development of the actions proposed in the framework of IPA III programming exercise, within Window 2. Separately, a **PFM policy dialogue** was organized in the past two years, with the aim to follow up the government's progress in the PFM area and to support the design of future PFM reform projects, in line with Commission recommendations. The conclusions of the PFM dialogue are included in the PAR Special Group conclusions.

In the past years, **SIGMA/OECD** has been working with the General Secretariat of the Government on implementing medium-term work programmes of ministries and on establishing a functional strategic planning system. SIGMA has also supported the Agency for Personal Data Protection and Free Access to Information with the aim to improve the legislative framework on access to information. Additional areas of cooperation include co-ordinating and monitoring the implementation of the PAR Strategy, enhancing the quality of public consultations and improving the capacities for monitoring the quality of service delivery (Ministry of Public Administration), as well as improving staff planning and professionalism in the management of human resources in civil service (Human Resources Management Authority - HRMA). Additionally, SIGMA assisted the Ministry of Finance on the enhancement of the templates and guidance for regulatory impact assessment, on strengthening managerial accountability and building capacities in the area of internal audit. Further support in these areas is likely to continue during this Budget Support programme.

Within IPA III and the annual action plan for Montenegro for 2021 there is the specially created **Reform Facility**. The overall objective of this action is for Montenegro to have advanced and implemented a number of key reforms in the economic governance context. It is moreover intended that sustained reform in economic governance will improve the country's attractiveness for investment and for improved public sector financial management. This facility will aim to support this move and focus on reform of State Owned Enterprises, on improvement management of the national capital investment portfolio – with an emphasis on Economic Investment Plan participation and finally focusing on bringing about an increased share of innovative SMEs in the economy. The issues of public administration reform and also public financial management reform shall be keenly relevant for this new Facility which should start working by the end of 2022.

TAIEX continuously supports Montenegrin public administration with regard to the approximation, application and enforcement of EU legislation, as well as facilitating the sharing of EU best practices. Past initiatives in PAR and PFM areas focused on capacity building activities in the field of public finance reform, fight against corruption and external audits.

In promoting sustainable human development, **UNDP** Montenegro supports the country's European Union accession priorities, building on its global development network, access to

innovative solutions, knowledge, experience and resources. Currently UNDP supports initiatives focused mainly on digitalization of public services and on digital management.

UNOPS is about to start the implementation of the project “Strengthening capacities for the acceleration of EU accession of Montenegro II”. The overall project objective is to strengthen capacities of OEI¹¹ to coordinate and lead the process of the country’s accession to the EU, as well as to ensure better coherence between number of parallel processes relevant for EU integration, including governance and strategic planning.

In response to a request from the Ministry of Finance and Social Welfare, staff from the **IMF**’s Fiscal Affairs Department undertook a remote Public Investment Management Assessment (PIMA) in July 2021. A comprehensive PIMA Report was adopted, together with recommendations for strengthening performance in this area and an action plan, which represents a good basis for further actions in the domain of public investment management.

The **World Bank** is currently assessing needs for possible, future interventions in the areas of PAR and PFM. According to preliminary data, these may concern optimization of public administration (functional reviews) and digitalization.

The **Regional School of Public Administration (ReSPA)** is a joint initiative of the Western Balkan countries and the European Commission. It offers a unique framework for networking and peer-to-peer learning and for mutual exchange of experiences and practices in the area of PAR and PFM. With its work, ReSPA complements and contribute to the successful implementation of PAR and PFM strategies through activities organized at regional and country level. Currently ReSPA is implementing project BACID III focused on enhancing Quality Management Agenda in the Western Balkans public administration institutions, including implementation of Common Assessment Framework (CAF) and CAF External Feedback Evaluation Procedure (PEF) procedure, organization of the CAF ToT training for CAF facilitators, together with Certified PEF training, and other.

2.2. Problem Analysis

Short problem analysis

Public administration reform is vital to strengthening governance at all levels. This includes improving policy integrity and accountability of administration, increasing professionalism and a more transparent management of public affairs, in particular public finances, as well as better services for citizens and business. Montenegro has shown some progress in these areas, although challenges persist.

The EU Montenegro report for 2021 concluded that the country is moderately prepared for the reform of its public administration, with limited overall progress in the reporting period. In the previous period, public administration in Montenegro had some progress in areas such as medium-term policy planning, electronic government and public finance management, as well as budget transparency. In particular, substantial progress was made in the areas of legality and expediency of work, interoperability of registers and availability of data from registers to users, as well as towards a more comprehensive and rational system of planning, coordination and monitoring implementation of Government policies. Good progress was made on the adoption of programme-based and gender sensitive budgeting, including the first elements of performance budgeting, together with the gradual introduction of a mid-term budgetary framework. In addition, the state budget electronic system was substantially improved through the establishment of a modern

¹¹ Office for European Integration

Budget Management Information System (BMIS) and a centralised system for the calculation of earnings, as well as new systems for e-procurement, electronic excises and e-fiscalisation.

Montenegro, as a candidate country, is at a critical point in its European integration process. Credible and relevant PAR and PFM Strategies, fully linked to the budgetary process are key elements for moving forward on Montenegro's European path.

Following challenges have been identified as main blockers of further progress:

❖ **Low quality of service delivery**

The most challenging aspects of service delivery in Montenegro's public administration includes unstandardized processes and excessively bureaucratic and expensive procedures for acquiring public services. In addition, lengthy procedures and multiple visits to public institutions lead to dissatisfaction of citizens and businesses. There is no centralized registry/catalogue of all administrative services (both in-person and digital services) and service providers, which hampers further modernization and prioritization of services based on key life events.

The Ministry of Public Administration monitors the implementation of the Law on Administrative Procedures. Although the existing legal framework promotes high standards, the efficiency of resolving administrative cases by public authorities is showing a downward trend. Mechanisms for improving the work of under-performing institutions in terms of length of process, increased number of complaints and legality of adopted acts are not established. Furthermore, the Report on implementation of the PAR Strategy 2016-2020 shows insufficient exchange of data between the public authorities ex-officio.

On the e-government portal (www.euprava.me), majority of services are provided only at the level of information and only in limited cases the full cycle of service delivery may be completed electronically. Insufficient number of electronic services at a higher level of sophistication (level 4 or 5)¹² is the primary deficiency of the process of digitization in Montenegro. Furthermore, despite the fact that electronic data exchange (interoperability) has been established for 7 main registries, full integration through the e-Government Portal is still under implementation. There is a lack of electronic authentication and electronic payment systems, resulting in the inability for public service to be provided in the most cost- and time-efficient way. Based on focus group reports, and according to conducted surveys, there is a relatively low level of citizens' awareness on the use of e-services, as well as limited electronic communication between state bodies and service users.

There is no standardized measurement of satisfaction with public services and user-experience on the service delivery is still not part of improving the overall system of efficient delivery of public services. Additional challenges are the lack of quality management methods in public administration, which hampers improvement of service provision and optimization of work processes in state bodies, and the lack of central monitoring of service delivery performance.

❖ **Public policies are not entirely credible and sustainable**

Montenegro has established a legal framework for policy planning and coordination, supported by relevant methodological guidelines for strategic planning. The Commission's Montenegro

¹² **Level 1** - data on services exist in electronic form (so-called informative level)

Level 2 - one-way communication is enabled, i.e. forms can be downloaded from the internet, filled in manually and submitted

Level 3 - two-way communication is enabled, i.e., forms can be filled in and submitted online and the public service will provide the service to an authorised user

Level 4 - a transaction can be realised, i.e., services can be provided entirely on the Internet, by submitting completed forms or data for processing electronically; decisions of state authorities are also delivered electronically

Level 5 - personalised service has been developed, which means that the entire service can be performed online, automatically and proactively.

report for 2019 and 2020, indicated significant improvements in the system of strategic policy planning.

Despite the evident positive trend, there is no complete harmonization of public policies with the prescribed methodological criteria of Secretariat-General of the Government (SGG). Additional challenge contributing to lower policy coherence is that public policies are not sufficiently based on publicly available and credible data.. Reports on the implementation of public policies are publicly available and contain information on the implementation of individual activities but often they do not have outcome-level data on the achievement of objectives (this issue is linked to strategies developed prior to the adoption of SGG Methodology).

The lack of a medium-term budgetary framework (MTBF) with spending limits that are linked to the cost of public policies and the lack of a clear connection between sectoral policies and budgetary process could result in inconsistency of public policies. Although the sectoral strategies and related action plans include clearly defined objectives, their cost (when available) is not integrally assigned to dedicated budget programmes. Moreover, outcomes and results of strategies are not regularly monitored and measured. Budgetary documents provide no explanations on deviations when compared to the previous year's medium-term documentation and projections.

Programme budgeting was introduced through an Amendment to the Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units in October 2020. The 2021 Budget, adopted in June 2021, was prepared including the programme activity level (under the sub-programme level), thus covering all four levels of Programme Budget structure and providing performance information at the level of programs, sub-programs and activities. However, a number of challenges remains: reports on performance results for outputs and outcomes are yet to be produced, since the past periodic budget execution reports did not include performance indicators or objectives, also internal performance evaluations for service delivery units have not yet been conducted. Obstacles preventing performance monitoring include the lack of an interface between the IT system for budget planning (BMIS) and the system for budget execution and accounting (SAP) for budget execution, with limitations of the BMIS system in tracking performance information. There are significant capacity limitations in the spending units, which need to be overcome by training, before meaningful programme structures and performance information can be defined. Recent staff turnover has aggravated the situation. The issue is even more problematic when it comes to the local level and their future programme budget implementation.

❖ **Delegation of authority not implemented at all levels**

Managerial accountability is the basis for better quality of public administration services and for meaningful assessment of management's performance. More in general, it allows improvements in the performance of state administrative bodies, with managers focusing on strategic objectives and internal control. This requires a clearly defined system of delegation of authority, appropriate reporting lines in place and clear objectives, as well as clear performance indicators.

In Montenegro, the legal and regulatory framework for the development of managerial accountability is provided by the Law on Governance and Internal Control in the public sector adopted in 2018 and by the Decree on the delegation of authority and tasks of financial management and internal controls in the public sector adopted in July 2020. Additionally, methodology for the application of managerial responsibility was published in October 2020. Delegation of responsibilities is currently allowed but not mandatory.

Nevertheless, implementation of the concept remains a challenge. According to the Final Report on the implementation of the PAR Strategy 2016 - 2020, only 8.3% (for 2020) of all ministries are formally delegating authorities and responsibilities to line managers. The managerial culture within public institutions continues to be highly centralised and there is resistance to delegating budget

responsibilities and decision-making powers to middle management. At the same time, internal and external audit continues to be focused principally on compliance, while management audits and performance audits were only recently introduced in pilot institutions.

The reasons behind the lack of application of this concept is spending units' lack of awareness and understanding of the benefit of delegation of authority, which can provide managers with reasonable assurance concerning delegated powers. On one hand, result-oriented policy planning and reporting, as a tool for achieving the goals set by the government, have not yet been fully implemented. On the other, programme budgeting does not have, in general terms, clear activities, objectives and budget at the level of organizational units. According to the last PAR report, only 5% of state administration authorities have a budget programme structure that is coherent with their management structure, which makes difficult delegating financial responsibilities.

Being closely linked to the programme and results-oriented budgeting, managerial accountability provides an opportunity to expand the authority of heads of spending units and (subordinate) programme managers. At the same time, it increases their accountability for achieving objectives within the adopted budget. However, this is not addressed in the legal framework yet, nor at the level of standard/methodologies. The key challenge for the application of managerial accountability is to link strategic planning of activities, budgeting and reporting on measurable objectives and indicators, with delegation of financial authority to achieve the set objectives. In parallel, reporting and auditing should gradually shift from activities to performance.

❖ **Limited transparency of government data and financial information of public bodies**

The right to access public information is well established in the legal framework but the system is not fully functional. Amendments to the Law on Free Access to information have been developed but have not been adopted yet.

Balkan Barometer analysis indicates a decline in the positive perception of citizens and the business sector in the field of availability of information provided by public administration¹³. Previously identified challenge in PAR Strategy 2016-2020 - high share of successful appeals against the decisions of public authorities, often due to administrative silence - remains. A significant number of requests for information and the subsequent appeals are due to inconsistent proactive publication of data by public administration bodies. Insufficient capacities of the Agency for Personal Data Protection and Free Access to Information to implement efficiently the Law on Free Access to Information is an additional challenge, leading to a large number of court proceedings. It is to be noted that the existing legislative framework does not allow appeals on free access to information to be merged, which leads to abuses when several requests for information on the same topic are submitted at once.

In practice, authorities do not show enough proactivity when it comes to publishing relevant data and documents, which leads to frequent cases of “administrative silence”. Published data are often selective and partial, with no uniformity in the structure and layout of government bodies and municipalities' websites.

With regards to budget transparency, certain progress was achieved through the adoption of a new programme budget classification for the 2021 State Budget and with the introduction of first elements of performance budgeting. However, there is no integrated financial management information system in place, meaning that budget execution, monitoring and reporting is not fully implemented yet, due to the lack of interoperability between the budget preparation IT system

¹³ In 2019, 61% citizens believed that public administration responds to requests for free access to information in a timely manner, 63% in 2020, but only 46% in 2021. In 2019 65% believed that the information provided by the authorities is relevant and complete, 63% in 2020, and 50% in 2021. 61% of citizens believed that the information was provided at a reasonable cost in 2019, 65% in 2020, and 50% in 2021

(BMIS) and the system for budget execution and accounting (SAP). The Commission's Montenegro report for 2021 states that *"New templates for in-year and annual budget execution reports remain to be adopted and implemented."* A citizens' budget remains to be published.

Montenegro's national legislative framework in the area of open data policy is not fully aligned with the Council of Europe Convention on Access to Official Documents (ratified by Montenegro), which entered into force in 2020, nor with the Directive (EU) 2019/1024 on open data and re-use of information.

The new Open Data Directive provides recommendations for the publication of high value data sets. Despite specific actions implemented to raise quality and quantity of data, this did not lead to the publication of a larger number of data sets, so not contributing to the full potential of open data. Improvements in this area are important to strengthen further the transparency and legitimacy of public authorities.

❖ **HR management system in public bodies is still not mature**

Competent and motivated employees are the basis of professional public administration.

An efficient and comprehensive HR planning system is not fully developed yet. In 2019, 92% of public bodies at central level had developed Personnel plans, while at local level only 64% municipalities did. Personnel plans do not provide full information on new employment posts based on need assessment of public bodies, including their long-term impact on the budget. There is no horizontal mechanism for evaluation of the overall personnel plan feasibility (need of new human resources, standardization of their qualification, and linkage to the act of systematization, elaboration on fiscal impact in mid-term and long-term aspects, etc.). Personnel plans are not prepared in parallel with the budgetary process. An IT system for management of HRM policies is developed. Still, personnel plans are not developed exclusively through the new module of HR planning.

There is a limited effect of Personnel plans on actual employment. According to the latest data, the implementation rate of personnel plans at central level for 2021 was 68%. According to the trend, the percentage may be lower at local level.

The average number of applicants to the public institution's advertisements is still low, or almost non-existent for some specialised posts (in the area of architecture, civil and hydraulic engineering, geodesy, medicine and similar). In 2020, the average number of candidates applying for internal vacancies was 1.1, public advertisements 4.8 and public competitions 2.14. The low number of interested candidates to work in public bodies is in direct link with salary coefficients that are not attractive for graduates in specialized fields, since these are more profitable outside the public sector.

Employment procedures are long, bureaucratic and ineffective. Electronic application of candidates for advertisements and competitions does not exist. However, it would allow candidates easier access to the application and submission of the necessary documentation. Article 46 of the Law on Civil Servants and State Employees proposes testing of knowledge, skills and competencies for all categories of civil servants. In practice, competencies (as part of the overall testing of candidates) are currently applicable only for senior management and heads of bodies, but not for other categories of civil servants, since the competency framework is developed only for this level of positions in the public administration.

According to public opinion polls¹⁴, Montenegrin citizens do not have favourable perceptions about the integrity of employment in public administration. The largest share of Montenegrin citizens consider political factors to be a key in employment procedures in public administration

¹⁴ IPSOS Strategic Marketing, "Percepcija javne uprave 2019", September 2019

(43%), one in four citizens believe friendship is a key enabler, while 24% states that education, ability and experience of candidates are the most important elements.

❖ **Administrative capacities for efficient absorption and management of EU funds are lacking**

Despite relatively high number of employees, Montenegrin public administration is lacking capacities for effective and efficient management of IPA III funds and designing strong investment strategies.

Coordination of the accession process and management of EU funds is present and visible in the administration structure, but it still needs support. While a series of institutional building actions were undertaken within the previous IPA programmes, capacities of line ministries and public administration authorities need additional build-up efforts.

This is particularly true for sectors of Environment and Climate Change and Social Policy/Employment, but potentially also for other sectors concerned by management of EU funds, such as Erasmus+. The need to boost structures and capacities in these sectors is even clearer having in mind the increase of funding that cohesion and structural funds will bring about, as the country advances its path in the EU accession process. These two sectors will serve as a pilot for other similar needs in the rest of the public administration and will need as much as possible a ‘lift-up’ rather than a gradual process of strengthening their capacities. In fact, there is a need for the authorities to jump start the cohesion funds type implementation, policies and investments in these two pilot sectors requiring a totally different staffing level, and hence the need to do a one-off on-block recruitment exercise to reach the required level, which they then need to keep over time by better planning and regular recruitments to replace staff that will leave. The EU contribution will cover only part of the cost of the new recruits during the implementation period, while salaries for this staff will be completely picked up by the state thereafter.

When it comes to Environment and Climate Change, Montenegro has the challenge of transposing a huge amount of EU *acquis* into national legislation to catch up with the continuously developing body of EU environmental legislation. Additionally, the implementation of this legislation implies costly investments in environmental infrastructure, in particular in relation to waste management and water treatment. Montenegro is at an early stage of alignment with the EU *acquis* in these areas. The main weaknesses identified are the lack of strategic planning, underdeveloped infrastructure and a lack of systematic integration of environment, climate action and disaster management in all sector policies.

When it comes to Social Policy/Employment, Montenegro needs to continue to implement a systematic reform of the social welfare, childcare and health systems, with the full implementation of a new strategic, legal and institutional framework in line with the EU *acquis*.

Past measures on rightsizing / optimisation of the public administration implemented through 2018-2020 Optimisation Plan did not yield expected results in terms of reducing the number of staff deemed redundant while simultaneously increasing the number of staff needed for successful European integration process. There are no mechanisms for preservation of institutional memory. Turnover in the senior civil service is high, particularly following all parliamentary elections. After the formation of the 2020 Government, 55% of senior civil servants left their positions due to resignation, the abolition or reorganisation of the public body, which shows high instability. Dismissal procedures concerning the heads of administration authorities offer broad discretion to ministers without sufficient procedural safeguards.

The regulatory framework for employment in public administration is fragmented and inequitable. There is no single national legislation and standard guiding workforce planning, recruitment, performance management, compensation, and other aspects of HRM for all staff in the public administration. Instead, the public administration is composed of two different groups, with

different HRM regulations applicable to each group despite the fact that all are financed from the state budget. Civil servants are regulated under the Law on Civil Servants and State Employees, while public servants are regulated under the Labour Law, which has minimal guidelines for HRM because it also applies to private sector employers/employees and is designed to be flexible. The duration of employment procedure differs as well. When conducted by the Human Resources Management Agency (HRMA), it can last up to a year, while according to the Labour Law, the employer informs the candidates about the selection results within 45 days of the deadline for submitting the application. The 2022-2026 PAR Strategy recognises this issue and envisages making HRM practices across the public administration more uniform by adopting the new Law on Public Institutions.

❖ **Limited quality of public investment management**

International indicators of the quality of public investment management in Montenegro show that, despite recent improvements, there is still room for further progress in the process of preparation, selection, implementation, monitoring, as well as reporting and accounting on public investments. A comprehensive reform approach is needed for the capital budgeting system, including regulatory framework and IT support.

The public investment management framework is currently ruled by the *Law on Budget and Fiscal Responsibility* and by the *Decision on developing capital budget and determining and evaluating the criteria for selection of capital projects*. The latter includes a methodology for the selection of new capital projects, recently updated. The capital budget is formulated as part of the budget preparation procedure. However, the capital budgeting process runs in parallel to the current budget preparation process, based on a separate budget circular. Planning and presentation of multiannual commitments in the budget was introduced in the budget circular for the preparation of the 2021 budget, stipulating that capital projects have to be budgeted for the three-year MTBF period, including data on contracted value, implementation time frame and financial sources. Since 2021, capital projects are recorded in the IT system for budget planning (BMIS), representing the first step for the establishment of a public register of capital projects.

Important shortcomings, however, remain in the economic analysis of investment projects and in the selection of most relevant projects. Value-for-money evaluation is not conducted. In terms of costing, the Budget Law contains only the aggregate planned capital costs for these projects, with no reference to the capital or recurrent (maintenance) costs to be incurred in the forthcoming years. The absence of comprehensive costing limits the scope for investment project monitoring, especially concerning cost overruns and implementation delays, leading to under-budgeting for ongoing projects.

The Directorate for investment and development projects has recently prepared a draft new regulation on capital projects management, with the aims to improve public investment management system and eliminate existing shortcomings in the current planning, implementation and reporting of capital projects. At the same time, the new regulation aims to ensure realistic assumptions for the public investments register and economic analyses when selecting capital projects.

Better management of investment, including improved factoring into the budget process of the recurrent cost implications of investments, and more stringent economic analysis in order to generate the best return would provide a better perspective on the fiscal space available for strategic priorities/new capital projects (PEFA 2019). More in general, improved public investment management would increase allocation of resources and budget transparency, with an impact on service delivery.

Stakeholder analysis

The preparation of the new Public Administration Reform and Public Finance Management strategies was inclusive and participatory, involving all relevant stakeholders: state institutions, non-state actors, local self-governing units, Non-Governmental Organizations (NGOs)¹⁵, academia, business sector and international actors.

Main institutions involved in the reforming process are the Government of Montenegro, the Ministry of Public Administration, the Ministry of Finance, the Ministry of Economic Development and Tourism, the Administrative Court, the Administrative Inspection, the State Audit Institution, the Revenue and Customs Authority, local Municipalities, the Union of Municipalities of Montenegro and others. At the same time, these institutions are also the ones reporting on some of the main indicators. Analysis shows that there is a need for strengthening coordination within these institutions and for further capacity building, especially due to recent staff changes in the administration after the 2021 elections.

Overall, it is necessary to strengthen cooperation and dialogue with trade unions, civil society organizations and citizens, in order to focus better on the needs of citizens and business. Dialogue should cover both the specific policy elements supported by the budget support operation and the wider sector context, including political economy factors. According to plans, this will take place both in formal settings (PAR Council, Coordination teams etc.) and in informal dialogue instances (meetings, workshops, etc).

Cooperation with media outlets needs also to be improved, in order to inform better citizens on objectives, results and achievements of the PAR and PFM reforms programmes.

International organizations (EU, SIGMA/OECD, UN, WB, IMF, etc.) are very much involved in the reform efforts of the country. However, their coordination still represents a challenge. Discussions are ongoing on how to improve it, namely through the work of the PAR Council Secretariat.

Institutional set-up

After the parliamentary elections in August 2020 and the Government changes in April 2022, the state administration was reorganized.

Within this framework, the **Ministry of Public Administration** (Directorate for Strategic Planning in Public Administration, international cooperation and IPA projects) continues to be responsible for designing public policies and regulating public administration system in Montenegro. In particular, the Ministry is responsible for development, monitoring, and reporting on the implementation of the PAR reform, while primary responsibility on reaching strategic outcomes is within the lead public bodies identified in the Strategy. The Ministry is also accountable for the implementation of the digital transformation reform that should provide quality in-person and digital services to the citizens and businesses. The mission of the Ministry is a public administration based on the principles of inclusion, equality and accessibility, which means that citizens actively participate in creating public policies.

The PAR Council was re-established in June 2021, with an amended concept and composition compared to the previous one. The role of the PAR Council is to provide political support to the implementation of the PAR and PFM strategies. The Council is chaired by the Prime Minister of Montenegro. Besides the representatives of the public institutions in charge of PAR reform, the Council members are the representatives of non-governmental organizations, academic community and the Data Protection and Free Access to Information Agency.

¹⁵ The participation of citizens and non-governmental organisations in the decision-making process and in drafting strategies is regulated by the Decree on the Election of NGO Representatives to the Working Bodies of the State Administration Bodies and Conducting Consultation in Preparation of Laws and Strategies (Official Gazette of Montenegro, no. 41/18)

The Ministry of Finance is responsible for planning, drafting and executing the state budget, including monitoring, reporting and accounting. The Ministry of Finance is in charge for coordination of the public finance management reform process in Montenegro. It coordinates the work of high level and operational level coordination working groups that include the representatives of the key PFM Reform Programme implementing partners: relevant Ministry of Finance Directorates, the State Audit Institution, the Revenue and Customs Administration, the Audit Authority, the Agency for Protection of Competition, among others. In addition, a representative of the parliamentary service supporting the Committee for Economy, Budget and Finance is a member of the high-level coordination group. A new coordination structure will be established following the adoption of the new PFM reform programme.

2.3. Additional Areas of Assessment

2.3.1. Public Policy

The Public Administration Reform (PAR) Strategy 2022-2026 was adopted by the Government of Montenegro on 29 December 2021 on proposal of the Ministry of Public Administration, Digital Society and Media¹⁶, following public consultation and the approval of the General Secretariat of the Government and the PAR Council.

The strategic document takes into account the results and findings of the Final Report on the Implementation of the 2016-2020 Public Administration Reform Strategy (PAR) for 2020, the Mid-term evaluation of the Public Administration Reform Strategy 2016-2020 and the SIGMA 2021 Assessment Report.

The elaboration of the Strategy was supported by an extensive consultations process encompassing eight focus groups, six stakeholders' meetings, three workshops, as well as one online survey, which took place from April to November 2021. This participatory process involved civil society organizations, small businesses, academia, business community and trade unions, public administration employees, students, and citizens.

The **main goal** of the new PAR Strategy 2022-2026 is an accountable, efficient and transparent public administration, focused on the needs of citizens and businesses.

The activities are organized around **five main strategic objectives**:

1. Organization and work of public administration in function of the needs of citizens
2. Citizens and businesses use quality public services
3. Professional public administration
4. Transparent and open public administration
5. Policy planning with citizens and for citizens

The Strategy also recognises two **horizontal issues** essential for further modernization of public administration:

1. Public administration based on equality, inclusion, anti-discrimination, and equal opportunities for all
2. Use of data in the process of creating public policies and services (databases, registers, data management) and digitalization of public administration

Compared to the previous Strategy 2016-2020, **the new PAR Strategy clearly defines the perimeter of its action** and sets clear baselines in terms of number of civil servants and state employees involved in the reform. A list with the involved institutions is attached to the Strategy, which specifies the type of institution (at central level: state administration authorities, legal entities exercising public powers

¹⁶ Ministry of Public Administration (MPA) after the establishment of a new Government in April 2022.

– funds, agencies, etc. – and public institutions) and the applicable law (Law on civil servants, Labour Law). At local level, self-government units and related services are listed in an aggregate manner, while public institutions are mentioned separately.

The Strategy has a **detailed action plan** for the first three years of implementation (2022-2024), which includes indicators for all **operational objectives**, with baselines and targets for 2024 and 2026 (with the exception of the indicator which relies on the findings of the functional analyses).

The Ministry of Public Administration (Directorate for Strategic Planning in Public Administration, International Cooperation, and IPA Projects) is responsible for **monitoring and reporting** on the implementation of the Strategy, while the primary responsibility for the achievement of the objectives will stay with the identified lead entities.

The **Council for Public Administration Reform** (hereafter: PAR Council) is in charge of the **coordination** of the reform. It is chaired by the Prime Minister of Montenegro and involves the heads of key implementing institutions of the public administration reform, as well as representatives of two NGOs (Centre for Democratic Transition and Institute Alternative). As an advisory body to the Government, the PAR Council will monitor the implementation of both the PAR Strategy and the PFM Reform Programme. The Ministry of Finance will submit the implementation reports on the PFM Reform Programme to the PAR Council prior to their adoption by the Government.

In accordance with the Government's methodology on strategic planning, reporting on implementation of the action plans for the PAR Strategy is made **on a yearly basis**, while a final report on implementation of the strategic document is prepared **at the end** of the implementation period. All reports are considered and approved by the General Secretariat of the Government, the PAR Council, and the Government of Montenegro, and are subsequently published on the website of the Ministry of Public Administration.

The Strategy foresees a **mid-term evaluation** that will take place after the implementation of the first Action Plan (2022-2024), followed by a **final evaluation**, which will be implemented after the implementation period of the entire Strategy. The evaluation will be performed by an independent expert and the Ministry of Public Administration, as PAR lead institution. Other relevant stakeholders and development partners will also be involved.

The PAR Strategy 2022-2026 is relevant to the objectives of good governance, efficiency and accountability of public administration. Moreover, the Strategy is in line with the objectives of the EU Enlargement Policy, the Economic and Investment Plan for the Western Balkans and the Western Balkan Strategy “*A credible enlargement perspective for and enhanced EU engagement with the Western Balkans*”.

The objectives are consistent with the priorities of the Montenegro Economic and Reform Programme (ERP 2021-2023), with the Joint conclusions of the Economic and Financial Dialogue of October 2021 with the European Commission and with the recommendations of the IMF 2021 Article IV mission.

The PAR Strategy is costed and linked to the budgetary process. The cost for implementation is **EUR 23.750.000 over 5 years**, out of which **EUR 11.967.330** are planned for the implementation of activities within the first Action Plan 2022-2024. The 2022 State Budget has a specific budget programme dedicated to the implementation of PAR Strategy activities.

Institutional capacities to steer the PAR Strategy are improving. The MPA created a new Directorate for Strategic Planning in Public Administration, International Cooperation and IPA Projects, tasked with both preparation and reporting on key strategic documents, as well as managing IPA funds, thus fostering creation of a hub of civil servants with a high level of specialisation and expertise in this thematic area.

The implementation of public administration, however, will require additional training for the Ministry of Public Administration and other key implementing institutions like the Human Resources

Management Authority (HRMA) and the Administrative Inspection (AI). When it comes to human resources management in the institutions applying Labour Law, capacity building of the Ministry of Economy and Tourism, the Employment Agency and the Administration for Inspection Affairs should be also taken into account, in addition to all other relevant line ministries and local self-governments.

Montenegrin authorities are aware that public administration reform is a key step towards EU accession. Political will and efforts in the implementation of the reform are therefore likely to continue in the next years. The new strategy covers key areas of reform, which are in line with the OECD principle of public administration and on which there is a consensus inside and outside the public administration. The participatory process that accompanied the elaboration of the Strategy, the inclusion of its costs in the state budget and the existence of a strong monitoring and reporting system, as well as the establishment of the PAR Council chaired by the Prime Minister of Montenegro let assume that **the policy is credible and sufficiently owned by national institutions.** Therefore, it is likely that its implementation continues to represent a priority of the Government for the next years. PFM is also part of public policy but is covered under another eligibility criterion.

General Conclusions on eligibility:

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.3.2. Macroeconomic Policy

Montenegro's economy recorded very strong growth in 2021, though it did not fully recover to its pre-pandemic level. The strong rebound of the economy, recording a preliminary growth rate of 12.4 %, was driven by a robust revival of tourism, exports and private consumption.¹⁷ Tourism revenues reached 70 % of their 2019 level, surging from just 13% in 2020. Exports added another 25.5 percentage points to growth. The increase in the number of visitors boosted private consumption that added 4.2 percentage points to growth. Contribution of the government consumption to growth was 0.3 percentage points. Investment activity remained weak due to the delays in public investments, higher costs of materials, and continued supply-chain disruptions. Consequently, this slowed gross fixed capital investments, which dragged growth by 4.8 percentage points, also adversely affecting the pace of imports. Industrial production strengthened by 4.9 %, driven by increases in both manufacturing and energy production, despite decline in the mining sector. Meanwhile, construction declined by 5%, as did number of issued construction permits, signalling a continued decline in the construction sector. The strong rebound of the economy in 2021 was reflected in a robust increase in retail and wholesale trade, that expanded by 16.6% and 24% y-o-y, respectively.¹⁸

Montenegro's economy was projected to fully recover to its pre-COVID-19 crisis level in this year, after strong rebound of economic activity in 2021. However, the fallout of the Russian war of aggression against Ukraine, will most likely disrupt projected growth. DG ECFIN published Spring forecast on 16 May where country's GDP growth projections for 2022 have been revised

¹⁷ Gross Domestic Product of Montenegro - Releases 2021, Statistical Office of Montenegro - MONSTAT, available at: <https://www.monstat.org/eng/page.php?id=163&pageid=19>

¹⁸ Gross value added and structure of gross domestic product at constant prices, 2021, Statistical Office of Montenegro - MONSTAT, available at: https://www.monstat.org/uploads/files/BDP/2021/Annual%20GDP%202021_eng.pdf

downwards to 3.8% from an estimated 6.4% before the start of the war.¹⁹ The main direct transmission channel of the war to Montenegro's economy is tourism.

The economic rebound led to a partial recovery on the labour market, albeit all structural deficiencies persist. The COVID-19 pandemic exacerbated the structural deficiencies in the labour market, including high and increasing long-term unemployment and continued regional disparities. After expiry of favourable effects from the seasonal employment associated with the tourism industry, the unemployment rate (15-64) started to increase again reaching 15.7% at the end of 2021. It was still significantly lower than a year before, when the unemployment rate reached 21.5%. Benefiting from low base effects in 2020, employment rate recorded robust growth of 15.2% in the last quarter of 2021. However, the survey confirmed that youth unemployment remains a serious problem in the country, with 37.4% of the population aged 15-24 being jobless.²⁰ Long-term unemployment is yet another lingering problem, given that 53% of all jobless have been looking for a job for more than two years. There are huge labour market differences across regions, with the unemployment rate being at low 6.1% in the tourism-heavy coastal region, 12.2% in the central region and 31.2% in the poor northern region.²¹

Financial sector remained robust with quite dynamic credit activity during 2021. At the end of 2021, banks' lending and deposits were 9.8% and 20.9% higher, respectively, as compared to December 2019. Banks' lending and deposits continued to grow in the first months of 2022. Average capital adequacy ratio in December 2021 was at 18.5%, well above the regulatory minimum.²² Montenegro's NLB Banka Podgorica, the local unit of Slovenia's largest bank Nova Ljubljanska Bank (NLB), completed the merger with Komercijalna Banka Podgorica in November 2021. After finalisation of the second merger within a year, the new bank became the second largest out of a local banking market of 11 banks. Although trending down, lending interest rates are still high presenting one of the major obstacles for the small businesses in the country. In order to provide easier and increased access to finance for businesses that have limited access to finances, the Government earmarked funds for the establishment of the Credit Guarantee Fund and proposed relevant legislation that awaits Parliament approval. In February 2022, NPLs rose to 6.7% of total loans, compared to 5.9% a year before.²³

Global inflationary pressures are accelerating domestic inflation, given the unilateral euroization. After falling by 0.8% in 2020, consumer prices have accelerated since April 2021, to reach an average of 2.5% in 2021.²⁴ Inflationary pressures also continued in 2022 rising to 9.7% y-o-y in March 2022, a 10-year high.²⁵ The increase in inflation was led by rising food, beverage, and transportation prices. Real disposable income was, nevertheless, largely preserved through the increase in disposable incomes due to the 'Europe Now' reform, which resulted in the 80% increase in the minimum wage and 22.7% increase of the average monthly wage from January 2022.²⁶ On

¹⁹ European Economic Forecast, Spring 2022, available at: https://economy-finance.ec.europa.eu/publications/european-economic-forecast-spring-2022_en

²⁰ Young people neither in employment nor in education and training, Eurostat, available at: https://ec.europa.eu/eurostat/databrowser/view/lfsi_neet_a/default/table?lang=en

²¹ Statistical Office of Montenegro - MONSTAT, Labour Force Survey - Releases 2021, Quarterly Reports, available at: <http://monstat.org/eng/page.php?id=1698&pageid=22>

²² Monetary Financial Institutions statistics, Central Bank of Montenegro (CBCG), <https://www.cbcb.me/en/statistics/statistical-data/monetary-and-financial-statistics/monetary-financial-institutions>

²³ Financial Soundness Indicators, Central Bank of Montenegro (CBCG), available at: <https://www.cbcb.me/en/statistics/statistical-data/financial-soundness-indicators>

²⁴ Consumer price index - Releases 2021, Source: Statistical Office of Montenegro - MONSTAT, available at: <https://monstat.org/eng/page.php?id=1677&pageid=26>

²⁵ Consumer price index - Releases 2022, Source: Statistical Office of Montenegro - MONSTAT, available at: <https://monstat.org/eng/page.php?id=1760&pageid=26>

²⁶ Analysis and presentation of the Europe Now programme, Government of Montenegro, November 2021, available at: <https://www.gov.me/clanak/analiza-i-prezentacija-programa-evropa-sad>

the other hand, wage increase also risks nourishing inflationary pressures as well as increasing external and fiscal imbalances.

Strong recovery of the tourism sector resulted in a significant reduction of external imbalances. This resulted in narrowing of the current account gap to 9.2% of GDP in 2021, as compared to 26.1% of GDP a year before. Surplus in the service account that reached 19.5% of GDP in 2021, as compared to only 4.2% of GDP in 2020, drove this improvement. Net primary and secondary incomes have further reduced the current account deficit, primarily due to the improving expatriate remittances that saw 35% increase. The current account deficit was entirely financed by net foreign direct investment (FDI) which amounted to 11.2% of GDP in 2021.²⁷

Improved domestic demand and higher global commodity prices pushed for the fast growth in imports that saw 19% annual increase. Even the rapid increase in exports (28.7% y-o-y) did not suffice to compensate the impact of strong import growth. Consequently, the merchandise trade deficit expanded by 16.6% y-o-y in nominal terms, totalling 39.0% of GDP in 2021.

The improvement of the economic and sanitary situation reinforced significantly Montenegro's fiscal performance. The rebound in economic activity combined with a significant underspending of the capital budget resulted in a sharp reduction of the budget deficit in 2021. The general government budget deficit fell from 11.1% in 2020 to 1.9% of GDP in 2021. Central government revenues surged by 16.6 %, driven by the VAT and excises, while central government expenditures declined by 2.6 %, primarily due to lower capital spending by 9 %, but also lower spending on goods and services, which declined by 16%.²⁸

The 2022 budget is articulated around the landmark reform program 'Europe Now', a major fiscal reform initiative designed to support post-pandemic recovery.²⁹ The programme abolished healthcare contributions and introduced personal income allowance for wages up to EUR 700, progressive personal and corporate income taxation, and an increase in the net monthly minimum wage.³⁰ The Parliament, however, rejected several measures of the program to offset the loss in revenues from the abolished health contributions. These include increases in excises on tobacco, alcohol, and sugary beverages, and introduction of excises on sugary products and single-use plastic. The Parliament also maintained the reduced VAT rate of 7 % for the hospitality industry, introduced as a crisis mitigation measure. On the other hand, Parliament widened social transfers by introducing benefits for all children until age 18, reintroduced mothers' benefits for former beneficiaries, increased minimum pensions, and adopted ambitious public investment programme. Failure to adopt compensating revenue measures is likely to result in a wider-than-planned fiscal deficit of 5.1% of GDP in 2022.

At end-2021, the public debt ratio declined to 83.3% of GDP, down from 105.3% of GDP in 2020. Net debt in 2021 was reduced by over EUR 330 million, including a repayment of EUR 227 in Eurobonds in March 2021.³¹ The central government fiscal balance was positive in four months

²⁷ Balance of Payments (BOP) data, Central Bank of Montenegro (CBCG), available at:

<https://cbcg.me/en/statistics/statistical-data/international-economic-relations/balance-of-payments>

²⁸ Analysis of consolidated public spending for 2021, Ministry of Finance, Government of Montenegro, April 2022, available at: <https://www.gov.me/dokumenta/f08c9f1a-25bb-46a9-af95-762af2448c25>

²⁹ Law on Budget for 2022 of Montenegro, Parliament of Montenegro's database, available at: <https://zakoni.skupstina.me/zakoni/web/app.php/akt/2709>

³⁰ Analysis and presentation of the Europe Now programme, Government of Montenegro, November 2021, available at: <https://www.gov.me/clanak/analiza-i-prezentacija-programa-evropa-sad>

³¹ External Debt of Montenegro, Central Bank of Montenegro (CBCG), available at:

<https://cbcg.me/en/statistics/statistical-data/international-economic-relations/external-debt-of-montenegro>

over the last year, which further supported the build-up of government deposits, amounting to 9.4% of GDP in 2021, which will be financing a significant share of financing needs in 2022.³²

Overall, the economy strongly rebounded in 2021 driven by a quicker than expected resumption of tourism that boosted a surge of private consumption. The fiscal framework still remains subject to sizeable risks and uncertainties, in particular in the current geopolitical context. Fiscal stability and sustainability should be strengthened by reintroducing the initially planned revenue measures of the 2022 budget. The activities should be undertaken to develop a new medium-term fiscal strategy along with the 2023 budget that will encompass concrete consolidation measures and continued public debt reduction over the medium-term. Noted that economic issues related to the Russian war of aggression against Ukraine may have an impact in the near future in Montenegro and the region.

General Conclusions on eligibility:

As a conclusion, based on the analysis, the authorities have continued to pursue a stability-oriented macroeconomic policy.

2.3.3. Public Financial Management

The **Public Finance Management (PFM) Reform Programme 2016-2020 (and its Transitional Action Plan for 2021)** has addressed some of the key weaknesses of the PFM system and has been therefore highly relevant, as confirmed by the results of the 2019 PEFA exercise. Additionally, it has addressed issues outside the PEFA assessment but equally important, like the update of the legal and regulatory framework in accordance with the EU legislation and the upgrade of the existing IT system for the management of the whole budget cycle. Certain reform areas remained excluded: the alignment with European system of Account (ESA) 2010 and Government Finance Statistics (GFS) system, more transparent reporting on budget execution and commitment management, as well as cash flow planning and arrears management. Weaknesses in the payroll system and in local government finance management have been addressed both in the Public Administration Reform and in the Public Finance Management Programmes.

Compared to PEFA 2013, the PEFA 2019 results showed an overall tendency of improvement. Main performance progress is observed in (i) budget reliability (ii) extent of unreported government operations (iii) taxpayer registration and tax assessment (iv) procedures for contracting and reporting debt and issuing guarantees (v) improved procurement management (vi) effective internal controls (vii) strengthened internal audit, external audit and parliamentary scrutiny. Monitoring of fiscal risks arising from local governments by the central government has deteriorated.

Since then, the pace of implementation of the reform has been uneven, benefitting on one hand from the support provided by several IPA technical assistance project and suffering on the other from the effect of the COVID-19 pandemic, the unstable political situation and the high staff turnover in the Ministry of Finance. In July 2021, the PFM Reform Programme was extended for one year (until end-2021) through a Transitional 2021 Action Plan, containing the activities that could not be completed by end-2020. In the meantime, a new PFM Reform Programme 2022-2026 has been drafted and due to be adopted by the third quarter of 2022.

³² Law on Budget for 2022 of Montenegro, Parliament of Montenegro's database, available at: <https://zakoni.skupstina.me/zakoni/web/app.php/akt/2709>

All in all, good progress can be reported in the area of annual budgeting, reform of salary system in the public sector, public procurement and customs administration. **Some progress** is reported in medium-term budget framework, capital budgeting, tax administration and state aid. **Limited progress** is shown in debt management and transition from the cash-based to the accrual accounting. Implementation of the following subsystems is **largely completed**: update of the macro-economic projections model, public procurement, public internal financial control, external audit and audit authority

However, despite efforts, some key weaknesses remain, especially for capital budgeting, state aid reform, commitment, cash and assets management, as well as in terms of interoperability of the different IT systems in place.

The **key challenges** relate to the following:

- The continued delay of concrete steps for upgrading the SAP Treasury system with regard to accrual accounting
- Delays in the implementation of medium term budgetary framework and budget preparation, in particular with regard to the amendment of the Law on Budget and Fiscal Responsibility, capital budgeting as a whole and live operation of the IT tool for calculation and control of salaries (including its connection with the Human Resources Management System)
- The serious delays in implementing the World Bank funded Revenue Administration Reform Project in the Tax Administration
- The unmotivated suspension of the operationalization the Asset Management IT System, coupled with the lack of communication on this matter between the Accounting Department in the Treasury and the Cadastre and State Property Administration.

In terms of **domestic revenue mobilization**, the overall trend of improvement showed by the 2019 PEFA assessment continues, in particular in the field of budget reliability, registration and tax assessment and effective internal controls. After a decline during the COVID-19 crises, the collection of public revenues is expected to recover in the coming medium-term period, as a result of projected growth in economic activity and several actions undertaken by the Government (suppression of informal economy, taxation of undeclared property, increasing excise taxes, among others).

A new PFM Reform Programme 2022-2026 is close to be adopted, after the conclusion of the public consultation launched in April 2022. The Reform Programme is highly relevant in addressing all identified weaknesses in a comprehensive and structured way. It is based on an extensive consultation process, it is supported by strong ownership and commitment of government stakeholders and accompanied by a costed Action Plan for 2022-2023. While in the previous cycle the focus was on budget planning and on procurement, priorities of the new reform programme will be public investment management, accounting and reporting. At the same time, efforts will be directed to the conclusion of previous (partially pending) reforms, like programme/performance budgeting and mid-term budgetary framework, including interconnected IT systems.

A clear set of **objectives, activities and indicators have been identified** at output, outcome and impact level. A robust monitoring framework, however, despite significant improvements over the years, remains to be established. An indicators passport would be also necessary to clarify the scope and measurement of the indicators.

Differently from the previous one, **the new Reform Programme 2022-2026 is costed** and should be reflected in the annual and multiannual state budget. The Action Plan 2022-2023 has prioritized certain actions, by ensuring an appropriate sequencing of reforms. However, the way to address some

critical horizontal issues, like the interconnection of IT systems, local governments and human resources for public finance management, still needs to be clearly defined.

The Government approach seems to take into consideration structural shortcomings and looks for **continuity with the previous reform programme**, by confirming the credibility of the reform process. Considering that reforms in the PFM area usually need a long time to materialize, this will ensure the necessary stability and coherence to maximize the reform impact in the next few years. For this to happen, the process will have to be supported by significant strengthening of the PFM capacities in terms of human resources and coordination within the Ministry of Finance and with other stakeholders involved in the reform actions, and the Revenue and Customs Administration.

General Conclusions on eligibility:

As a conclusion, based on the analysis, the public finance management reform strategy remains sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4. Transparency and Oversight of the Budget

The Government of Montenegro continues to publish systematically the budget proposal, the adopted budget and budget execution reports. The following budgetary documents were published in 2021:

1. The annual budget Law for 2022 was adopted on 29.12.2021³³. It is organized by economic, organizational, functional and program classification.
2. The annual budget execution report for 2021 was published on the Ministry of Finance website on 02.02.2022³⁴. The report contains a narrative part providing main fiscal aggregates and a table with budgetary data broken down by economic classifications. The year-end accounts are submitted to external audit within 6 months after the end of the fiscal year.
3. In-year budget execution reports are made available to the public with nearly one month delay and prepared by budget spending units, state funds, local Self-Government units and other legal entities. They includes a brief narrative on current revenues and expenditures and detailed table with budget execution breakdown organized by economic classifications. Budget execution report for January-and February 2022 was published on 01.04.2022³⁵.
4. The audit report for the final accounts for the 2020 budget was published on State Audit Institution website on 13.10.2021.

The entry point for Budget Transparency continues, therefore, to be met.

The PEFA 2019 show an overall tendency of improvement compared to PEFA 2013. According to the results of the PEFA exercise, Montenegro has scored the following:

PEFA Assessment (2016 indicators)	Match with PEFA 2011	Year 2013	Year 2019	Monitoring of Progress
PI-5 Budget documentation	PI-6	A	B	↓

³³ <https://www.gov.me/clanak/zakon-o-budzetu-crne-gore-za-2021-godinu>

³⁴ <https://www.gov.me/clanak/ostvareni-rekordni-prihodi-deficit-za-421-manji-od-plana>

³⁵ <https://www.gov.me/clanak/prihodi-veci-za-194-nego-u-istom-periodu-2021-godine>

PI-6 Central government operations outside financial reports	PI-7 & some new subsections	D+	A	↑
PI-9 Public access to fiscal information	PI-10	A	A	≈
PI-28 In-year budget reports	PI-24	D+	D+	≈
PI-29 Annual financial reports	PI-25	D+	D+	≈
PI-30 External audit	PI-26	C+	B+	↑
PI-31 Legislative scrutiny of audit reports	PI-28	C+	B+	↑
	Year	Year	Year	Year
Open Budget Index ³⁶	N/A	N/A	N/A	N/A

Overall, PEFA 2019 assessed that fundamentals of the PFM system are in place with the performance of main functions measured with high-ranking scores. This refers to the budget preparation and reliability, transparency of budget and fiscal information, revenue mobilization and budget execution³⁷, internal control and internal audit, external audit and parliamentary scrutiny. Nevertheless, more advanced components of PFM demonstrate needs for further improvement and constant reinforcement. Mitigating measures should be proposed to address the weaknesses in PFM reporting.

In terms of budget transparency, worst performance is related to **PI-28 Indicator** and to **PI-29 Indicator**.

Main deficiencies of the **in-year budget reports** lay in the lack of comparison with the original budget (but only with the latest revised budget), in the aggregates presentation of data and in a structure organized only by economic classification, with significant gaps in reporting for public enterprises and financing of municipalities. Variations between original profile of revenue and expenditure and actual revenue and expenditure are not explained. Completeness of financial reports is an issue, since they are prepared on cash basis and do not present information on assets and liabilities. More structured information on commitments and liabilities/arrears, on capital expenditures and on internally generated funds would increase comprehensiveness and transparency.³⁸

As to the **Annual Financial Reports**, the information about the financial and non-financial assets and liabilities is not complete and there is no reference to the accounting standards. All budget documents are accessible by citizens (at government's website) but reports are not published together at one single web link.

More recently, improvements in budget transparency are materializing with the implementation of a new programme budget classification, with programme goals and performance indicators, and gradual introduction of a mid-term budgetary framework.

General Conclusions on eligibility:

As a conclusion, based on the analysis, the entry point is met as the relevant budget documentation (the Executive's Proposal and the Enacted Budget within the past budget cycle) has been published respectively on 21.03.2021 and on 02.02.2021 on the following websites:
<https://www.gov.me/clanak/zakon-o-budzetu-crne-gore-za-2021-godinu>
<https://www.gov.me/clanak/ostvareni-rekordni-prihodi-deficit-za-421-manji-od-plana>
Therefore, the eligibility criterion is met.

³⁶ Montenegro is still not part of Open Budget Index

³⁷ However, according to the EUD analysis and on the basis of the PEFA scores, some core functions mainly related to procurement planning, commitment management, cash and arrears management would deserve further attention

³⁸ SIGMA Monitoring Report, November 2017

3. DESCRIPTION OF THE ACTION

The general objective of this Action is to ensure better quality of life for citizens by creating a well-functioning and accessible public administration with the public administration strengthened in accordance with the EU-SIGMA Principles of Public Administration

The Action focuses on some of the most challenging objectives of the PAR Strategy and PFM Reform Programme, notably on those objectives that interlink public administration and public finance management. Their achievement is likely to have a long-lasting impact on Montenegrin citizens and economy and is of key importance in the enlargement perspective.

The specific objectives of this Sector Budget Support programme correspond to the following priorities of the PAR and PFM Strategy 2022-2026:

Objective 1. Efficient service delivery based on the need of citizens and economy

Based on the identified problems in the area of service delivery in Montenegro, the focus is on creating public services based on citizens' and businesses' needs, simplifying procedures and digitalizing the existing services in order to improve their availability and quality, thus reducing delivery costs and time and ensure ease of doing business.

The priority of PAR Strategy 2022-2026, but also of this action, is to create an environment for simpler, faster and more efficient communication between citizens and the administration, primarily through improving the efficiency of bodies in resolving administrative cases and full implementation of the legal obligation of bodies to exchange data from ex-officio.

In order to optimize the process in the bodies and improve the quality of service provided to end users, a roadmap for the introduction of quality management of institutions and processes will be developed. Furthermore, improved quality of reporting on administrative procedures and mapping work processes will, in the long-run, lead to simplification of internal work processes and optimized service delivery. Harmonization of legal acts with the Law on Administration procedure will continue.

With the development of a public services catalogue and a book of administrative procedures, more transparent service delivery processes to all users will be provided, of both in-person and digital services, while safeguarding the accessibility of services to people with disabilities. Establishment of systematic measurement of public service users' satisfaction will enable all public bodies to improve and create services that best-fit to the needs of citizens and businesses, while obtaining feedback from users.

While enabling a full electronic data exchange between registries using once-only principle (including at the local level) and delivery of data and documents ex officio, service users will no longer be burdened with visits to public institutions or additional documentation.

Moreover, this work will focus on a higher level of alignment of existing strategies with the existing methodological guidelines, especially in terms of strategic planning, budgeting and performance reporting. Overall, this will lead to the creation of an integrated and interlinked strategic planning system, aligned with the annual and medium-term budgetary framework, annual work programs of the Government and ministries, as well as with the European integration process. This will imply further strengthening of costing of strategies and their clear link with annual and multi-annual budgeting. At the same time, this integrated planning system will be reflected in a performance-oriented monitoring, reporting and evaluation system.

Indeed, according to the new PFM Reform Programme 2026-2026, the budget programme classification will be further improved, with the development of sub-programmes, aligned activities and performance indicators for all public bodies. Procedures for monitoring and reporting

on budget programmes and projects will be developed. BMIS³⁹ will be upgraded and improved in order to reflect performance information. Development of procedures and a manual for performance evaluation of programmes and projects has been envisaged, aiming at improvement of evaluation of the programme performance.

The strategic and medium-term planning system will be supported by appropriate IT systems that will be connected with the budget planning system for exchange of data and for reporting purposes. It will also require improved coordination within PAR and between PAR and PFM systems, including the establishment of a planning function in all major public bodies.

This will be achieved through a further improvement of the legal framework for delegation of authority, intensifying capacity building for high level managers and line-managers and by raising awareness on the principle of accountability, in particular managerial accountability and delegation of authority.

Activities will include: further fine tuning the programme budget structure, in order to increase the correspondence with the organizational structure; improved link between strategic planning, costing and budgeting process, especially at the level of spending units; better organization of reporting and control, in line with programme budget structure; increased use of performance monitoring and reporting; gradual increase of (internal) management and performance audit.

The achievement of this objective is closely linked to the results planned under objectives 2 and 3.

Objective 2. Improved transparency of public administration and public finances

A key priority in this area will be decreasing the number of requests for free access to information by increasing the quantity and quality of information published by public authorities and through better implementation of the new legal framework awaiting adoption. In addition to training and raising the awareness of all public institutions on the need to provide complete, trustworthy and understandable information on the work of all public bodies, a network of officers for proactive disclosure of information will be established and their capacities improved.

Increasing proactive disclosure of information will include data on budgets and spending practices of public institutions. Improvement in reporting on state budget execution, including producing and publishing transparent annual and in-year budget execution reports, as well as budget performance reports will significantly contribute to the improvement of budget transparency.

Quality management model in the field of free access to information will be established, thus promoting self-assessment of the public bodies in this field. In other words, the focus will be on improving the quality and legality of the work of first instance bodies in decision-making procedures on requests for free access to information.

Modern data management model implies standardized, well-described, accessible and reliable data in real time, with a focus on openness and format, contributing to the development of all segments of society. With the introduction of high-value data sets and dynamic data sets (i.e. real-time), and capacity-building of employees in charge of publishing open data on the portal, increased transparency of authorities will be achieved. Together with improving quality in reactive transparency (authorities publishing information based on request), these actions will lead to increasing the citizens' trust in the work of public administration.

Objective 3. Public administration based on talented, competent and skilled employees

An efficient human resources planning system based on identified needs, improvements in the human resources recruitment process and further digitalization in the field of the civil service system will be in the focus of actions in this area. Monitoring the work of civil servant, their progress and results but also their needs for further development are identified as key priorities.

³⁹ Budget Management Information System

Improved identification of human resources needs and increased alignment of personnel planning and budgetary process will make personnel planning and recruitment in public administration more efficient. Guidelines for personnel planning will be improved, while implementation will be followed up by an ad hoc external monitoring system. Personnel plans will be developed electronically, through the module of the Human Resources Management Information System (HRMIS)⁴⁰, thus allowing for the systemic reporting on the level of its implementation. Since HRMIS is to be developed also at the local level, HRMA will be able to directly access information for public officials and state employees at the central and local level, enabling various data analytics for all employees regulated by the Law on civil servants and state employees. Among others, people who benefitted of severance payments will be easily identifiable, by making possible the respect of legal restrictions on future employments in public administration,

The improvement of procedures for application and selection of candidates through the introduction of electronic application systems will lead to less time-consuming processes for candidates and will decrease interlinked costs. Improved quality of acts on systematization and organization will lead to clearer and more precise descriptions of jobs, clear responsibilities for all systemized posts, as well as to identified competencies as the basis for selection and testing of candidates.

Professionalization of public administration through the adoption of a Competence Framework for all categories of civil servants and its application in their recruitment and evaluation will contribute to the alignment of knowledge, skills and abilities of employees with job requirements. In addition, it is necessary to improve the strategic planning of training for employees, based on training need assessments, thus prioritising areas and target groups of employees for further capacity building. This will be linked with the annual evaluation of employees, where effects of training will become measurable.

The ‘internal labour market’, divided into central and local levels, should be integrated into the labour market of public administration. This institute needs to be remodelled in order to become a system or a body that will enable easier mobility and recruitment not only for employees who lost their jobs after the reorganization of the body but also for officials who are interested in changing their jobs, enabling even the distribution of labour.

Awareness raising campaign towards all citizens on the transparent process of employment, overall work of the HRMA and attractiveness of public bodies as employers, thus attracting skilled, talented and competent individuals will be implemented.

In addition, key priorities in this area will be improvements in capital budget planning and in public investment management, monitoring and reporting. Actions will focus on further strengthening the institutional, legal and regulatory framework for public investment management, as well as the capacity to identify and prioritize capital projects. Guidelines for conducting cost-benefit analyses of investment projects and an updated manual for capital budgeting (determining the fiscal space) will be developed, with the aim to ensure value for money. Implementation, monitoring and reporting of capital projects will be improved through the establishment of a public capital project database through the upgrade of the current IT systems for budget planning and budget execution and the adoption of specific procedures for the evaluation of capital spending efficiency. These activities will contribute to increased fiscal sustainability and consistency of public investment plans in the long term, to strategic allocation of resources and to more efficient service delivery.

⁴⁰ Further digitalization of the human resources planning system will be reached with the development of additional modules for e-Employment, e-Learning, e-Evaluation, etc.

Objective 4. Administrative capacities for efficient absorption and management of EU funds built in two pilot sectors

Montenegro needs to build its administrative capacities in order to prepare mature actions and manage the implementation of EU funds.

Public administration authorities need to be able to recruit and retain top talent in order to build adequate capabilities for the effectiveness and impact of EU funds. To develop a skilled, adaptable workforce with the right mix of competencies for effective EU funds management, public administration authorities need to identify the existing and desired competencies, attract and recruit candidates with the right skills, and improve the long-term and strategic orientation to learning and development.

The envisaged reforms will focus on two pilot sectors in which the need for highly-qualified staff in terms of the EU accession process is most pressing – Environment and Climate Change and Social Policy/Employment. Extension to other sectors most concerned by management of EU funds may be envisioned.

The authorities within these sectors need to follow a clear methodology on determining the needs for skills and competencies for each institution. Based on such needs analysis, the authorities need to adopt new acts on internal organisation and systematisation of posts and personnel plans. Job descriptions need to be defined according to systematic job description methodology and they need to have meaningful approval from third (centrally placed) institution.

The recruitment process needs to be made more effective. For civil service positions, the duration of the process can amount up to one year. The procedure can be streamlined by reducing unnecessary administrative burden related to obtaining numerous opinions of relevant institutions before publishing announcements for each new post, even though the same institutions already issued an opinion to the acts on systematisation of posts and annual personnel plans. Additionally, it takes HRMA up to a month to organise testing and interviewing of candidates who meet the requirements of the public announcement after the list of eligible candidates is established. Finally, capacities of the Appeals Commission need to be strengthened in order to ensure that the legal deadline for deciding on appeals is respected. When it comes to the positions filled under the Labour Law, the authorities need to ensure that the same HRM practices are implemented as in the civil service. This will be done through adoption of the Law on Public Institutions as planned under the PAR Strategy (Activity 1.1.2).

Besides re-branding job descriptions, public administration authorities need to employ additional tools to attract candidates beyond traditional candidate pools, such as through social media and increased engagement with universities.

They also need to adjust recruitment processes to test for a broader range of skills and competences during assessment. This will be done through adoption of amendments to the Law on Civil Servants and State Employees and the relevant by-law, which is planned under the PAR Strategy (Activities 3.1.2 and 3.1.9). In turn, this should lead to more objective selection procedure which should increase candidate satisfaction with the process, despite the outcome.

Special consideration needs to be placed on effective integration of new staff and equipping them with the skills to get up-to-speed and operational as quickly as possible. In addition to trainings, new staff need to receive adequate mentorship by senior management staff. Senior managers need to have more stability in order to be able to integrate newcomers successfully and manage implementation of strategic objectives at the level of their institution. A training scheme will be established and offered to the new recruits and in general made available to public administration as part of other planned EU-funded technical assistance (EU Integration Facility 2024).

The EU contribution for implementation of this objective will cover only part of the cost of the new recruits during the implementation period (EU contribution of EUR 2.6 million to the

estimated cost for the public budget of EUR 6 million, counting at least 100 extra staff for a period of three years), while salaries for this staff will be completely picked up by the state thereafter.

3.1. Intervention Logic

The underlying intervention logic for this action is that Montenegro speeds-up the reform of public administration and public finance management, while meeting the EU accession criteria in the field of good governance. Based on the identified issues above, this Action prioritizes the objectives to be reached, thus contributing to the expected outcomes:

- ❖ Efficient service delivery based on the need of citizens and economy implemented
- ❖ Credible strategic policy planning system in place
- ❖ Delegation of Authority principle widely used in public bodies
- ❖ Improved transparency of public administration and public finances
- ❖ Public administration based on talented, competent and skilled employees
- ❖ Administrative capacities for managing EU funds built and new/additional recruits related to the two pilot sectors
- ❖ Improved public investment management system

The intervention logic is fully aligned with the objectives of the PAR Strategy and PFM Reform Programme for 2022-2026. The key induced outputs of the programme are directly related to the outputs of the new strategies, while the above-mentioned outcomes will be reached through the successful implementation of the activities presented in the following section.

Improved strategic planning, with clearly identified objectives and indicators, as well as a credible strategy costing linked to the budgetary process, will create conditions for further improvements in programme budgeting. In turn, well-identified programmes in the state budget, linked to specific activities, costs and relevant performance indicators (possibly the same than at the level of strategies) will create conditions for delegation of responsibility and increased managerial accountability.

Better management of investment, including improved factoring into the budget process of the recurrent cost implications of investment, and more stringent economic analysis in order to generate the best return will provide a better perspective on the fiscal space available for strategic priorities.

The existence of performance indicators and of clear accountability lines will improve performance monitoring and reporting at the level of spending units and, more in general, of operational units. This will contribute to shifting the focus of internal control and external audit from compliance to performance.

Improved monitoring and reporting will facilitate a more effective evaluation of results and impact of budget programmes, which is a prerequisite for further strengthening of service delivery.

More in general, transparency of policy implementation and budget execution will improve, with an increase of stakeholders' perspectives on the effectiveness of public spending.

3.2. Indicative Activities

Activities related to Objective 1 - Efficient service delivery based on the needs of citizens and economy

- 1) Mapping internal business processes with the purpose of optimizing service delivery, while continuing with the harmonization of relevant acts with the Law on Administrative Procedure
- 2) Developing roadmap for introduction of quality management system
- 3) Developing the Catalogue of services (on-line and off-line) with administrative procedures for their implementation
- 4) Improving user-centric and integrated approach by establishing service standards

- 5) Ensuring full interoperability of information systems (connected to the GSB - Government Service Bus) thus reducing the volume of data currently required from users (citizens and business) and using the principle of ex officio data exchange
- 6) Increasing the number of developed digital services based on life events, at a high level of sophistication, with integrated systems of e-identification, e-authentication and e-payment
- 7) Increasing digital skills of public administration employees, and raising awareness of the general public on modernisation of public services
- 8) Improving the methodology for strategic planning and organising capacity building programmes for strategic developers in public bodies
- 9) Improving link between strategic planning and budgeting
- 10) Analysing and creating mechanisms for cooperation with researchers and other possible statistical institutes, for the use of wide trustworthy data during the policy development process
- 11) Establishing IT systems for strategic planning, monitoring and reporting (with mid-term programme budgeting and programme reporting)
- 12) Establishing planning function in all major spending units; development of procedures for the costing of strategies and institutional arrangements for coordination
- 13) Linking the MTBF to the strategic planning system and to the medium term work programme of the government
- 14) Further development of sub-programmes, activities and performance measures in all spending units, procedures for monitoring and reporting of programmes and projects; and implementation of upgrades of the budget planning IT system with the new programme budget structure and improved performance information
- 15) Improving the legal framework for the application of managerial accountability
- 16) Organising a capacity building programme for civil servants and managers on managerial accountability, delegation of authority and related reporting
- 17) Raising awareness campaigns on principle of accountability in public administration
- 18) Better organization of reporting and control, in line with programme budget structure
- 19) Increase the use of performance monitoring and reporting
- 20) Gradual increase of (internal) management and performance audit

Activities related to Objective 2 - Improved transparency of public administration and public finances

- 1) Improving the functioning of the information system of the Agency for Personal Data Protection and Free Access to Information and publishing data with the purpose of decreasing administrative silence cases
- 2) Strengthening the capacities of the Agency for implementing the Law on Free Access to Information
- 3) Developing guidelines for the application of the provisions of the Law on free access to information
- 4) Full harmonization of the Law on free access to information with European standards and the EU Open Data Directive
- 5) Enhancing the work of the Council for free access to information
- 6) Improving the quality of work of Agency
- 7) Organising capacity building for relevant authorities on proactive disclosure of information
- 8) Awareness raising on the importance of free access to information and transparent work of the public bodies
- 9) Improving portal www.data.gov.me and increasing publication of high value data sets
- 10) Upgrade of BMIS to improve annual and quarterly budget execution reports
- 11) Increasing transparency through a visual representation of budget execution

12) Produce mid-year and annual budget performance reports through BMIS

Activities related to Objective 3 - Public administration is an attractive employer

- 1) Improve current instructions on Personnel Plan development for more a comprehensive system of personnel planning
- 2) Increasing the % of developed personnel plans through HRMIS system and further use of data for policy formulation, monitoring and enhancement of HRM practices
- 3) Increasing the implementation of personnel plans at both central and local level, linked to the full budgetary process, both annual budget and medium-term expenditure framework
- 4) Promotional campaign in order to encourage employment in public administration
- 5) Improving the quality and implementation of Acts on systematization and organization, as well as monitoring and evaluation in the civil service, and creating mechanisms for comprehensive evaluation of Acts of systematization
- 6) Creating more transparent and effective employment procedures
- 7) Modifying the legal framework regulating the system of salaries in the public sector
- 8) Further developing the competency framework for all employees in public bodies, including competency-based assessment tools
- 9) Promoting public administration based on the principles of diversity, equality and non-discriminatory policies

Strengthening the legal and regulatory framework for PIM (Identification, Project appraisal and preparation)

Strengthening the institutional framework and coordination for capital budgeting

Training of the members of the Commission for Determining Capital Investment Priority List

Develop methodology for PIM: Guidelines for conducting economic (cost-benefit) analyses of investment projects to ensure value for money; and an updated Manual for capital budgeting (determining the fiscal space)

Training on costing of capital projects

Develop legislation/regulations for allowing carryover arrangements

Promote the use of Public-private partnership

Establishing a (public) capital projects database

Upgrade current IT systems (BMIS and SAP) to support to the PIM processes

Develop procedures for monitoring and reporting of capital projects implementation

Evaluation of the efficiency of capital spending

Preparing a long-term investment document (master plan of infrastructure projects)

Activities related to Objective 4. Administrative capacities for efficient absorption and management of EU funds built in two pilot sectors

- 1) Developing an action plan specific to this objective with action items, timeline and responsible institutions and persons needed to achieve the objective of strengthening administrative capacities in two pilot sectors with potential extension to other sectors most concerned by management of EU funds. This plan includes, but is not limited to:
 - Preparation of the methodology for determining the needs for skills and competencies for efficient absorption and management of EU funds in public administration
 - Preparation of the needs assessment analyses in two pilot sectors
 - Preparation of the systematic job description methodology
 - Adopting new acts on internal organisation and systematisation of posts with re-branded job descriptions in two pilot sectors
 - Preparation of recruitment plans related to the two pilot sectors
 - Adopting new personnel plans related to the two pilot sectors

- Streamlining the recruitment process in two pilot sectors from the moment of adoption of the Decision on initiating the procedure for filling the position by the head of public administration body to the moment when the decision on the selection of new employee is executive
- Developing competencies framework for public administration employees
- Improving selection process in two pilot sectors by testing for a broader range of skills and competences during assessment in line with the competency framework
- Conducting the recruitment process as well as satisfaction surveys with the recruitment process in two pilot sectors

3.3. Mainstreaming

The Constitution of Montenegro, the highest legal act in the country, along with the Law on Gender Equality and the Law on Prohibition of Discrimination, represent the legal framework on the basis of which issues related to gender equality, diversity and inclusion are defined. In the past years, progress has been made in these areas, strengthening the position of minority and marginalized groups - Roma and Egyptians and people with disabilities - in particular. However, there is considerable room for improvement.

The PAR Strategy 2022-2026 has recognized gender mainstreaming, anti-discriminatory policies and inclusion as horizontal topics throughout all strategic goals. Consequently, a number of activities were identified in order to contribute to the application and promotion of high standards in these areas: awareness raising on the need of public administration based on diversity, non-discriminatory policies and equal opportunities; training on inclusive public administration based on the principle of human rights; development of programmes for the development of leadership competencies; capacity building on the concept of e-accessibility and much more.

The PFM Reform Programme 2022-2026 and related side-strategies have included gender, green and social protection mainstreaming in their activities. One of the operational objectives of the new Strategy for the Development of the Public Procurement System in Montenegro 2021-2025, for example, relates to encouraging the implementation of green and sustainable procurement, as well as the promotion of SME participation in the public procurement procedures, with special emphasis on women-led businesses. The goal of the green procurement policy is to encourage contracting authorities to apply life cycle costing in public procurement in order to provide more environmentally friendly and energy efficient goods, in accordance with current trends and standards (green procurement, socially responsible procurement, innovative procurement, electronic procurement, etc.). In order to raise awareness and promote green and sustainable procurement, the Strategy envisages trainings for participants on green public procurement procedures (managers and civil servants), as well as the production and distribution of the specialized publications on this topic.

Demographic change (increased mobility, population aging and migration), changing market conditions and globalization factors contribute to the growing diversity of the workforce within organizations and in the labour market. There is a high probability that employees will be exposed to different needs, values, motivation, different contributions and ways of building relationships.

The PAR and the PFM strategies have the ambition to contribute to a culture of diversity and equal opportunities. The PAR Strategy, in particular, advocates that civil servants represent citizens who serve, regardless of gender, age, religion, gender identity, sexual orientation, political or any other affiliation, any type of disability or other factors that are not based on merit and achievement. During the design phase, all stakeholders were consulted independently of their sex, origin, race and religion. Equal opportunities will continue to be guaranteed to all participants and experts during the implementation phase of this Action.

Being based on PAR and PFM strategies 2022-2026, this Action will address diversity, non-discrimination and equal opportunities as horizontal themes that are applicable to all identified objectives. The focus will be on the creation of a coherent diversity policy that will add to an inclusive environment and give all employees equal opportunity to feel included, respected and valued. This means that human resource management policy will be focused on recognising and respecting the skills of the individual, rather than on the characteristics of the individual that may be the basis for discrimination.

Citizen engagement and public participation (inclusion) in all segments of public administration is becoming more important than ever. Through this Action, the principle of inclusiveness is applied through all objectives and includes the involvement of all stakeholders in all steps of policy making, especially when defining services for the needs of citizens.

In addition, in order to achieve the goals of greater openness and make governance more efficient, the Government of Montenegro has joined the Open Government Partnership (OGP). By participating in this initiative, Montenegro is focused on five key commitments: improving public services, citizen participation, access to information - openness of public administration bodies, more efficient management of public resources and increasing public integrity. The process of drafting the new two-years National Action Plan for implementation of OGP Initiative is ongoing, with consultations conducted in accordance with the standards set by the OGP Secretariat. Finalisation of the new Action plan is planned for the end of the year 2022.

Environmental Protection, Climate Change and Biodiversity

The Ministry of Ecology, Spatial Planning and Urbanism is in charge of management and protection of natural resources, biodiversity and space of Montenegro. Environmental protection, care for clean air, water, land and climate change, as well as the preservation of Montenegrin spatial heritage - are priorities of the Ministry.

Both the Ministry and the Environmental Agency were consulted during the preparation of the PAR Strategy and the PFM Reform Programme and their recommendations are incorporated in both documents.

Since a Strategic Environmental Assessment (SEA), an Environmental Impact Assessment (EIA) or a Climate Risk Assessment (CRA) were not required for any purpose during the development of the PAR Strategy and of the PFM Reform Programme, no further actions were implemented.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1⁴¹.

This Action will contribute to the Objective 4 of the EU gender equality strategy 2020-2025: *Gender mainstreaming and an intersectional perspective in EU policies, putting equal opportunities between men and women as an integral part of its design, implementation, monitoring and evaluation.*

Montenegrin Law on Gender Equality stipulates equal participation of men and women in all spheres of public and private life, as well as the obligation of public bodies to assess and evaluate the impact of all decisions and activities upon the position of women and men. For the first time, the Law on the Election of Councillors and Deputies, with the amendments from 2011, defines quotas for the under-represented sex. A National Gender Equality Strategy 2021-2025, together with an Action Plan for Gender Equality (APAGE) 2021-2022, is under implementation. Within this framework, the Ministry for Human and Minority Rights, with support of the OSCE Mission, has prepared a manual to assess

⁴¹ Principal objective / significant objective/ not targeted

the level of gender-mainstreaming in strategic documents (assessed 26 strategies in total), which is a significant initial step towards policy development in this field at the central and local level. Gender equality principles are also addressed in the Law on Civil Servants and State Employees.

In 2021, Montenegro adopted for the first time a gender-responsive state budget by defining gender sensitive performance indications and activities. The new PFM Reform Programme also addresses gender issues and includes gender indicators. The introduction of gender-responsive local policies, including gender-responsive impact assessment of legislation and gender-responsive budgeting, is also worth noting.

A number of measures identified within the PAR Strategy and the PFM Reform Programme are focused on promoting gender equality: development of a methodology for drafting Gender Equality Plans in all ministries, implementation of a Gender Equality Plan in (at least) 3 pilot ministries, organization of gender equality trainings for public administration employees, among others.

Responsibility for implementing gender mainstreaming will be system-wide and will stay at the highest levels within the different stakeholders involved in the implementation of this Action. Adequate accountability mechanisms for monitoring (such as specific predefined indicators) have been put in place and initial identification of gender differences and disparities across all areas of activity will be supported.

Other considerations

PAR and PFM strategies are indirectly linked to the UN 2030 Agenda for Sustainable Development by improving transparency, accountability and efficiency of Montenegrin public administration with regard to citizens and business at both national and local level. Together, they contribute to the achievement of Sustainable Development Goals 8, 5 and 16.

The MPA manages and monitor policies that affect the work and activities of non-governmental organizations. A new Strategy for improving cooperation between State Administration and NGOs 2022-2026 was adopted in 2022. The overall purpose is to ensure long-term, reliable and quality partnership between the state and non-governmental organizations, thus creating quality public policies and improved services to citizens. The new strategic document has 2 objectives: a) Improving the existing normative and strategic framework for long-term partnership with non-governmental organizations in preparing public policies and providing services to citizens, and b) strengthening the NGO sector as one of the state partners.

The participation of CSOs in decision-making processes is regulated by two government decrees that introduces a legal obligation for the ministries to include NGOs and other representatives of civil society in working groups for policy development. In addition, CSO consultation has become a legal obligation for most public decision-making processes, despite shortcomings in its implementation. From this point of view, the Strategy for Cooperation between State Administration and NGOs 2022-2026 is complementary to the new PAR Strategy, by contributing to the achievement of three key objectives: 1) Efficient delivery of services based on the citizens' needs 2) Strengthening of the data-based planning system leading to the creation of sustainable policies and 3) Improvement of institutional coordination for more powerful policies.

3.4. Risks and Lessons Learned

Category	Risks	Likelihood	Impact	Mitigating measures
Political	Risk 1: Lack of (human) resources for the implementation of the PAR & PFM strategies	Medium	High	- Complementary assistance focusing on 1) improving and making faster recruitment procedures, including internal market 2) retention policies

				<ul style="list-style-type: none"> - Policy dialogue focusing on merit-based recruitment (need to reform recruitment committees, recruitment made on the basis of well-defined competence frameworks at all levels, link with academia and traineeship programs)
Political	<p>Risk 2: Lack of sufficient knowledge of budget support as an instrument and of administrative capacities to follow up the programme in line ministries and at NAO (National Authorising Officer) level.</p>	Medium	High	<ul style="list-style-type: none"> - Capacity building for direct and indirect beneficiaries of budget support - Complementary assistance focusing on coordination and monitoring the implementation of the PAR and PFM strategies - Establishment of a Budget Support Steering committee. If relevant, this will be done in coordination with other ongoing budget supports, in order to optimize efforts in the common eligibility areas (PFM and budget transparency)

NB this was drafted prior to the start of the Russian war of aggression against Ukraine which represents a wider political risk.

Lessons Learned:

The implementation of the previous PAR Sector Budget Support programme put in evidence some important lessons learnt:

1. A Sector Budget Support programme can be a useful tool when used correctly and efficiently. The modality has clear advantages over the project approach, although being a complex tool. When the budget support modality is not applied as intended, however, some of the key benefits might not be obtained.
2. Designing and implementing a Sector Reform Performance Contract is a learning experience. While the overall performance of previous PAR budget support was satisfactory, it is clear that it is still a relatively new modality of implementation in Montenegro and it is likely to take several programmes to fine-tune its formulation and implementation.
3. In the previous PAR sector Budget Support, much weight was given to the Complementary Support. While this was of clear benefit for the beneficiaries, on the other hand the high number of contracts caused the use of additional efforts and burden which was placed on the management structures and the beneficiaries to manage all such projects at once.
4. Some elements of the Budget Support *modus operandi* should apply and be better respected, especially concerning the role of the Ministry of Finance and the channelling of EU funds into the national budget.
5. When designing a budget support operation, it is important to ensure that all the indicators chosen in relation to variable tranches disbursement are achievable, realistic and within the competence of the government entity tasked with the action. Key Performance Indicators should relate to policy formulation and implementation, avoiding indicators that may be conditioned by political processes. When the institution leading the Budget Support programme is not in complete control or does not have substantial influence over the implementing entities, it can easily result in under-performance and non-disbursement of funds. This noted the project logic which outlines the need within the boundaries of a sector. Therefore, if relevant, all triggers linked to legislation are rightly taken into consideration, as well as outcomes and even impact.
6. Incentives to support and implement reforms are important, both from the EU to partner countries and within the Government. Entities that do not benefit from Budget Supports inputs (either through state budget funds or complementary support) will tend to disconnect or not participate in fulfilling Budget Support objectives and related activities, even if these bodies are supposed to play an important role.
7. Consequences of government and institutional changes (and instability) can be disruptive in terms of the operation of budget support programmes. Institutional stability is key for any programme or project but budget support is more sensitive to changes in the heart of the entities and change can negatively affect policy processes and key policy targets.
8. When an implementing entity is new to budget support, external support in monitoring and reporting on performance can be useful. Specific knowledge of EU Budget Support guidelines and experience with other programmes in the sector can complement and reinforce the tasks of public officials. It would be helpful to use technical assistance to work with the beneficiary and advise and guide them on preparing for the variable tranche disbursements.

5 Indicative Logical Framework Matrix

Results	Results chain	Indicators	Baselines	Targets by the end of the budget support contract 2026	Sources of data
Indicative Impact of the policy	To maximize Montenegro's development impact on the national economy and ensure better quality of life for the citizens by creating a well-functioning, digital and accessible public administration efficiently serving the needs of its citizens and the economy	Global competitiveness index 4.0	60.8/100 (2019)	62.2	Global Competitiveness Report
Expected Outcomes of the policy	The general objective is to ensure better quality of life for citizens by creating a well-functioning and accessible public administration – with the the public administration strengthened in accordance with the EU-SIGMA Principles of Public Administration	<ul style="list-style-type: none"> - Strategic Framework of PAR - Policy development and co-ordination - Public service and human resource management - Accountability - Service delivery - Public financial management 	<ul style="list-style-type: none"> - .0.5 (2021)⁴² - 2.7 (2021) - 3.1 (2021) - 3.4 (2021) - 2.25 (2021) - 2.7 (2021) 	<ul style="list-style-type: none"> - 2.0 - 3.3 - 3.8 - 3.8 - 2.8 - 3.0 	SIGMA monitoring reports
Induced Outputs	Efficient service delivery based on the need of citizens and economy implemented	Number of institutions with introduced quality management system	0 (2021)	5 by 2024 15 by 2026	PAR annual monitoring report External evaluation report on PAR Strategy SIGMA monitoring report Budget execution report Reports from international community NGOs Reports
	Credible strategic policy planning system in place	% of strategic documents linked to the annual/programme budgets	0 (2021)	50% by 2024 ⁴³ 100% by 2026 ⁴⁴	
	Delegation of Authority principle widely used in public bodies	% of ministries delegating financial management and internal control to senior management in accordance with the relevant Decree	8,3% (2021)	50% by 2024 80% by 2026	
	Improved transparency of public finances	Qualitative indicator	None	<ul style="list-style-type: none"> - Mid-year and annual budget performance report produced, including gender indicators (by 2024) - Macro-fiscal guidelines (MTBF) include medium-term 	

⁴² Average score of SIGMA indicators per sector, as per SIGMA Monitoring report 2019 for Montenegro

⁴³ Data will report how many of the strategic documents are gender-mainstreamed

⁴⁴ Data will report how many of the strategic documents are gender-mainstreamed

				(programme-based) policy information, non-financial performance information and expenditure plans	
	Public administration based on talented, competent and skilled employees	Average no. of candidates per public advertisement Average no. of candidates for competition	4.8 (2020) 2.14 (2020)	7 (2024), 9 (2026) ⁴⁵ 4 (2024), 6 (2026) ⁴⁶	
	Administrative capacities for efficient absorption and management of EU funds built and new/additional recruitments related to two pilot sectors (environment and climate change and social policy/employment and potentially also for other sectors concerned by management of EU funds, such as Erasmus+)	Average duration of the recruitment procedure related to the two pilot sectors from the moment of adoption of the Decision on initiating the procedure for filling the position by the head of public administration body until the recruitment decision is executive ⁴⁷ Recruitment of public employees related to the two pilot sectors conducted based on the adopted recruitment plan and competences	12 months (2023) Recruitment plan related to the two pilot sectors not in place yet Competency based framework for all civil servants not yet in place	6 months (2025), 4 months (2026) Recruitment plan related to the two pilot sectors defining at least 100 new/additional recruitments established (2025) Competency based framework for all civil servants is in place (2025) 90% of staff identified in the recruitment plan related to the two pilot sectors is recruited,	

⁴⁵ Data will be gender-disaggregated

⁴⁶ Data will be gender-disaggregated

⁴⁷ In accordance with the Law on Administrative Procedure (Official Gazette of Montenegro 2/2018, 34/2019 and 8/2021), the Decision is executive if no appeals have been lodged upon the expiry of the deadline for appeals or after an appeal has been rejected.

				while all these recruitments are conducted using competency-based framework (2026)	
	Improved public investment management system	Share of projects for which a cost-benefit analysis is done according to the new methodology	0 (2021)	At least 50% compared to the baseline (2024) At least 90% compared to the baseline (2026)	
Direct Outputs	<ul style="list-style-type: none"> - Financial allocation of national resources for the PAR Strategy and PFM Reform Programme implementation - Mentoring and reporting of the two strategic documents linked and strengthened - Technical specifications for the Complementary support actions developed - External evaluations conducted 	<p>Financial amount distributed through the SBS (fixed and variable tranches)</p> <p>Mechanisms and track record on the level of implementation of PAR Strategy and PFM Reform</p> <p>Number of tenders for complementary actions successfully developed and number of contracts signed</p> <p>Number of external evaluations conducted</p>	<p>0</p> <p>MPA and MoF have established a mechanism for track records on the implementation of strategic documents</p> <p>0</p> <p>0</p>	<p>30 mil EUR</p> <p>Continued good tracks record on the implementation of the two strategic documents</p> <p>At least 2 TAs prepared</p> <p>at least 2 external evaluations conducted</p>	<p>Commission report</p> <p>Disbursement note on the SBS</p> <p>National monitoring reports on PAR and PFM</p> <p>External evaluation report</p>

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Montenegro.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 13 100 000, and for complementary support is EUR 3 500 000. These amounts are based on the estimated cost of the PAR Strategy 2022-2026 and PFM Reform 2022-2026, which is in total EUR 52 250 000 (EUR 23 750 000 for PAR and EUR 28 500 000 for PFM). The amounts are proportional to the budgetary allocations for the first three years of implementation (EUR 11 967 330 for the PAR Strategy)⁴⁸.

The policy planning process was aligned with the budget planning process. Specifically, the Action Plans for the implementation of the PAR Strategy and the PFM Reform Programme 2022-2024 are reflected in the state budget for 2022 and for the following two years, according to a mid-term perspective.

Complementary support will be implemented via direct and indirect management based on technical assistance projects, allowing for better control on timing and coordination of the assistance. It will aim to strengthen assumptions and mitigate risks in the implementation of both strategies, so to facilitate the achievement of the results/indicators under the budget support component.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the PAR Strategy and PFM Reform and continued credibility and relevance thereof or of the subsequent policy;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;

⁴⁸ The estimated cost for the first three years of implementation of the PFM Reform Programme is under definition.

- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Specific conditions for the disbursement of the fixed tranche (year N).

Where feasible the counter signature of the Financing Agreement will be considered as the request to disburse the fixed tranche in year N.

c) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities:

- ~ Efficient service delivery based on the need of citizens and economy implemented
- ~ Credible strategic policy planning system in place
- ~ Delegation of Authority principle widely used in public bodies
- ~ Improved transparency of public administration and public finances
- ~ Public administration based on talented, competent and skilled employees
- ~ Administrative capacities for efficient absorption and management of EU funds built and new/additional recruits related to the two pilot sectors
- ~ Improved public investment management system

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

d) Modifications

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the end of the first quarter of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

e) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury.

4.4. Methods of implementation

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁴⁹.

4.4.1. Direct Management (Procurement)

One Procurement Contract will contribute to achieving the objective and the results specified under Objective 2. *Credible strategic policy planning system in place*, Objective 3. *Delegation of Authority principle widely used in public bodies* and Objective 4 - *Improved transparency of public administration and public finances*.

A second Procurement Contract will contribute to achieving the objectives and the results specified under Objective 1. *Efficient service delivery based on the need of citizens and economy* and under Objective 5. *Public administration based on talented, competent and skilled employees*.

If the procurement contracts as mentioned above cannot be implemented due to circumstance outside of the Commission's control, these parts of the Action can be implemented in indirect management with an International Organization or with a Member State Organization.

4.4.2 Indirect Management with an international organisation

A part of this Action may be implemented in indirect management with the Centre of Excellence in Finance (CEF, Ljubljana). This implementation entails support to monitoring and coordination of the PAR and PFM Strategy at all levels; advice and assist for the resolution of main bottlenecks in the implementation of the strategies, especially where enhanced coordination among different institution is necessary; support donors' coordination in PAR and PFM areas; increase internal and external visibility and communication of the reforms.

The envisaged entity has been selected using the following criteria:

- Technical experience in all main PFM and PAR areas;
- Recognized capacity to assist, coach and advise national authorities in the coordination and implementation of structural reforms in the PFM and PAR sectors at all levels;
- Capacity to coordinate with similar activities at regional level;
- Capacity to interface and coordinate with different donors;

⁴⁹ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

- Capacity to ensure the ownership and political buy-in of national authorities involved in the implemented reforms;
- Transparency and absence of conflict of interest

These activities will provide horizontal support for the achievement of all objectives of this Action and, more in general, of the PAR and PFM strategies. Moreover, it will contribute to mitigate one of the main risks identified for the implementation of the strategies, namely capacities constraints for monitoring and coordination.

In case the envisaged entity would need to be replaced, the Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented with another entity under indirect management with international organisation or in direct management in accordance with the implementation modalities identified in section 4.4.1.

4.4.3 Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances (one alternative second option)

If the procurement contracts as mentioned under section 4.4.1 above cannot be implemented due to circumstance outside of the Commission's control, these parts of the Action can be implemented in indirect management with an International Organization or with a Member State Organization.

If the Indirect Management with an international organization as explained under section 4.4.2 above cannot be implemented due to circumstances outside of the Commission's control, this part of the Action can be implemented in direct management via a procurement contract.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support – cf. section 4.3	13 100 000

Methods of implementation – cf. section 4.4	
Outcome 1 composed of:	
Complementary assistance – cf. section 4.4:	3 500 000
Indirect management with an international organization – cf. section 4.4.4	<i>700 000</i>
Procurement – total envelope under section 4.4.3	<i>2 800 000</i>
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision
Communication and visibility – cf. section 6	included in complementary assistance
Contingencies	N.A.
Total	16 600 000

4.7. Organisational Set-up and Responsibilities

Lead institutions in this Action will be the Ministry of Public Administration and the Ministry of Finance. The relevant ministries will do coordination of institutions respectively involved in the Action.

The coordination of the SBS support action will be embedded in the already existing teams for the coordination of the PAR Strategy and the PFM Reform. Members of this structure are also representatives of the main institutions responsible for the implementation of the PAR Strategy and the PFM Reform programme.

A budget support steering committee will be established, so to allow stakeholders' discussions and follow up of specific technical issues related to this Action, especially the achievement of indicators. This will help early identification of bottlenecks and determination of possible corrective actions. Meetings will take place quarterly or twice per year, upon decision of the steering committee members. Coordination with other any other ongoing budget support programmes will be taken in due consideration.

The PAR Council, chaired by the Prime Minister of Montenegro, will provide support at the highest policy and political level, by providing additional impetus for the implementation of activities related to the reform of public administration and public finance. The Council will also report on the implementation of this Sector Reform Performance Contract and, if necessary, it will discuss the mitigation of identified risks. Besides the representatives of the competent national institutions, the Council members are the representatives of non-governmental organizations, academic community and the Agency for Data Protection and Free Access to Information, allowing additional inputs and suggestions for better implementation of this Budget Support action.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the log-frame matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support). The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

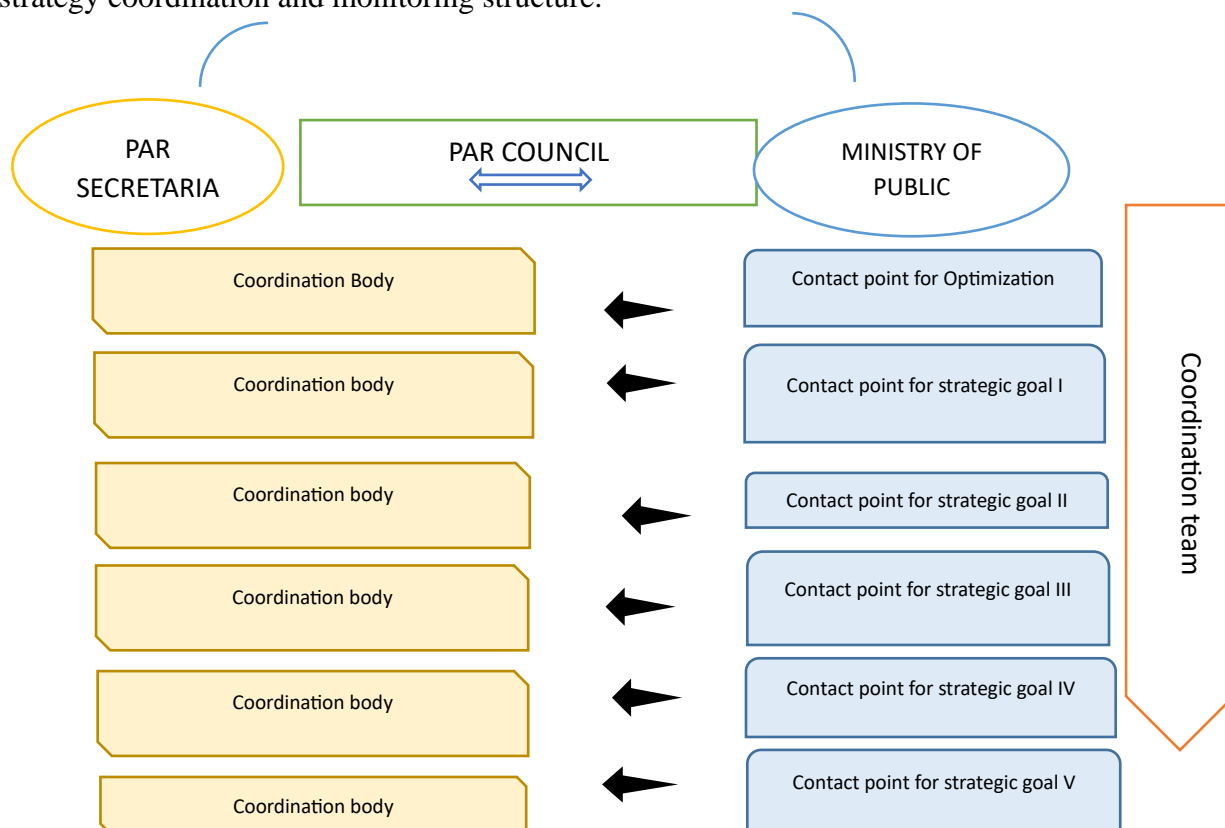
Roles and responsibilities for data collection, analysis and monitoring:

Managing PAR process implies effective coordination in its implementation and monitoring, as well as an efficient way of reporting on the results achieved in the implementation period. When it comes to monitoring the process at the political level, the Public Administration Reform Council (PAR Council) will provide support to both PAR and PFM reform processes at the highest level. At operational/technical level, a Coordination team within the MPA (Directorate for Strategic Planning, International Cooperation and IPA projects) was established, with the main purpose of monitoring the process of implementation of the PAR Strategy and the relevant Action Plan. This coordination team consists of technical representatives from all institutions implementing reform activities. In addition, contact persons for each strategic goal are identified, including for the area of optimization. Contact persons are responsible for providing data on the level of implementation of indicators, and monitoring the implementation of the strategic objectives. These will also provide all necessary inputs (data statistics, reports, analysis, etc.) to Coordination bodies.

Based on the previous experience and lessons learnt, at policy level separate Coordination bodies (with high officials, managers and selected experts in different areas as members) are established for each relevant strategic thematic area, with the purpose to give impetus to the implementation of the strategy and to support a more efficient reporting process. In addition, for exceptional issues of importance within the Strategy, ad hoc experts' groups will be created, which would consist of experts from national institutions, international organisations and/or prominent experts in relevant fields.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

Proposed strategy coordination and monitoring structure:



NB this will also include the Ministry of Finance for the PFM focused activities.

The need to establish a PAR Secretariat stems from the experience of the previous PAR Strategy and from the analysis of the work of the PAR Council so far. The Secretariat will improve the work of the Council by contributing to the coordination and dialogue among all stakeholders involved in the public administration reform process and by providing additional expertise and technical support for the improvement of public administration work.

Monitoring will ensure regular collection and analysis of data on the achievement of goals and results during the implementation of activities. The annual monitoring report, in accordance with the national “Methodology for Policy Development, Development and Monitoring of the Implementation of Strategic Documents”, will contain the following elements:

- Brief introductory summary with general assessment of the implementation of the strategic document;
- Specific values and fulfilment of result indicators (and performance indicators if available);
- Information on spent financial resources, in relation to the planned ones, with sources of financing;
- Identified challenges and recommendations for more efficient realization of goals;
- Changes, if any, in the deadlines for achieving the goals;
- Gantt chart or other tabular presentation of achieved goals;

Various data sources will be used to create an objective report: data provided by relevant institutions, government materials, reports on the implementation of the work program of institutions, interviews with contact persons, focus groups with relevant parties, NGO materials, research and reports of international organizations. The Monitoring report will be presented to the PAR Council and to the Government of Montenegro for adoption.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

Responsibilities for data collection, analysis and monitoring are on partner institutions when preparing the Requests for tranches, while European Commission will conduct independent evaluation of the request itself.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: despite the Ministry of Public Administration and, to less extend, the Ministry of Finance have established robust monitoring and reporting systems, existing capacity constraints in terms of human resources requires mitigating measures aimed at supporting monitoring and coordination of the strategies. This is due to the horizontal nature of the PAR and PFM strategies and the involvement of a high number of institutions at central and local level. Mitigating measures will take the form of complementary support to this Action.

5.2. Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or areas of support via independent consultants contracted by the Commission. It will be carried out for problem solving and learning purposes, in particular with respect to the continuous relevance of indicators and ongoing complementary assistance.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 2 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination⁵⁰. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the action.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

⁵⁰ See best [practice of evaluation dissemination](#)

6. COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of actions are a legal obligation for all projects funded by the EU, as set out in the EU communication and visibility requirements in force. In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the national administrations (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the action, customised for the various target audiences (stakeholders, civil society, general public, etc.)

Visibility and communication measures specific to this action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegations and Offices. The European Commission and the EU Delegations and Offices should be fully informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

7. SUSTAINABILITY

This Action is based on the reform goals, specific objectives and activities of the national PAR and PFM strategies 2022-2026. As one of three key pillars for the EU accession process, progress in good governance is supported by Montenegro's clear political determination towards the EU integration and by strong policy dialogue at all levels.

Secondly, a well-structured national policy-level coordination will focus not only on the effective implementation of PAR and PFM policies but also on the allocation of sufficient funding in the annual and multi-annual national budgets, so to ensure that policy gains are not only credible but also sustainable in the mid-term.

Moreover, a number of actions implemented under the PAR and PFM reform will contribute to the sustainability of reform results, namely an improved capacity of policy making and implementation, a progressive transition towards programme-based budgeting and a performance-based monitoring and evaluation system.



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THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX 3

of the Commission Implementing Decision on the annual action plan in favour of Montenegro for 2022

Action Document for the EU Integration Facility (EUIF)

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 8 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

SYNOPSIS

Action Summary Table

Title	Action Document for the EU Integration Facility Annual Action Plan in favour of Montenegro for 2022
OPSYS	ACT-60881/JAD.1003560
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe Initiative	No
Zone benefiting from the action	The action shall be carried out in Montenegro
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 2: Good governance, EU Acquis alignment, good neighbourly relations and strategic communication Thematic Priority 2: Administrative capacity and acquis alignment
Sustainable Development Goals (SDGs)	SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development
DAC code(s)	15110
Main Delivery Channel	12000 – Recipient government 12001 – Central Government

Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Internal markers	Policy objectives	Not targeted	Significant objective
Connectivity		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Digitalisation		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Migration		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
COVID-19		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget line: 15.020101.01 Total estimated cost: EUR 8 720 000 Total amount of EU budget contribution EUR 8 720 000			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Project Modality Direct management through: Grants, twinning grants and procurement Indirect management with UNDP, UNICEF, UNOPS and entity(ies) to be selected in accordance with the criteria set out in section 0			

Relevant priorities and flagships from the Economic and Investment Plan for the Western Balkans [only for the Western Balkans]	<p>Priorities: “Transport”, “Energy”, “Green Agenda”, “Digital Transition”, “Innovation Agenda”, “Human Capital Development”, “Common Regional Market and Economic Integration”, “Governance, Rule of Law, PAR”</p> <p>Flagships: “I Connect East-West”, II Connect North-South”, “III Connect Coastal Regions”, “IV Renewable Energy, “V Coal Transition”, “VI Renovation Wave”, “VII Waste and Waste Water “VIII Digital Infrastructure”, “IX Support Competitiveness”, “X Youth Guarantee”</p>
Final Date for the conclusion of Financing Agreement	At the latest by 31 December 2023
Final date for concluding contribution/delegation agreements, procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Indicative [operational implementation] [eligibility] period	72 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

Summary of the Action

The EUIF is a flexible mechanism that will contribute to increasing the effectiveness of IPA III, and management modes, including direct management by the European Commission and indirect management with entrusted entities, will be available. The decision on which mode to use will be made on a case-by-case basis with due regard to the management capacities of the beneficiary institution.

This Action will focus mainly on technical support and capacity building related to the EU accession process and it should ensure the effectiveness and impact of actions financed through IPA funds.

The EU Integration Facility shall provide flexible support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA III (and IPA II to a lesser extent), but it may also be used in ad-hoc circumstances where EU assistance is required and/or suggested or in case of a crisis.

Although there have been 33 chapters opened, the gradual closing of negotiation chapters is a process that requires considerable effort. These efforts will include both human and financial resources and therefore the EU Integration Facility will be used to address some of the challenges in these chapters identified during the negotiation process. Coordination of the accession process and management of EU funds is present and visible in the administration structure, but it still needs support. While a series of institutional building actions were undertaken within the previous IPA programmes, the capacities of line ministries and state agencies would need additional building.

In addition, the Action aims at providing flexible support to the Ministry of European Affairs and line ministries in addressing specific needs identified in the course of implementation of EU assistance – IPA III, supporting the accession negotiation process, and reinforcing the institutional capacities for managing the accession process and EU funds. This objective will be achieved through the capacity building interventions, preparation of well-targeted, mature and good quality actions or sector documents, preparation of tender documentation or other preparatory studies or through the implementation of activities that will ensure the effective and timely implementation of IPA programmes. Evaluation of IPA II and IPA III actions may also be financed. Some needs related to the negotiation process not addressed in the rest of the programme could also be addressed.

RATIONALE

Context

The specific objective of IPA III in the area of administrative capacity and *acquis* alignment is to bring policies and legislation in line with the EU policies and the EU *acquis* and to build administrative capacity to fully and effectively implement sector policies and the adopted legislation, building the ability of beneficiaries to take on the obligations of membership as well as the digitalisation efforts. This objective constitutes a crosscutting priority and complements administrative capacity-building under other Windows in line with the sector approach.

With regards to public finance management reform, the Government of Montenegro adopted the Public Finance Management Reform Programme 2016-2020 on 3 December 2015. The Programme defines the key reform plans in this area, aimed at increasing responsibility and ensuring reliable financial management, by improving economy, effectiveness and efficiency in public resources management. PEFA assessment, concluded in December 2019, shows mixed performance across different PFM processes and institutions. Fundamentals of the PFM system are in place and core functions are performing at the higher end of the assessment scores. These fundamentals and core functions relate to budget reliability, transparency of budget and fiscal information, revenue mobilization and budget execution, internal control and internal audit (IA), external audit and parliamentary scrutiny and, to a certain extent, accounting and financial reporting. On the other hand, more advanced elements of the PFM system demonstrate room for further improvement and continued strengthening. Preserving efficient and reliable fundamentals while developing additional capacity for advanced PFM practices can enhance the management of public finances in the long run and contribute to the country's broader goals, such as economic growth and efficient public service delivery. Areas for further improvement include the linkage between strategic plans and budget resources; medium-term perspective in planning and budgeting; management of public investments, assets, and fiscal risks; and meaningful performance measurement and evaluation.

Problem Analysis

AREA OF SUPPORT #1: Strengthening capacity of Montenegrin institutions for efficient and functional programming, management and implementation of pre-accession assistance

Short problem analysis:

Having in mind the scale of reforms necessary for accession and the available IPA funds, a key challenge for Montenegro is to focus funds on strategic and mature interventions, while efficiently leveraging national commitments and resource allocations to address the EU accession priorities, ensuring that these are well targeted to achieve impact. In this respect, the institutional structures for programming, implementation and monitoring need to be set up or upgraded and appropriate coordination capacities need to be strengthened. Coordination of the EU funds is present and visible in the administration structure, but it still needs support. While a series of institutional building actions were undertaken within the previous IPA programmes, the capacities of line ministries and state agencies would need additional building.

Description of main stakeholders:

The main stakeholders of the action would be line ministries, agencies and local self-government, as well as all the relevant national bodies who are directly or indirectly involved in the EU process or are benefiting from them in a sense of further building of their capacities.

AREA OF SUPPORT #2: Improving and communicating appropriately the process of EU accession, sector reforms and policy dialogue.

Short problem analysis:

Montenegro applied for EU membership in December 2008 and was granted candidate status in December 2010. In June 2012, following the endorsement by the European Council, the accession negotiations with Montenegro were opened, marking the start of a more intensive

phase in the accession process. The screening process was completed in May 2014, when the last screening report was processed by the Council. So far, all 33 negotiation chapters are opened and 3 chapters are provisionally closed.

However, although there have been 33 chapters opened, the gradual closing of negotiation chapters is a process that requires considerable effort. These efforts will include both human and financial resources and therefore the EU Integration Facility should be used to address some of the challenges in these chapters identified during the negotiation process. Coordination of the accession process, transposition of the *acquis* and implementation of EU policies are present and visible in the administration structure, but it still needs support. While a series of institutional building actions were undertaken within the previous IPA programmes, the capacities of line ministries and state agencies would need additional building.

Description of main stakeholders:

The main stakeholders of the action will be line ministries, agencies and local self-government, as well as all the relevant national bodies who are directly or indirectly involved in the accession negotiations or are benefiting from the process itself.

Complementarity with national strategies for areas of support #1 and #2:

Both areas of support will be implemented mainly according to Montenegro's Programme for accession to the EU 2021 – 2023, key IPA programming documents and overarching national strategies. The accession programme identifies key priorities for the accession process and gives an overview of the progress achieved through all 33 chapters, including the strategic, legislative and administrative framework. It is specially referring to the need for administrative capacity building and engagement of employees for the jobs of importance for the European integration process of Montenegro, primarily by redistribution of work, mobility within public administration, as well as through the need for new employment. Along with this Program, Montenegro's main overarching strategies are also: Montenegro's Development Directions (2018-2021), Economic Reform Programme for Montenegro 2020-2022 and National Strategy for Sustainable Development by 2030. In addition to these overarching strategic documents, other sector and cross-sector strategies and action plans contribute to the strategic goals of the government by defining more reforms that are specific and development objectives.

The Government of Montenegro adopted the *National Strategy for Gender Equality for 2021-2025* with the Action Plan for 2021-2022 and adopted the Final Report on the implementation of the Action Plan for Achieving Gender Equality 2017-2021. The low level of gender equality in Montenegro has been recognized as a central problem in this area, and in accordance with that, the main strategic goal has been defined - to raise the level of gender equality in Montenegro by 2025, by improving the implementation of the existing normative framework and implementing measures that strengthen the capacity of institutional mechanisms to implement legal provisions for protection against discrimination. Gender mainstreaming of policies and programmes is an important mechanism for achieving the above-mentioned strategic goal.

Taking into account the overall situation by areas of support, the assistance of the action shall be targeted and adjusted to the specific situation of the beneficiaries, taking into account further efforts needed to meet the EU membership criteria as well as their capacities. Assistance shall be differentiated in scope and intensity according to needs, commitment to reforms and progress in implementing those reforms.

DESCRIPTION OF THE ACTION

Intervention Logic

The Overall Objective of this action is to contribute to the successful conduction of the process of EU accession, including compliance with cohesion and structural funds related rules and standards. The following outcomes and outputs will lead to this overall result/impact. The Specific Objectives (Outcomes) of this action are:

1. Strengthening the capacity of Montenegrin institutions to carry out efficient and functional programming, management and implementation of pre-accession assistance;
2. Improving and communicating appropriately the process of EU accession, sector reforms and policy dialogue.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Output 1 related to Outcome 1

- 1.1 Strengthening stakeholders' cooperation, necessary capacities and systems allowing further training and information in order to prolonge a sustainable EU integration process;
- 1.2 Improve administrative capacities and internal monitoring and control framework for the management of the IPA and the national funds;
- 1.3 Ensure promotion of EUIF and managed unexpected situations;
- 1.4 Project preparation facility in place to ensure maturity of projects.

Output 1 related to Outcome 2

- 2.1 Strengthening of the legislative and institutional capacities of Montenegrin administration for transposition and implementation of the acquis, as well as capacities for leading and carrying out the accession negotiations;
- 2.2 Support for mainstreaming of gender in policy dialogue, reforms and management of IPA and national funds;
- 2.3 Increase compliance with relevant national strategies and EU directives in the environment and climate action.
- 2.4 Increase visibility of the EU support to the country and raise the awareness of the large public on the EU of pre-accession assistance;
- 2.5 Ensure promotion of EUIF and managing unexpected situations;
- 2.6 Support for the reforms and active participation in different policy dialogues;
- 2.7 Support for the education reform and inclusion of vulnerable groups.

Indicative Activities

Activities related to Output 1

- additional strengthened stakeholders cooperation, necessary capacities and systems allowing further training and information in order to prolonge sustainable EU integration process;
- improved administrative capacities and internal monitoring and control framework for the management of the IPA and the national funds;
- promotion of EUIF ensured and management of unexpected situations;

Activities related to Output 2

- additional strengthening of the legislative and institutional capacities of Montenegrin administration for transposition and implementation of the *acquis*, as well as capacities for leading and carrying out the accession negotiations.
- to support mainstreaming of gender in policy dialogue, reforms and management of IPA and national funds;
- support increased compliance with relevant national strategies and EU directives in the environment and climate action.
- increase the visibility of the EU support to the country and raise the awareness of the large public on the EU of pre-accession assistance;
- support for the reforms and active participation in the sector policy dialogue.
- to favour activities related to education reform and inclusion of vulnerable groups (including cooperation with UNICEF and UNOPS);

3.3 Mainstreaming

The EU Integration Facility reflects the European Union's longstanding commitment to address environmental and climate change concerns and enhance sustainable development by supporting the harmonisation with the EU *acquis* and implementation of the new legislation under Chapter 27, as well as the alignment with the EU *acquis* in other linked chapters. In the context of the European Green Deal⁵¹, will require mainstreaming of the green agenda⁵². Some examples include chapter 5 on public procurement introducing quality criteria such as respect to the environment in the public purchase, chapter 11, under which the greening of the agriculture will need to be addressed through the national policy on subsidies, or chapter 8 on competition and state aid, encouraging state aid for green investments, chapter 20 on enterprise and industrial policy, supporting a major shift to renewable energy, less polluting technologies, etc. To further enhance the process of mainstreaming environment and climate change into the integration process, support will be provided for the systematic application of Environmental Impact Assessment, Strategic Environmental Assessment, and Climate Risk and Vulnerability Assessment.

Mainstreaming gender will be one of the outcomes of the programme, with specific activities but also mainstreamed throughout the whole programme. Moreover, in order to better mainstream gender in its external policies, the EU has adopted, since 2010, three successive gender action plans GAP I, GAP II and GAP III, the latter being currently implemented until the end of 2025. GAP III is the EU instrument for promoting gender equality and women empowerment in its external relations with third countries and international fora and institutions, providing necessary guidance for the implementation of all EU external policies.

3.4 Risks and Lessons Learned

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures

⁵¹ COM(2019)/640-The European Green Deal.

⁵² As reflected in the Staff Working Document “Green Agenda in the Western Balkans” (presented in October 2020 in parallel to the Economic and Investment Plan for the Western Balkans).

3	Risk 1 High fluctuation of staff working in state administration, particularly in the beneficiary institutions	M	M	The Government of Montenegro is committed to the implementation of staff retention policy measures with the aim to reduce the staff turnover in the IPA structures and its further strengthening in the next period.
2	Crisis and unexpected situations (such as COVID-19 or other global challenges)	M	M	By the time the action will be implemented, the pandemic is expected to ease. In any case, social distance and all necessary preventive measures will be in place in order to ensure efficient implementation of the action.

Lessons Learned:

The Project Preparation Facility (PPF), Support Measures Facility (SMF) and EU Integration Facility funds under the previous IPA programmes have been both utilized for delivering short-term assistance in designing effective strategic plans in different sector areas, often followed by more detailed investment strategies; providing ad hoc support in particular chapters or future areas of negotiation; supporting planning and programming of the EU funded actions by assisting in stakeholder consultations; drafting the action documents and their annexes, and drafting the tender documentation and support the evaluations for the implementation of the EU funded actions. In the context of the preparation of IPA national programmes, it has become clear that beneficiaries require assistance in developing programmes/actions and that it is in particular necessary to provide a facility to enable limited support targeted specifically at the design-preparation phase before larger scale funds are committed to less-well defined and relatively high-risk actions. Regarding the implementation of the EU Integration Facility under the IPA II, the experience shows that the beneficiary institutions are still relying in general on the IPA “project approach”. Having this in mind, it is necessary to further draw attention to the importance of the “sector approach” or approach according to thematic windows and to make sure that the action proposals from the potential beneficiary institutions are also contributing to the development of the respective sectors.

In the previous financial framework, the EU Integration Facility proved to be very efficient in delivering ad-hoc, urgent and needed help for the country, especially during the COVID-19

pandemic. This role of the EUIF should be extended in the future to react to emerging needs not previewed in regular programmes.

3.5 Indicative Logical Framework Matrix

Results	Results chain: Main expected results	Indicators	Baselines 2022	Target 2023	Sources of data	Assumptions
Impact	To successfully conduct the process of EU accession, including compliance with cohesion and structural funds related rules and standards	1. Progress in accession to the EU. Montenegro has opened 33 (out of 33 chapters) and the progress is measured by the number of provisionally closed chapters	33 chapters opened	At least 7 chapters provisionally closed	Commission Report	<i>Not applicable</i>
Outcome 1	1. The capacity of Montenegrin institutions for efficient and functional programming, management and implementation of pre-accession assistance strengthened.	1.1 Level of absorption of EU funds improved (contracting and disbursement rate) 1.2 Financial management and control systems operate smoothly (number of major audit findings and audit error rate) 1.3 % of EU funds contracted	It will be determined at a later stage	It will be determined at a later stage	Financing Agreements Commission Report IPA Monitoring Committee Reports NIPAC Annual reports Action progress reports Monitoring and evaluation reports	Ensured adequate staff for state administration Macroeconomic and political stability is maintained
Outcome 2	2. The process of EU accession, sector reforms and policy dialogue improved and communicated appropriately.	2.1. Number of recommendations from EC Country Report fulfilled 2.2. Implementation rate of the supported Sector/sub-	It will be determined at a later stage	It will be determined at a later stage	Financing Agreements Commission Report IPA Monitoring	The continued commitment of the Government structures to the accession process

		<p>sector Strategies (by measure and/or priority);</p> <p>2.3 Number of legislative acts prepared in an inclusive and evidence-based process and adopted in compliance with the acquis.</p>			<p>Committee Reports</p> <p>NIPAC Annual reports</p> <p>Action progress reports</p> <p>Monitoring and evaluation reports</p>	
Output 1 related to Outcome 1	<p>1.1 Strengthened stakeholders' cooperation, necessary capacities and systems allowing further training and information in order to prolong the sustainable EU integration process;</p> <p>1.2 Improved administrative capacities and internal monitoring and control framework for the management of the IPA and the national funds;</p> <p>1.3 Ensured promotion of EUIF and managed the unexpected situation.</p> <p>1.4 Project preparation facility ensured maturity of projects.</p>	<p>1.1.1 Number of project proposals submitted under the EUIF;</p> <p>1.1.2 Number of institutions involved in project implementation;</p> <p>1.1.3 Ease of mobilising resources under the EUIF; * Average length of project launch (duration from submission of project proposal until contract signature);</p> <p>* EUIF Funds implementation rate (EUIF Contracting and disbursement rate);</p> <p>1.1.4 Number and percentage of projects completed successfully/ results delivered</p> <p>Number of documents</p>	It will be determined at a later stage	It will be determined at a later stage	<p>EUIF implementation reports</p> <p>Steering Committee Reports</p> <p>Project reports</p>	<p>Sufficient interest on behalf of the public bodies and democratic institutions to develop and implement projects</p>

		<p>adopted, Number of people trained, Number of IT tools put in use.</p> <p>1.1.5 Number of tender dossiers prepared and published</p>				
Output 1 related to Outcome 2	<p>2.1 The legislative and institutional capacities of Montenegrin administration for transposition and implementation of the acquis strengthened, as well as capacities for leading and carrying out the accession negotiations;</p> <p>2.2 Mainstreaming of gender in policy dialogue, reforms and management of IPA and national funds supported;</p> <p>2.3 Increased compliance with relevant national strategies and EU directives in the environment and climate action supported;</p> <p>2.4 The visibility of the EU support to the country increased and the awareness of the large public on the EU</p>	<p>2.1.1 Number of legislative acts prepared and adopted in compliance with the acquis;</p> <p>2.1.2 Degree of public recognition of the EU support (percentage of people recognising the EU as the main donor;</p> <p>2.1.3 Implementation rate of the Sector/sub-sector Strategies (by measure and/or priority);</p> <p>2.1.4 Number of Reform Priorities addressed with the EUIF support.</p>	It will be determined at a later stage	It will be determined at a later stage	<p>Financing Agreements Commission Report IPA Monitoring Committee Reports NIPAC Annual reports Action progress reports Monitoring and evaluation reports</p>	<p>EU integration remains a government priority, which entails a continuous high-level political commitment to EU accession, support for the reforms and active participation in the sector policy dialogue.</p> <ul style="list-style-type: none"> - Macroeconomic and political stability is maintained - Key reforms (such as PFM, PAR, Judiciary) are well

	<p>of pre-accession assistance raised;</p> <p>2.5 The promotion of EUIF and managing unexpected situations ensured;</p> <p>2.6 The reforms and active participation in the sector policy dialogue supported;</p> <p>2.7 The education reform and inclusion of vulnerable groups are supported.</p>					progressing
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IMPLEMENTATION ARRANGEMENTS

Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Montenegro.

Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed upon by the Commission's responsible authorising officer by amending this Financing decision and the relevant contracts and agreements.

Methods of implementation

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

Direct Management (Grants)

a) Purpose of the grant

Potential grants would address all objectives and results of the action depending on the specific request of the beneficiary.

In the case of twinning contracts, the result targeted would be to provide support to the legislative and institutional capacities of the Montenegrin administration for transposition and implementation of the EU *acquis* and capacities for leading and carrying out the accession negotiations.

b) Type of applicants targeted – in more detail, including but not limited to essential characteristics: the place of establishment

In the case of grants:

Legal entities, natural persons or groupings without legal personality, local authorities, public bodies, and international organisations.

In the case of Twinning:

Applicants must be EU Member State administrations or their mandated bodies.

The global budgetary envelope reserved for grants: EUR 1 500 000.

Concerning change of the management mode in exceptional circumstances, see section 4.3.4

Direct Management (Procurement)

This Action shall provide capacity building in programming and identification of Sector Support Programmes / Sector Support Actions / Sector Support Oriented Actions /Stand-alone Actions to SWGs, line ministries and other stakeholders (other state bodies, independent regulators, local governments, social partners, civil society, etc.). The programme shall support the NIPAC Office to coordinate the overall process of EU integration, but it will simultaneously have an impact on the capacities and ownership of line ministries, working groups for specific chapters, sector working groups and other stakeholders to carry out accession negotiations as well as programming of EU assistance which will be thus better linked with the EU accession process.

Procurement may also be used to respond to ad hoc/emergency responses.

The global budgetary envelope reserved for this modality is EUR 3 720 000.

Concerning change of the management mode in exceptional circumstances, see section 4.3.4

Indirect Management with - Member State Organisation, third donor country, EU specialised (traditional/regulatory) agency, international organisation

A part of this action may be implemented in indirect management with entities that will be selected by the Commission services using the following criteria: nature of the action, operational and technical capacity, value-added, transparency and absence of conflict of interest. The implementation by these entities entails the activities deemed necessary to be implemented under Indirect Management with a Member State Organisation, third donor country or EU specialised agency or international organisation, or with an entity which will be selected by the Commission's services according to the previously defined criteria. This modality will contribute to achieving the results mentioned above. Its use will depend on the beneficiary's needs and requests.

In case the envisaged entities would need to be replaced, the Commission's services may select a replacement entity using the same selection criteria given above. If the entity is replaced the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in sections 4.3.1.and 4.3.2.

A part of this action may be implemented in indirect management with the United Nations Development Programme (UNDP). This implementation entails all activities related to Output 1 of Outcome 2 point 2.2 Mainstreaming of gender in policy dialogue, reforms and management of IPA and national funds supported. The envisaged entity has been selected using the following criteria: nature of the action, operational capacity and value added of the entity. Given the experience of UNDP for gender mainstreaming, UNDP will continue working with the Government to implement the national strategy.

A part of this action may be implemented in indirect management with the United Nations Children's Fund (UNICEF). This implementation entails activities related to Output 1 of Outcome 2 point 2.7 The education reform and inclusion of vulnerable groups are supported. The envisaged entity has been selected using the following criteria: nature of the action, operational capacity and value added of the entity. Given that UNICEF has finalised a needs assessment of the Education sector in the country, the action will support the government in the development of the education strategy, ensuring that the system is inclusive.

A part of this action may be implemented in indirect management with United Nations Office for Project Services (UNOPS). This implementation entails activities related to Output 1 of Outcome 1 point 1.4 Project preparation facility ensured maturity of projects. The envisaged entity has been selected using the following criteria: nature of the action, operational capacity and value added of the entity. In continuation of the expertise that will be provided under the 2018 programme, UNOPS will support the development of social sectors/judiciary with a focus on ICT and infrastructure, and the development of mature project pipeline/programming documents (PPF).

Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances (one alternative second option)

In exceptional circumstances and upon authorization of the European Commission, changes from indirect management as foreseen in sections 4.3.3 above to direct management as described in sections 4.3.1 and 4.3.2 above mode are possible. *Vice versa*, if the procurement and grant procedures as foreseen under sections 4.3.1 and 4.3.2 above cannot be implemented due to circumstance outside of the Commission's control, these parts of the Action can be implemented in indirect management with Entrusted Entities.

Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of the origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or unavailability of services in the markets of the countries or

territories concerned, or in other duly substantiated cases where the application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

Indicative budget

Indicative Budget components	EU contribution (amount in EUR)	Indicative third-party contribution, in currency, identified
Budget support - cf. section 4.3	N.A.	N.A.
Methods of implementation – cf. section 4.3		N.A.
Outcome 1 Strengthening the capacity of Montenegrin institutions for efficient and functional programming, management and implementation of pre-accession assistance composed of	3 150 000	N.A.
Grants (direct management) – cf. section 4.3.1	350 000	N.A.
Procurement (direct management) – cf. section 4.3.2	800 000	N.A.
Indirect management with entrusted entities - cf. section 4.3.3	2 000 000	N.A.
Outcome 2. Improving and communicating appropriately the process of EU accession, sector reforms and policy dialogue. composed of	5 570 000	N.A.
Grants (direct management) – cf. section 4.3.1	1 1500 000	N.A.
Procurement (direct management) – cf. section 4.3.2	2 920 000	N.A.
Indirect management with entrusted entities- cf. section 4.3.3	1 500 000	N.A.
Indirect management with Montenegro	N.A.	N.A.
Grants – total envelope under section 4.3.1	1 500 000	N.A.
Procurement – total envelope under section 4.3.2	3 720 000	N.A.
Indirect management with international organisations- total envelope under section 4.3.3	3 500 000	N.A.
Budgetary guarantee – the amount of annual provisioning	N.A.	N.A.
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision	N.A.
Communication and visibility – cf. section 6	will be covered by another Decision	N.A.
Contingencies	N.A.	N.A.
Total	8 720 000	N.A.

Organisational Set-up and Responsibilities

Organisational set-up and responsibilities shall be defined in more detail by the Rules of procedure for the functioning of the Steering Committee for the EU Integration Facility. The Steering Committee shall be in principle composed of representatives of the NIPAC Office and of the Delegation of the European Union to Montenegro. In case of implementation of available funds under indirect management, representatives of the Directorate for Financing and Contracting of EU funds (CFCU) in the Ministry of Finance will also be members of the Steering Committee with voting right. The Steering Committee shall be responsible for:

- determining the eligibility and checking the quality of action proposals submitted to NIPAC according to previously agreed and defined criteria;
- approving the eligible actions for financing under the EU Integration Facility (EUIF);
- regular overview of the state of play of implementation of the approved actions, identification of implementation issues and providing recommendations for overcoming them.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

PERFORMANCE MEASUREMENT

Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of the implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support). The Commission may undertake additional project monitoring visits both through its staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The performance and result monitoring arrangements are to be conducted by the Steering Committee (SC) led by the beneficiary as the main relevant Institution for reporting and data follow up. Strict collection of data should be done at intermediary points to compare initial target indicators with achieved ones. A performance assessment framework to be defined by the new MCI with the support of the TA for CB are to be followed up in line with the mechanisms for monitoring, reviewing and evaluating progress on indicators in accordance with the logframe matrix (as listed within this document).

Evaluation

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for problem-solving, and learning purposes, in particular with respect to informing future programming in the same sector.

The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the IPA III beneficiary and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA III beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may be based on a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of Actions is a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the public administrations (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, the general public, etc.)

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegation. The European Commission and the EU Delegation should be fully

informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

SUSTAINABILITY

Improved programming and capacities to utilise IPA III resources will have a direct impact on advancing and accelerating accession negotiations with the EU, which is the ultimate goal of the Government of Montenegro. Therefore, the Action will contribute to the progress and sustainability of achieved results within the reforms of the process of accession to the EU, supported by IPA III.

In addition, the sustainability will be ensured through the established coordination mechanisms for programming and implementation of IPA III, as well as through acquired skills of the state administration in the programming of IPA III that will lead to the successful implementation of projects and improved programming for next years. Specific knowledge on the preparation of relevant documentation, both for programming and for implementation, gained through the provision of expertise and/or training and coaching will ensure strengthened capacities. Having in mind that NIPAC will have the overall responsibility for coordination of the IPA III, enhanced capacities of the NIPAC Office will have multiple impacts on the capacities of sector working groups, but also of working groups for specific negotiation chapters, through direct communication and coordination with the Secretariat of the Negotiation Group (which is part of the MEA). Financial sustainability will be ensured through better programming of IPA III resources and this will enable utilisation of both IPA resources and State budget resources, contributing to the financial sustainability of overall resources invested in reform and accession processes.'