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COMMISSION STAFF WORKING DOCUMENT

Montenegro

Accompanying the document

Commission Implementing Decision

**approving the Reform Agendas and the multiannual work programme under the
Reform and Growth Facility for the Western Balkans**

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EXECUTIVE SUMMARY

With the entry into force of Regulation (EU) 2024/1449 on 25 May 2024, the legal basis of the Reform and Growth Facility for the Western Balkans is now established. The implementation of the Facility has started swiftly, with the preparation and the submission of the Reform Agendas by the beneficiaries, which has followed an intense preparation process validated also by extensive consultations at national level.

The Reform Agendas are the cornerstone of the Facility: they set an ambitious pattern for growth focusing on necessary socio-economic reforms coupled with fundamental reforms, including rule of law and targeted investments. They also represent the mechanism through which payments are decided, hence offering both a monitoring tool and effective policy dialogue instrument between Montenegro and the Commission.

This document presents the assessment of the Commission of the Reform Agenda submitted by Montenegro, performed in line with Article 14 of the Regulation, and with specific attention to the elements summarised below.

The Reform Agenda of Montenegro is consistent with the general objectives and preconditions of the Regulation. It is designed to support the enlargement process by accelerating the alignment with Union values, laws, rules, standards, policies and practices (*'acquis'*) through reforms in the framework of its future Union membership, accelerate progressive integration into the Union and especially socio-economic convergence with the EU and the EU single market. With regard to the preconditions, Montenegro is a multi-party parliamentary democracy and the implementation of the Reform Agenda will reinforce its electoral system, its independent judiciary, rule of law and law enforcement capabilities, and further guarantee respect for human rights obligations, including gender equality and the rights of persons belonging to minorities.

Montenegro's Reform Agenda is consistent with the EU policy framework, with a strong focus on the fundamentals of the accession process, including the rule of law, anti-corruption, and fundamental rights. It will increase the stability of institutions guaranteeing democracy, the rule of law, and human rights. It will also contribute to developing a functioning market economy and improve Montenegro's ability to cope with competitive pressure and market forces within the EU. It will enhance the country's ability to take on the obligations of membership, and increase its capacity to effectively implement the rules, standards and policies that make up the EU *acquis*.

Notwithstanding the transformative potential of the Reform Agenda, it is important that the policy framework and results-based financing mechanism of the Facility are not interpreted as a comprehensive response to the requirement of the accession process. The Facility has neither the financial leverage nor the policy scope necessary to address every obligation stemming from the accession process. The negotiating framework and the other non-financial and financial instruments, deployed by the Commission to accompany Montenegro towards membership, remain valid and complementary to the Facility.

The Reform Agenda is complementary with IPA III bilateral and multi-country assistance across relevant areas including the fundamentals, human capital development, green agenda, energy, education, environment, migration and infrastructure investments supported under WBIF.

In conclusion, the Commission has assessed that the Reform Agenda submitted by Montenegro is relevant, comprehensive and appropriate to fulfil the objectives of the Facility.

While this Staff Working Document makes a formal assessment of the reforms, steps and related timeline proposed in the Reform Agenda, it does not constitute an endorsement of any unilateral statement contained in the narrative part of the document prepared and submitted by the Western Balkans beneficiary.

Introduction

Insufficient socio-economic convergence between the Western Balkans and the EU has been a long-standing issue, exacerbated by the economic impact of Russia's unprovoked and unjustified war of aggression against Ukraine and before that by the COVID-19 pandemic. The Western Balkans' level of economic convergence in terms of GDP per capita in purchasing power standards is at between 30% and 50% of the EU average and is not progressing fast enough. It is essential for the Western Balkans, for the European Union and for the accession process that this rate of convergence accelerates, since a higher level of convergence will greatly facilitate the integration of the Western Balkans into the EU.

To reduce that disparity, the Commission in its Communication of 8 November 2023, entitled 'New Growth Plan for the Western Balkans' set out a New Growth Plan for the Western Balkans based on four pillars: (a) increasing integration with the EU's Single Market; (b) boosting regional economic integration, based on EU rules and standards, by fully implementing the existing Common Regional Market Action Plan; (c) accelerating fundamental reforms, including on the fundamentals cluster, supporting the Western Balkans' path towards EU membership, deepening reforms aiming at accelerating growth in the region, promoting economic convergence and strengthening regional stability; and (d) establishing a new financing instrument: the Reform and Growth Facility ('the Facility') for the Western Balkans.

The implementation of the New Growth Plan for the Western Balkans requires increased funding under the dedicated new financing instrument, the Facility, to assist the region in implementing reforms for sustainable economic growth, regional integration and the Common Regional Market. With the entry into force of Regulation (EU) 2024/1449 on 25 May 2024, the legal basis of the Reform and Growth Facility for the Western Balkans is now established.

The implementation of the Facility builds on the 'Reform Agenda', a coherent and prioritised set of targeted reforms prepared by each beneficiary, in consultation with relevant stakeholders, including beneficiaries' parliaments, local and regional representative bodies and authorities, social partners and civil society organisations. The Agenda provides a framework for boosting inclusive sustainable socio-economic growth, clearly articulated and aligned with Union accession requirements and the fundamentals of the enlargement process.

The Reform Agendas will reward performance of the beneficiaries, as the disbursement of Union support will be conditional on measurable progress in the implementation of the reforms therein.

The payment conditions take the form of a set of qualitative and quantitative steps with a related timeline for disbursements linked to specific socio-economic reforms to stimulate growth, put beneficiaries on a sustainable convergence path and orientate them towards specific reforms related to fundamentals of the enlargement process including rule of law, fight against corruption and organised crime. Macro financial stability, sound public financial management, transparency and oversight of the budget are general conditions for payments that have to be fulfilled for the release of funds.

Payments will occur according to a fixed semi-annual schedule, based on duly justified requests for the release of funds submitted by the Beneficiaries and following the verification by the Commission of the achievement of the relevant payment conditions, of the principles for financing under the Reform Agendas, including the general conditions mentioned above as set out in Art. 12 and of the pre-conditions stipulated in Art. 5 of the Regulation. In case these conditions are not met, the Commission will suspend or deduct a corresponding amount from the payment.

In order to ensure uniform conditions for the implementation of the Regulation, implementing powers have been conferred on the Commission to approve the Reform Agendas. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council. The Commission will duly take into account Council decision 2010/427/EU and the role of the European External Action Service (EEAS), where appropriate, and in particular when monitoring the fulfilment of the relevant pre-conditions for Union support. The Commission implementing decision referred to in the Regulation should at the same time constitute a work programme within the meaning of Article 110(2) of the Financial Regulation in respect of the amount of non-repayable financial support under this Regulation.

This Staff Working Document provides the Commission's assessment of the relevance, comprehensiveness and appropriateness of the Reform Agendas submitted by Montenegro to the European Commission on 10 July 2024, in compliance with the provisions stipulated in Article 14 of Regulation (EU) 2024/1449.

The document is structured in two parts, the first being the analysis of the compliance of the Agenda with the objectives of the Facility, with the overall EU Policy Framework including the Economic Reform Programme, the Joint Policy Guidance and the Enlargement Policy framework, and with key policy sectors that have been selected for accelerated socio-economic growth. Part one contains also the detailed assessment of the key policy areas of the Reform Agendas, their reforms and most significant qualitative and quantitative steps. It elaborates on the general conditions for payments and provides a brief analysis of the indicative list of investments that Montenegro has preliminarily selected for support from the Facility under the Western Balkans Investment Framework.

Part two provides an assessment of the general issues contributing to the preparation and future implementation of the Facility: its complementarity with the on-going and future activities supported under the Instrument for Pre-accession Assistance, the beneficiary's consultation process leading to the preparation of the Agenda, the monitoring, evaluation and control systems that should be set up and the communication and visibility measures.

Part 1: Assessment of the Reform Agenda

1.1 Assessment of the relevance and coherence of the Reform Agenda

1.1.1 Consistency with the Objectives of the Western Balkans Facility

As a small country with an open economy, reliant on tourism as a principal source of income, Montenegro is particularly vulnerable to external shocks and climate change. The main challenges include ensuring institutional stability, diversifying the economy, tackling corruption, and further transitioning from fossil fuels to cleaner energy sources. Improving the business environment by addressing informality, supporting Micro, Small & Medium Enterprises (MSMEs), enhancing the quality and inclusivity of education, and fostering innovation are also crucial elements that will promote socio-economic growth.

In order to counter these risks, to meet the Copenhagen criteria for membership of the EU and to comply with the aims of the Reform and Growth Facility, Montenegro's main objectives for the Reform Agenda are to reinforce political and institutional stability, guarantee the rule of law, increase competitiveness, improve the country's socio-economic resilience and sustainability and implement future-oriented human capital and social policies.

Montenegro's Reform Agenda is designed to help accelerate the country on its accession path, while providing conditions that will lead to greater socio-economic convergence with the EU. The reforms are focused on four areas: business environment and private sector development, digital and green/energy transition, development of human capital and fundamentals – rule of law. These reforms will help the country cope with competitive pressure and market forces as a future EU Member state and reinforce its resilience. They will also enhance country's ability to take on the obligations of membership, and increase its capacity to effectively implement the rules, standards and policies that make up the EU *acquis*. Furthermore, they will reinforce Montenegro's electoral system, its independent judiciary, rule of law and law enforcement capabilities, and guarantee respect for human rights obligations.

By enhancing the convergence of Montenegro with the EU and providing access to some of the benefits of EU membership in advance of accession, the implementation of the Reform Agenda should further enhance the understanding of the strong shared interests of the EU and Montenegro, including in foreign and security policy. This should contribute to Montenegro maintaining its 100% alignment with the EU Common Foreign and Security Policy (CFSP), which remains a strong signal of its strategic orientation.

In terms of strategic dependencies, Montenegro is mostly self-sufficient in its energy production, and does not depend on imported gas or oil to cover its energy needs. However, most of Montenegro's electricity is produced by hydropower, making it vulnerable to hydrological conditions and thus climate change. The Reform Agenda aims to support a diversification to wind and solar power, reduce dependency on hydropower and increase integration with the EU energy market. It will put in place just transition activities that will facilitate the phase out of the coal power plant in Pljevlja.

It is considered there are no particular risks in compliance with preconditions and payment conditions (Art 14.4 (g)).

The Reform Agenda of Montenegro fulfils the requirements set out in articles 3, 4, 13.1 (j), 14.2 and 14.4 (a, b, c, g) of the Regulation establishing the Reform and Growth Facility for the Western Balkans.

1.1.2 Relevance with the general EU policy Framework

Montenegro's Reform Agenda is consistent with the EU policy framework, with a strong focus on the fundamentals of the accession process, including the rule of law, anti-corruption, and fundamental rights. It will contribute to Montenegro meeting the Copenhagen criteria, as it will increase the stability of institutions guaranteeing democracy, the rule of law, and human rights. It will also contribute to developing a functioning market economy and improve Montenegro's ability to cope with competitive pressure and market forces within the EU. It will enhance the country's ability to take on the obligations of membership, and increase its capacity to effectively implement the rules, standards and policies of the EU.

With regard to the Stabilisation and Association Agreement (SAA) and priorities identified in the context of the enlargement policy framework in the specific chapters of the accession negotiations, Montenegro's Reform Agenda will reinforce the principles of market economy, help to combat organised crime and corruption, facilitate the free movement of goods and enhance cross-border connectivity. It will ensure alignment with the EU *acquis* and relevant standards in a range of policy areas including energy, transport and environment, promote audit and financial control, facilitate the conduct of business and investments and support life-long education and training.

The Reform Agenda of Montenegro is consistent with the latest macroeconomic and fiscal policy framework and the structural reforms identified in the Economic Reform Programme 2024-2026, submitted to the Commission in the context of the Economic and Financial Dialogue, and the related Joint Policy Guidance. It directly responds to the socio-economic challenges identified in these documents, enables, supports and reinforces the reforms proposed by Montenegro and agreed with the EU in the reform areas of competitiveness (reform of State-owned Enterprises (SOEs), reduction of informal economy), sustainability and resilience (green and digital transition reforms – energy resilience and decarbonisation), human capital development and social policies (Youth Guarantee Programme, better quality and inclusivity of education, improved social protection for kids and vulnerable groups).

Consistency with the Economic and Investment Plan for Western Balkans has been ensured primarily concerning the flagship areas clean energy, digital agenda, and human capital development.

1.1.3 Fundamentals of enlargement including Rule of Law, fundamental rights, fight against corruption and organised crime

Reforms in the area of the fundamentals of enlargement reflect the strong political commitment to the Reform Agenda and enlargement process. The commitments include a comprehensive reform of electoral processes, a focus on fundamental rights, improved judicial efficiency and strengthened judicial independence and accountability, prevention and response to corruption and organised crime, and reduced legal uncertainties and political risks.

On electoral processes, the reforms put forward by Montenegro will comprehensively review the electoral framework on the basis of the recommendations issued by OSCE/ODIHR and the Council of Europe.

For the judiciary, Montenegro has put forward reform steps including the appointment of the President of the Supreme Court and the setting of a clear deadline for constitutional reform

needed to revise the composition of the Judicial Council in line with European standards. Montenegro has also committed to the full implementation of the appointment, evaluation and promotion of judges in line with the recently amended Law on Judicial Council and Judges. In line with the Interim Benchmark Assessment Report, progress is also expected on outstanding amendments to the Law on the Special State Prosecutor's Office in line with the Venice Commission recommendations (introduction of accountability guarantees (including judicial reviews), guarantees for data protections, and the set-up of a strategy for backlog reduction).

On the fight against corruption, the reforms are foreseen to strengthen repression and prevention, including in high-level cases. In June 2024, following an assessment by the Commission and as part of work to meet the interim benchmarks for the rule of law *acquis* chapters, Montenegro adopted the Strategy for the fight against corruption 2024-2028 together with its accompanying Action Plan 2024-2025. Subsequent action plans will be adopted to ensure implementation. The strategy identifies the following areas as the most vulnerable to corruption: the judiciary, the police and customs administration, environment, urban planning, public procurement, local self-government, and State-Owned Enterprises and contains specific measures to address the risks in those areas in line with European and international standards.

The implementation of the new anti-corruption strategy will be ensured, notably the creation and delivery of integrity tests in the customs and tax administrations, and the filling of positions in the courts handling corruption cases. It is expected that implementation of the strategy and related measures will contribute to fulfil the requirements on anti-corruption under the WB Facility Regulation. To strengthen its legal framework in the fight against corruption, and following consultations with the European Commission, Montenegro adopted a new Law on Prevention of Corruption in June 2024 as well as amendments to the Law on the Seizure of Assets Acquired through Criminal Activity. Furthermore, Montenegro commits to improve results in the field of investigations, prosecutions, final judgments, confiscation and final confiscation in corruption, including cases of high-level corruption; demonstrate an overall increase in the number of investigations, confirmed indictments and convictions, including high-level corruption cases; demonstrate an increase in the number and the overall value of seizures, freezing and confiscations of the proceeds of crime and demonstrate an increase of standalone financial investigations. Extra assurance in this process is provided by the Commission's statistical data tool, the Organised Crime and Corruption Track Record platform (OCCTR), which was launched earlier this year with national data already made available. This platform ensures the use of a standardized methodology for calculating accurate baselines, based on the average performance from the previous three years. The platform enables proper tracking of performance during the implementation period of the facility and ensures quality control of data. Where necessary, the Commission will take into account relevant qualitative aspects when assessing the track record.

The Commission expects Montenegro to continue efforts to implement reforms in areas not included in the Reform Agenda. In particular, to make progress on the issues identified in the EU Common Position on Chapter 23 as well as implement the recommendations stemming from the Commission's annual enlargement report and shortcomings identified in the recently published Rule of Law report to effectively prevent and repress corruption in areas vulnerable to it.

To boost respect for fundamental rights, Montenegro commits to reform steps in the areas of: gender-based violence, promotion of equality and prohibition of discrimination, and implementation of the recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment. This includes standard operating procedures on prosecution and sentencing related to gender-based violence and on preventing

and reducing the number of established human right violations, including by improving the material conditions of the stay of persons deprived of their liberty.

Montenegro has put forward several reforms with the ambition to improve results and track records in the fight against organised crime. The reform steps and timelines are the result of extensive previous negotiations and have been assessed by the Commission as both ambitious and plausible to implement. These include steps to increase the efficiency and effectiveness of investigations and the operational capacity of the police. In addition, a track record step focuses on the implementation of measures to increase investigations, indictments and convictions and the confiscation of assets. Track record progress is closely monitored by the Commission in the context of accession negotiations and will in addition be assessed twice in the duration of the Reform Agenda. Extra assurance in this process is provided by the Commission's statistical data tool, the Organised Crime and Corruption Track Record platform (OCCTR), which was launched earlier this year with national data already made available. This platform ensures the use of a standardized methodology for calculating accurate baselines, based on the average performance from the previous three years. The platform enables proper tracking of performance during the implementation period of the facility and ensures quality control of data. Where necessary, the Commission will take into account relevant qualitative aspects when assessing the track record.

Montenegro has committed to terminate visa-free agreements with countries (at least three) which are EU visa required, to introduce additional security measures to better screen visa-free arrivals and to gradually terminate visa-free regimes with countries that are not on the EU visa-free regime list, in particular towards those presenting irregular migration or security risks to the EU. . It will also ensure interoperability of the databases in use for their current visa system and work towards the collection of biometric data.

1.1.4 Climate and environmental objectives and "do no significant harm"

The Reform and Growth Facility for the Western Balkans states in Article 2.10 that “do no significant harm” means not supporting or carrying out economic activities that do significant harm to any environmental objective, where relevant, within the meaning of Article 17 of Regulation (EU) 2020/852. This article defines what constitutes ‘significant harm’ for the six environmental objectives listed under Article 9 of the Taxonomy Regulation, which are 1) climate change mitigation, 2) climate change adaptation, 3) sustainable use and protection of water and marine resources, 4) circular economy, 5) pollution prevention and control, 6) protection and restoration of biodiversity & ecosystems. Only activities or assets assessed as not significantly harmful to any of the mentioned environmental objective can be considered compliant with the DNSH principle. During the implementation of the Reform and Growth Facility, the Western Balkans shall be guided by this principle and shall support its application – for instance by conducting Environmental Impact Assessments at the policy and strategy planning stages, and public consultations ahead of key development projects and investments – to ensure that reforms and investments do not cause significant harm to environmental objectives within the national environmental legal framework.

Montenegro's Reform Agenda will accelerate the transition towards a sustainable, climate-neutral, climate resilient and inclusive economy. It will contribute to enhance energy security through market integration and the diversification of energy power generation through renewables other than hydro power.

The Reform Agenda envisages the implementation of climate and energy policies and measures in line with the draft National Energy and Climate Plan, the enhanced Nationally Determined Contribution and the Long-term Strategy for Climate Action and its Action Plan, thereby fostering de-carbonisation and implementing just transition actions in the coal mining and coal power production region of Pljevlja. It will implement measures aiming at fostering the deployment of renewable energy, work towards carbon pricing (notably full implementation of Monitoring, Reporting, Verification and Accreditation) with the aim of having an EU-aligned Emission Trading System in place by 2030 and undertake steps to implement energy performance in buildings including by implementing a long-term building renovation plan. Aspects related to the sustainability and greenhouse gas emissions saving criteria for biofuels, bioliquids and biomass fuels are to be further addressed.

Air pollution and particularly the phasing out of coal is an environment, climate change and public health concern. Montenegro's Reform Agenda addresses this via measures targeting air pollution, including the adoption of a Strategy on Air Quality Management 2024-2029, the development/update of air quality plans for zones where the NEC Directive values for air quality are exceeded and the implementation of the Ecodesign Regulation, including launch of a replacement scheme for domestic heating. Measures will contribute to the integration of environmental considerations horizontally in line with the principles of sustainable development and of the Green Deal and Green Agenda for the Western Balkans.

1.1.5 Digital transformation

The aim of the digital reforms in the Reform Agenda is to enhance Montenegro's digital transition and to promote convergence with the EU including the EU's Digital Compass. Montenegro has put forward ambitious digital reforms that are expected to extend the country-wide coverage of broadband and increase the security of digital networks, to establish an interoperable, cross-border digital wallet, to further digitalise public services and render them more user friendly and to increase cyber resilience.

Montenegro has committed to adopt a national plan for the development of broadband infrastructure, to secure this infrastructure and to expand its broadband network to ensure that rural communities have access to the same services as the rest of the country thus ensuring robust economic growth. Montenegro has committed to adopt and implement legislation in line with 1) the European Electronic Communications Code which promotes connectivity and access to, and take-up of, very high-capacity networks and 2) the EU's new Gigabit Infrastructure Act, which aims to ensure faster, cheaper, and simpler rollout of Gigabit network installation.

Montenegro has committed to develop its own national Digital Identity wallet, to participate in the EU Digital Identity Wallet by 2027 and to participate in a cross-border, interoperable regional identity wallet as a driver of regional integration. Montenegro has also committed to the full roll-out of electronic IDs allowing for connection to public administration digital services (including tax, social and education services) by 2027.

Montenegro has committed to develop new digital public services for the benefit of businesses and citizens and to enhance digital skills and literacy. Montenegro will adopt a national plan ensuring the full deployment of transactional national and local level public electronic services in the period 2025-2027 and enhancing the functionality of the e-government platform and inter-operability of registers. Montenegro has committed to increase training on digital

competences, in particular by implementing its Education System Digitalisation Strategy (2022-2027), with more EdTech hubs in schools and ensuring that there will be on average a minimum of one technological device (laptop, desktop, tablet, TV, projector) available per 11 students in elementary and secondary schools by 2027.

Montenegro has committed to adopting and implementing legislation that will fully transpose the EU's 5G Cybersecurity Toolbox, which will mitigate risks to critical infrastructure. The approach extends to achieving full alignment with the EU's National Information Security 2 (NIS 2) Directive, establishing a Cybersecurity Agency and putting in place an operational Computer Incident Response Team.

1.1.6 Business environment and Private sector development

The private sector and business development part of Montenegro's Reform Agenda is designed to address some of the most important challenges to doing business: regulatory and administrative barriers, the informal economy and the need for accurate information and legal certainty on the ownership of property rights. Measures to improve research and innovation, the competitiveness of the business sector, governance and the financial performance of State-owned Enterprises and to enhance transparency, efficiency and integrity in public procurement and state aid are also included.

Inefficiencies and delays in the administrative decisions as well as the lack of law enforcement and its inconsistent interpretation by public authorities are major issues affecting the business environment in Montenegro. Businesses are also affected by a lack of transparency and predictability in the way business-related legislation is adopted. Companies' liquidity is often constrained by the issue of small debts and accounts blocked by administrative procedures. The Reform Agenda targets these issues by promoting simplification and digitalisation of key services, including company registration and tax payments, tackling the issue of small debts in a simplified restructuring procedure, updating state company registers and making the process of law making more inclusive and transparent (public consultation rules, regulatory impact assessments, inclusiveness).

The informal economy is extensive and remains a major impediment to the development of a strong business sector and the consolidation of a functioning market economy. The Reform Agenda addresses this challenge horizontally (cumulative impact of different reform measures) and specifically, including by committing to a series of changes in the legal framework targeting informality, improving the integrity and efficiency of different inspection services and introducing risk-based approaches.

Access to quick and accurate information on property rights is fundamental for businesses. Electronic access to accurate cadastre records and real estate data is needed for most micro, small and medium enterprises (MSMEs) to get access to credit. The Reform Agenda commits Montenegro to fully digitalise these registry processes and speed up the legalisation process for the numerous illegal constructions. This should significantly improve the quality of spatial planning and e-cadastre thus also contributing to solving other issues related to agricultural land and land management, for example, land consolidation.

The Reform Agenda will improve the governance, efficiency and accountability of SOEs. Better financial transparency, state oversight, a far stricter approach to managerial appointments, subject to open, independent and merit-based selection processes and greater

managerial accountability will increase the financial performance of Montenegro's SOEs and reduce their reliance on budget support.

Transparency, efficiency and integrity in public procurement processes and State Aid are paramount for the creation of a functioning market economy. Reform measures proposed in Montenegro's Reform Agenda provide transparency on intergovernmental agreements and contracts and ensure that EU public procurement rules are fully respected. The reforms target deficiencies in the low-value procurements (of key interest for MSMEs), implementation of anti-corruption efforts and conflict of interest practices. On State Aid, the measures will help ensure the financial independence of the State Aid authority and improve its enforcement capacities.

The Reform Agenda also focuses on promoting reforms designed to strengthen the national research and development environment, in line with the country's Smart Specialisation Strategy, notably by setting ambitious but realistic targets for private and public sector expenditure and for the number of actors funded in the national research and innovation system.

The business sector development measures also focus on the improvement of cross-border trade by the deployment of e-freight and Intelligent Transport Systems (ITS). Montenegro is expected to develop its approach on ITS, incl. European Rail Traffic Management System (ERTMS), when further operationalising the related reform step.

1.1.7 Education, training, employment, social objectives and leave no one behind

The Montenegrin Reform Agenda includes important elements related to human capital development which are geared to address structural growth barriers. The proposed reforms relate to the areas of employability, activation support and social services and to education and skills development. They respond to recommendations made in the context of Montenegro's previous Economic Reform Programmes and are in line with the Western Balkans Agenda on Innovation, Research, Education, Culture, Youth and Sport as well as with the principles of the European Pillar of Social Rights and the European Education Area strategic framework.

Reform steps to address labour market mismatches and to increase the employability of graduates will provide for additional upskilling and reskilling, notably by increasing lifelong learning opportunities for adults and creating conditions for more work-based practical learning with employers, both for VET students and for higher education graduates. In addition, the proposed reform of the career guidance and counselling system and related capacity building is considered essential to help prepare graduates to make better informed career choices.

Measures are foreseen to increase female labour force participation and the development of a new gender targeting methodology in line with EU cohesion policy requirements, notably the European Social Fund+. In this context new Active Labour Market Measures specifically targeting women intend to show concrete results by 2027. Moreover, to address structural barriers hindering women's active participation in the labour market, it is foreseen to substantially increase capacities for publicly funded quality early childhood education and care, both in terms of infrastructure and trained personnel employed.

Reforms of the social and child protection systems will lead to more targeted, rights-based services and make more efficient use of public funds. Activation measures are planned for those beneficiaries of material support who could enter the labour force. Moreover, there will be one unified disability-related cash transfer put in place, covering all rights of a given beneficiary. Digitalisation will support transparency, with all financial allowances at national level that relate to social and child protection to be calculated and processed through electronic systems.

Montenegro's Reform Agenda includes priorities relating to education sector reform, in line with the latest sector analysis of 2022. In addition to improving quality of education, inclusion remains an important aspect, with a focus on vulnerable groups, including migrants. Reforms will increase investments, construction and refurbishment of school infrastructure, especially at primary school level. To improve STEM teaching at school, incentives are foreseen that will increase the number of teacher candidates for relevant subjects. A reform of teacher training will be taken forward in line with the introduction of new or revised curricula in line with the next Strategy of Development of Education 2025-2035. A focus has been put on increasing enrolment and completion rates of pupils from Roma and Egyptian communities, in line with targets of the Poznan declaration.

The Reform Agenda will support the implementation of Montenegro's Education System Digitalization Strategy (2022-2027). Accordingly, teacher training in line with the new Framework on Teachers' Digital Competences will be rolled out, EdTech hubs will be installed for more students at primary and secondary schools and the availability of technological devices per students will increase in parallel.

1.1.8 Gender equality

The Reform Agenda contributes to Gender Equality as a cross-cutting priority, in line with the principles and targets set out by the Gender Action Plan III (GAP III). Moreover, it will contribute to the objectives set in Montenegro's 2021-2025 National Gender Equality Strategy and gender-related goals in Montenegro's National Sustainable Development Strategy, in line with relevant national legislation.

A gender analysis of the reform agenda was carried out during the preparation phase, taking into consideration the impact of the various reforms on women and on processes promoting gender equality. At the same time, targeted reforms were foreseen in certain areas (e.g. related to female labour force participation), in line with relevant key thematic areas of engagement outlined in GAP III and with national priorities, having identified the most pressing factors directly contributing to gender inequality in the country.

Moreover, reforms in the Fundamental Rights/Rule of Law area target the adoption of standard operating procedures for the prosecution of sexual and gender-based violence cases, will improve the track record of judicial follow-up and final court decisions in cases of gender discrimination and establish central records on all forms of violence covered by the Istanbul Convention.

Finally, gender mainstreaming is applied to foreseen targets, with the inclusion of sex-disaggregated targets, notably for reforms in the human capital development area and those linked to the Just Transition programme in the coal region of Pljevlja, such as work-based practical learning opportunities in vocational education and training and for higher education

graduates, reskilling, upskilling and retraining possibilities, and the share of women benefitting from the access to the digital education programmes.

1.1.9 Indicative investments under the Western Balkans Investment Framework

The Commission takes note of the list of indicative investment projects foreseen for possible co-financing through the Facility. To benefit from the leverage of Union financial support and attract additional investments, infrastructure investments supporting the Reform Agendas will be implemented through the Western Balkan Investment Framework (WBIF) following positive opinion of its Operational Board.

For that reason, Montenegro will have to submit detailed applications in response to dedicated calls for investment proposals to the Commission which will be assessed for their maturity, relevance and eligibility of co-financing under the Reform and Growth Facility, including compliance with its Article 4(7) of the Regulation that excludes support for measures, which are incompatible with Montenegro Energy and Climate Plan, the Nationally Determined Contribution under the Paris Agreement, promote investment in fossil fuels, or that cause significant adverse effects on the environment, the climate or biodiversity.

For Montenegro consideration before eventually submitting their final proposals to the WBIF, the Commission also recalls the obligation under Article 19(4) of the Regulation that at least 37% of the non-repayable financial support channelled through the WBIF shall account to climate objectives, and which will also be taken into account for the purpose of the abovementioned assessment.

Montenegro's indicative WBIF pipeline well aims at the core priorities defined under the Economic and Investment Plan for Western Balkans as well as the eligibility criteria under the WBIF. In the Transport section, Montenegro aims at continuing the construction of core TEN-T road and railways network with investments along the Road/Rail Route 4, the Bar – Boljare Highway and Bar – Vrbnica Railway, being the long-term country priorities.

Energy investments will aim at rehabilitation/new constructions of the electricity transmission and distribution infrastructure, including the digitalization of the grid. The available RGF funding provides sufficient resources to address the key investments.

Digital sector at this stage proposes three projects aiming at broadband and data centre/disaster data recovery. Montenegro is further encouraged to identify additional digital sector investments that could be matured with the available Technical Assistance under the WBIF.

Finally, Montenegro will need to significantly prioritize the investments under the WBIF as the current proposed investment plan exceeds several times the allocation available to Montenegro.

1.2 Assessment of the reforms and investments and the linked qualitative and quantitative steps

The payment conditions proposed by Montenegro are considered appropriate and ambitious, as well as sufficiently meaningful and clearly formulated to allow for the corresponding release of funds in case of their fulfilment.

The reforms included in the area of business environment and private sector development are appropriate, ambitious and meaningful. They aim to address some of the most pertinent and longstanding challenges to Montenegro's economy, raised in the framework of the Economic and Financial Dialogue, Public Administration Reform and sectoral sub-committee discussions. These include ambitious and often politically difficult reforms in the areas of the informal economy, public procurement and state aid, land ownership and governance and performance of State-Owned Enterprises. Measures designed to transform regulatory environment and facilitate removal of administrative barriers to business, improve research and innovation, transport and trade are also proposed.

The key expected results include resolving the issue of small debts and blocked company accounts; higher tax revenues and reduced size of the informal economy; access to instant and accurate information on property, facilitating in turn access to credit for SMEs, improved spatial planning policy and addressing the illegal constructions in the country and contributing to solving other issues related to agricultural land and land management, for example, land consolidation, and the development of Land Parcel Identification System; more professional governance, accountability, transparency and fiscal performance of State-Owned Enterprises ; increased transparency, efficiency and integrity in the public procurement and State aid; inclusive policy making conditions for business, deployment of e-payments across the public administration, more robust research and innovation system with a higher participation of the private sector.

The digital part of the Reform Agenda is quite ambitious and transformative, aiming at minimising the digital gap in the country and ensure social inclusivity. It foresees setting up a comprehensive framework for cyber resilience through certain steps such as the adoption and implementation of cybersecurity legislative framework that is fully aligned with EU cybersecurity policy. The Reform Agenda plans to establish secure digital infrastructure network by ensuring country's compliance with the 5G cybersecurity toolbox and the Gigabit Infrastructure Act and to adopt a National Plan for the development of Broadband infrastructure, to secure this infrastructure and to expand its broadband network to rural areas. The level of ambition increases with the foreseen increase in the number of public electronic services provided and the implementation of a Digital Identity Wallet.

The reforms in the area of energy and green transition are ambitious, appropriate and in line with existing European strategies and policies. Montenegro commits to finalise the implementation of the electricity integration package by coupling the Transmission System Operator (TSO) and the Nominated Electricity Market Operators (NEMOs) joining the intra-day electricity market coupling with the EU, in line with Energy Community requirements.. The country will gradually adjust tariff to market prices accompanied with measures to address energy poverty, develop transparent and competitive procedures to deploy renewable energy and increase renewable energy capacities and implement the Renewable Energy Directive. Links between energy poverty of vulnerable households with the implementation of energy efficiency and air pollution legislation are important and relevant. Montenegro will also work on carbon pricing with the aim of improving its national Energy Trading System and align with the EU system by 2030 and will adopt and implement a long-term building renovation strategy, and energy efficiency scheme. Montenegro will implement Just Transition actions in the coal mining and coal power production region of Pljevlja, which will support the decarbonisation process. It will also work on reducing air pollution in the country, including by the

development/update of air quality plans for zones where the pollution values for air quality are exceeded and by implementing the Ecodesign Regulation and launching a replacement scheme for domestic heating systems.

On human capital development, the proposed reforms are ambitious and meaningful, and address the areas of employability, activation support, social services as well as education and skills development. As Montenegro needs to increase overall investment in skills development and lifelong learning, the proposed measures focus on cooperation between education system, training providers and the business sector that should lead to more enterprises offering apprenticeships and internships. They also address specifically women, in line with the current gender imbalances in the labour market. Some of the planned reforms increase the offer of quality early childhood education and care (ECEC), both in terms of new infrastructure and qualification and employment of additional ECEC personnel. The reform steps and targets foreseen in relation to the social and child protection systems should have the double-effect of more accessible and better services for vulnerable groups on the one hand and more efficient use of funds on the other hand. The digitalisation of reformed services should also contribute to more transparency.

The steps and targets related to education are geared to support Montenegro's broader education sector reform and digitalisation of the education system. Ambitious infrastructure targets are to be rewarded to urgently address the overcrowding of primary schools which affects also the quality of education. Other reform steps have been agreed to bring about structural improvements in teaching, curricula reform and better teacher training, including for improved digital competences. As regards inclusion in education, the targets focus on Roma and Egyptian students and the ambition is aligned with targets of the Poznan declaration.

Reforms in the area of fundamentals of enlargement reflect the strong political commitment on the Reform Agenda as well as on the enlargement process. The reform commitments aim to improve judicial efficiency, independence and accountability, effectively prevent and respond to corruption and organised crime, and reduce legal uncertainties and political risks.

Expected key outputs include new and amended legislation aimed to enhance judicial efficiency and the effective delivery of justice, including in the field of investigation, prosecution of final judgments, confiscation and final confiscation in corruption and on the full implementation of the appointment, evaluation and promotion of judges in line with the new legislation and European standards. The operational capacity of the police has a particular focus in the Reform Agenda. Montenegro has also committed to an ambitious electoral reform and proposed partial alignment with the EU visa policy before accession.

Part 2: Assessment of horizontal aspects

2.1 Complementarity with IPA III

IPA III bilateral and multi-country assistance has been programmed for the years 2021-2024. Large parts of this assistance are under implementation. When designing the Reform Agenda the complementarity to existing and planned IPA assistance has been taken into account.

Under Annual Action Programmes for Montenegro for the years 2021-2024 a total of EUR 128.73 million of EU contributions have been committed and are to a large extent contracted. The IPA III is covering a broad spectrum of areas, in accordance with the programming guidelines and the IPA III strategic response for Montenegro.

The IPA 2021 has focused on environment and climate action, sustainable connectivity and green economy and support to the agricultural sector. In addition, it includes the EU Integration Facility (EUIF) to support further alignment with the EU *acquis* and institutional capacity building and has established the EU Reform Facility (EURF) for more strategic assistance, supporting reforms linked to economic development and improved market functionality (in partnership with World Bank, EBRD and UN agencies). The IPA 2022 brought about budget support operations on Public Administration Reform and Integrated Border Management. The IPA 2023 has been used for the Energy Support Package - budget support, which became a priority in the context of the Russian war of aggression against Ukraine. The IPA 2024 foresees additional EU support for the Rule of Law, a continuation of the EUIF, preparatory actions in view of the upcoming IPA III multi-annual operational programmes on environment and climate change, employment and social policy. During the design of the Reform Agenda the areas of support under the multi-annual operational programmes have been duly considered.

The Reform Agenda proposes crucial reform measures that should make the investments funded under IPA assistance even more impactful. The financing expected from the Reform and Growth Facility should provide additional fiscal space to undertake further investments.

The update of the Strategic Partner Assessment document is set to inform the programming of IPA III funds for the years 2025-27. As this process has been launched in parallel with the work on the Reform Agendas, it will factor in the measures covered under the Reform and Growth Facility. It will also take into account the state of the accession process and the actions of previous IPA programmes, in order to guarantee full complementarity and additionality.

During the preparation and the negotiations of the Reform Agendas, the Commission systematically addressed the issue of potential double-funding, by checking the proposed steps and reforms against the financial support already provided or in the pipeline of new programmes under the Instrument for Pre-accession Assistance (IPA) and against the activities funded by other partners in the Region. The Commission will continue to monitor the complementarity of the two financing instruments also during the implementation of the Reform and Growth Facility.

Under digital and energy/green transition particular attention was devoted to a number of the proposed reforms, including energy efficiency and just transition. The EU is subsidising these measures under the regional energy efficiency programme, implemented together with EBRD and KfW. Montenegro's government also included them in its action plan, agreed under the IPA 2023 Energy Support Package - budget support. The measures agreed under the Reform Agenda will be however implemented in complementarity with other support under IPA and

include possible use of the Growth Plan funds that will be channelled via WBIF. Avoidance of double-financing will be monitored to ensure that the same investment and capital costs will not be financed twice, such as the building renovation targets foreseen under energy efficiency measures in the Reform Agenda.

Certain e-services to citizens are included (as a pilot scheme) in Montenegro's government digital strategy and action plan and are supported through the sector budget support for Public Administration Reform (IPA 2022). However, the targets set under reform "User-friendly digital service delivery" in the Reform Agenda go beyond this pilot phase and are additional, as indicated in the agreed reform.

Under human capital development, a sector operational programme for the years 2024 – 2027. focuses on active labour market policies and the roll-out of the Youth Guarantee. As this operational programme was prepared in parallel with the Reform Agenda, no Reform Agenda measures duplicate support to be provided under the sector operational programme. Instead, the Reform Agenda includes legislative and structural measures that will increase the impact expected from the sector operational programme.

Under fundamentals, alignment of the visa policy of Montenegro with the EU was also planned under the IPA 2023 special measure for migration, which foresees a provision of support to the costs of introducing e-visa system. As the functioning e-visa system is a pre-requisite for achieving the final step of the visa reform (additional security measures) in the Reform Agenda, the IPA 2023 special measure will instead provide technical expertise only for this reform.

2.2 Monitoring, reporting and evaluation

The arrangements proposed in the Reform Agenda are adequate to ensure effective implementation, monitoring and reporting of the agreed reforms and related steps.

Montenegro has presented a very clear monitoring structure for the development and implementation of the Reform Agenda, distributing clear responsibilities for implementation, monitoring and reporting on the achievements on a regular basis. This includes the institutional set-up, with Monitoring Committee and its Secretariat ensuring the day-to-day monitoring, verification and quality control checks on the reporting provided initially by the responsible institutions and line ministries, and the Coordinator, appointed by the government in accordance with the Facility Agreement. The information provided by reporting institutions should be accompanied by the necessary evidence, of which verification sources and baselines are communicated in Annex 1 to the Reform Agenda, as well as by the summary of performed checks and audits. The Coordinator will be responsible for contents of the final cumulative reports, to be presented to the government and the European Commission.

There is a clear monthly reporting schedule. Early warning system in case of delays and internal reporting deadlines are established. This will allow for the implementation of mitigating measures at an early stage, but also facilitate the six-monthly reporting and transmission of payment requests to the European Commission, since the state of play will be known and encoded in the relevant database, set up to follow-up on the Reform Agenda of Montenegro. This arrangement will also facilitate the verification of all information and evidence by the Monitoring Committee and facilitate dialogue with the third parties to be involved in the process and with the European Commission.

Montenegro has declared that third parties, including civil society organisations and private sector organisations, will be represented in the Monitoring Committee and their assessments will constitute an important part of the monitoring, evaluation and reporting process.

The baselines and verification sources for all reforms and their individual steps, provided by the Beneficiary in Annex 1 to the Reform Agenda, constitute key elements in the monitoring, reporting and evaluation process. While adequate information has been provided for the majority of the reform steps, some few of the proposed verification sources and baselines are at this time either not comprehensive enough or not fully adequate to be used for evaluating whether the step has been achieved in its entirety. In such cases, Montenegro will be required to present to the Commission and agree on additional verification sources or baseline information by 31 October 2024.

Apart from the proper organisational structures of the control system, the deployment of adequate competences and human resources will be needed for a successful and timely implementation of the Reform Agenda.

2.3 Control and audit systems

The Reform Agenda of Montenegro provides an adequate overview of the existing internal control and audit systems to prevent, detect and correct irregularities, fraud, corruption and conflicts of interest and to enforce State Aid rules. It also refers to areas that will need to be further developed.

The Reform Agenda describes the strategic and legal framework for internal control and audit, provided for by the public administration reform strategy 2022-2026, the public financial management reform programme 2022-26 and the Law on Governance and Internal Control in public sector. The Law on Budget and Fiscal Responsibility regulates the function of budget inspection. The Central Harmonisation Unit (CHU) of the Ministry of Finance is responsible for providing methodological guidance and monitoring the implementation of internal control and audit across the public sector. The Reform Agenda confirms that a system of internal controls is in place and functioning in a decentralised manner, with significant coverage of the public sector. It is generally assessed as robust and functional, but will require further support from senior management of public sector institutions. Concerning financial management control, the Budgetary Inspection, which is understaffed at the moment, is proactively publishing all its findings. Other relevant inspections, such as the Public Procurement Inspection and the State Property Inspection provide an additional layer of control. To further strengthen budget inspection, the Government of Montenegro proposed the Law on Budget Inspection earlier in 2024, planned to be adopted by the end of 2024.

Internal audit is well rated in terms of its coverage, nature of individual engagements, standards applied, conduct of planned audits. The response of institutions to internal audit recommendations is also assessed as high. Given the small size of Montenegro administration, one of the key challenges is to ensure sufficient staff for public sector internal audit. Salary top-ups have been introduced for internal auditors at the beginning of 2024. The capacity of internal auditors quality of audits is improved through continuous professional training.

As concerns external audit, the State Audit Institution performs its functions well, but the Parliament has not appointed the president of the Senate for over two years. After being vacant

since early 2021, the position of the fifth member of the Senate was filled in July 2024, thereby completing the five member Senate.

Montenegro is largely aligned with the EU *acquis* on the protection of the EU's financial interests, and cooperation with the Commission is ensured during investigations but a solid track record on investigations still needs to be ensured.

The Reform Agenda confirms that while the legal framework is broadly in line with the international standards, the public administration reform strategy 2022-2026 and the public financial management reform programme 2022-2026 aim to address identified shortcomings, with support of IPA funds. One of the key reform objectives is to address managerial accountability and increase delegation of authority to middle management. The CHU has initiated amendments to the Law on Budget and Fiscal Responsibility, to delegate authority for the management of the budget funds. The CHU has also prepared guidance for implementation of managerial accountability. It also provides training and workshops.

Substantial IPA support is provided to the implementation of the public administration reform strategy 2022-2026 and the public finance management reform programme 2022-2026, hence addressing many of the identified shortcomings in internal control and audit. IPA support is also foreseen to strengthen the protection of the EU's financial interests.

In the Reform Agenda, several steps are related to improvements of internal audit and control systems, in particular with respect to public procurement and reforming the governance of state-owned enterprises. On public procurement, the focus will be on improving procurement procedures and their transparency and revision of the anti-corruption, integrity and conflict of interest framework for public procurement. On state-owned enterprises (SOE), a publicly available and up to date register of SOEs and companies with State's participation, including municipal companies will be established, together with an independent internal audit function and risk management in SOEs and audit committees.

The Commission has a longstanding cooperation with Montenegro to develop the internal control and audit systems and ensure protection of the financial interests of the Union in line with the international standards, including with the support of EU funds. In the light of the description, under Chapter 16 of the Reform Agenda, of the arrangements under Article 13(1)(1) of the Regulation (EU) 2024/1449, as complemented by the reforms supported by IPA funds in the context of the enlargement negotiations, the Commission considers that the necessary strategic, legal and methodological framework in place is in line with the requirements under Article 14(4)(i) of the Regulation. The Commission further considers that the established national structures for programming of assistance, including Commission ex ante verification, ensures that there is no double funding from the Facility and other Union programmes.

To improve systems further, Montenegro should prioritise reforms related to the accession negotiation Chapter 32 on financial control in the first years of the implementation of the Facility. The Commission will support this process by undertaking a systems review of the functioning of the internal control in the context of the Facility no later than 2025. Montenegro will be expected to address the recommendations through an action plan. The Commission will regularly monitor the adequacy of the control and audit systems as part of the assessment of the general conditions for payments, each time Montenegro submits a request for the release of funds, including the timely implementation of the action plan.

In conclusion, the described systems together with the proposed reforms and complementary measures under IPA can be considered adequate to ensure protection of the financial interests of the Union in line with Article 23(1) of the Regulation (EU) 2024/1449.

2.4 Consultation process

Montenegro conducted successfully a public consultation process, in line with the national consultation procedures. The public consultations were carried out both in the form of a round table meeting with stakeholders and through a written procedure, with a good participation of public authorities, civil society organisations, non-governmental organisations, business community and academics.

All comments received in the consultation have been considered and reflected in the Reform Agenda as far as possible. Montenegro declares it intends to continue the dialogue, also in view of the fact that many comments and remarks are even more important for the implementation phase.

It should also be noted that all specific legislation and strategies forming part of the Reform Agenda are subject to public consultations in their own rights.

2.5 Communication and visibility plan

The Commission invited the Beneficiary to describe an outline of the intended national communication strategy aimed at ensuring public awareness of the Union funding and how the Beneficiary plans to communicate on the Reform and Growth facility. The submitted outline fulfils the minimum requirements.

Beyond this outline, the Beneficiary shall provide a fully-fledged communication and visibility plan (as per Art. 13, 1(n) of the Reform and Growth Facility regulation) by 31 October 2024, for agreement with the Commission. The preparation of the plan should be closely coordinated with the EU Delegation.

Communication and visibility plan shall focus on how the EU-related reforms will enable the Beneficiary to progress with EU integration, on the benefits that the reforms and investments will bring to the citizens, on explaining the functioning of the Facility as well as on ensuring visibility of EU financing.

The communication and visibility plan shall be comprehensive and shall describe the objectives, chain of command and internal division of responsibilities, coordination with the EU Delegation and WBIF, key messages, target audiences, communication channels, planned budget, and monitoring and evaluation.

The Beneficiary is requested to regularly report on implementation of the communication and visibility plan as part of their request to the Commission for the release of funding. This report will be part of the regular assessments.