

FINANCING AGREEMENT

BETWEEN

THE GOVERNMENT OF MONTENEGRO

AND

**THE EUROPEAN UNION, REPRESENTED BY THE
EUROPEAN COMMISSION CONCERNING THE NATIONAL
PROGRAMME FOR MONTENEGRO 2012 – 2013, PART 2**

FOR THE YEAR 2013
UNDER THE INSTRUMENT FOR PRE-ACCESSION
ASSISTANCE

Dated

(Centralised Management)


[Signature]

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FINANCING AGREEMENT

THE GOVERNMENT OF MONTENEGRO

and

THE EUROPEAN UNION, REPRESENTED BY THE EUROPEAN COMMISSION

hereafter jointly referred to as "the Parties", or individually as "the beneficiary country" in the case of the Government of Montenegro, or "the Commission", in the case of the European Union, represented by the European Commission.

Whereas:

- (a) On 1 August 2006, the Council of the European Union adopted Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (hereafter: the "IPA Framework Regulation"). With effect from 1 January 2007, this instrument constitutes the single legal basis for the provision of financial assistance to candidate countries and potential candidates in their efforts to enhance political, economic and institutional reforms with a view to their eventually becoming members of the European Union.
- (b) On 12 June 2007, the Commission adopted Regulation (EC) No 718/2007 implementing the IPA Framework Regulation, detailing applicable management and control provisions (hereafter: the "IPA Implementing Regulation").
- (c) European Union assistance under the instrument for pre-accession assistance should continue to support the beneficiary countries in their efforts to strengthen democratic institutions and the rule of law, reform public administration, carry out economic reforms, respect human as well as minority rights, promote gender equality, support the development of civil society and advance regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and poverty reduction.

European Union assistance for candidate countries should additionally focus on the adoption and implementation of the full EU *acquis*, and in particular prepare them for the implementation of the European Union's agricultural and cohesion policy.

- (d) The Parties have concluded on 15 November 2007 a Framework Agreement setting out the general rules for cooperation and implementation of the European Union assistance under the Instrument for Pre-accession Assistance.



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- (e) The Commission adopted on 16 December 2013 the amended National Programme under the IPA – Transition assistance and Institutional Building Component for the years 2012-2013, Part 2 (hereafter: “the programme”). This programme is to be implemented by the Commission on a centralised basis.
- (f) It is necessary for the implementation of this programme that the Parties conclude a Financing Agreement to lay down the conditions for the delivery of European Union assistance, the rules and procedures concerning disbursement related to such assistance and the terms on which the assistance will be managed.



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HAVE AGREED ON THE FOLLOWING:

1 THE PROGRAMME

The Commission will contribute, by way of grant, to the financing of the following programme, which is set out in Annex A to this Agreement

Programme number: 2013/025-020

Title: National programme for Montenegro under the IPA – Transition Assistance and Institutional Building Component for the years 2012-2013, Part 2

2 IMPLEMENTATION OF THE PROGRAMME

- (1) The programme shall be implemented by the Commission on a centralised basis, in the meaning of Article 53a of Council Regulation (EC Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities, as last modified by Regulation (EU, Euratom) N° 1081/2010 of 24 November 2010 (hereafter: "Financial Regulation").
- (2) The programme shall be implemented in accordance with the provisions of the Framework Agreement on the Rules for co-operation concerning EU Financial Assistance to [country] and the implementation of the Assistance under the Instrument for Pre-accession Assistance (IPA) concluded between the Parties on 15 November 2007 (hereafter: "the Framework Agreement"), which is set out in Annex B to this Agreement.

3 STRUCTURES AND AUTHORITIES WITH RESPONSIBILITIES

- (1) The Beneficiary shall designate a national IPA co-ordinator, in accordance with the Framework Agreement, who shall act as the representative of the Beneficiary vis-à-vis the Commission. He/she shall ensure that a close link is maintained between the Commission and the Beneficiary with regard both to the general accession process and to EU pre-accession assistance under IPA.

4 FUNDING

The funding for the implementation of this Agreement shall be as follows:

- (a) The European Union contribution for the year 2013 is fixed at a maximum of €7 285 467 as detailed in the programme. However, payment of the European Union contribution by the Commission shall be made within the limits of the funds available.
- (b) The cost of the structures and authorities put in place by the beneficiary country for the implementation of this programme shall be borne by the Beneficiary.



5 CONTRACTING DEADLINE

- (1) The individual contracts and agreements which implement this Agreement shall be concluded no later than three years from the date of conclusion of this Agreement, with the exception of the cases mentioned under Article 189(2) Financial Regulation. One exception is Project 2 "Strengthening Montenegrin agriculture through IPARD like measures" for which the final date for contracting is 31 December 2015.



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6 FINAL DATE FOR OPERATIONAL IMPLEMENTATION

- (1) The contracts must be executed within a maximum of 6 years from the date of conclusion of the Financing Agreement.
- (2) The deadline for the operational implementation may exceptionally be extended before its end date in duly justified cases.

7 FINAL DATE FOR IMPLEMENTING THE FINANCING AGREEMENT

- (1) The Financing Agreement shall be implemented and completed for closure at the latest within 10 years from the date of conclusion of the Financing Agreement.
- (2) The final date for implementing the Financing Agreement may exceptionally be extended before its end date in duly justified cases.

8 TREATMENT OF RECEIPTS

- (1) Receipts for the purposes of IPA include revenue earned by an operation, during the period of its co-financing, from sales, rentals, service enrolment/fees or other equivalent receipts with the exception of:
 - (a) receipts generated through the economic lifetime of the co-financed investments in the case of investments in firms;
 - (b) receipts generated within the framework of a financial engineering measure, including venture capital and loan funds, guarantee funds, leasing;
 - (c) where applicable, contributions from the private sector to the co-financing of operations, which shall be shown alongside public contribution in the financing tables of the programme.
- (2) Receipts as defined in paragraph 1 above represent income which shall be deducted from the amount of eligible expenditure for the operation concerned. No later than the closure of the programme, such receipts shall be deducted from the relevant operation's eligibility expenditure in their entirety or pro-rata, depending on whether they were generated entirely or only in part by the co-financed operation.

9 ELIGIBILITY OF EXPENDITURE

- (1) Expenditure under the programme in Annex A shall be eligible for European Union contribution if it has been incurred after the contracts and grants implementing such programme have been signed, except in the cases explicitly provided for in the Financial Regulation.
- (2) The following expenditure shall not be eligible for European Union contribution under the programme in Annex A:
 - (a) taxes, including value added taxes;
 - (b) customs and import duties, or any other charges;



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- (c) purchase, rent or leasing of land and existing buildings;
 - (d) fines, financial penalties and expenses of litigation;
 - (e) operating costs;
 - (f) second hand equipment;
 - (g) bank charges, costs of guarantees and similar charges;
 - (h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses;
 - (i) contributions in kind;
 - (j) any leasing costs;
 - (k) depreciation costs.
- (3) By way of derogation from paragraph 2 above, the Commission will decide on a case-by-case basis whether the following expenditure is eligible:
- (a) operating costs, including rental costs, exclusively related to the period of co-financing of the operation;
 - (b) value added taxes, if the following conditions are fulfilled:
 - (i) the value added taxes are not recoverable by any means;
 - (ii) it is established that they are borne by the final beneficiary, and
 - (iii) they are clearly identified in the project proposal.
 - (c) costs relating to a bank guarantee or comparable surety to be lodged by the final beneficiary of a grant
- (4) Expenditure financed under IPA shall not be the subject of any other financing under the European Union budget.

10 RETENTION OF DOCUMENTS

- (1) All documents relating to the programme in Annex A shall be kept for at least five years from the date on which the European Parliament grants discharge for the budgetary year to which the document relate.
- (2) In the case that the programme in Annex A is not definitely closed within the deadline set in paragraph 1 above, the documents relating to it shall be kept until the end of the year following that in which the programme in Annex A is closed.



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11 ROADMAP FOR DECENTRALISATION WITHOUT EX-ANTE CONTROLS

- (1) The beneficiary country shall establish a detailed roadmap with indicative benchmarks and time limits to achieve decentralisation with *ex ante* controls by the Commission. In addition, the beneficiary country shall establish an indicative roadmap to achieve decentralisation without *ex ante* controls by the Commission.
- (2) The Commission shall monitor the implementation of the roadmaps mentioned in paragraph 1, and shall take due account of the results achieved by the beneficiary country in this context, in particular in the provision of assistance. The roadmap to achieve decentralization without *ex ante* controls may refer to a phased waiver of different types of ex-ante control.
- (3) The beneficiary country shall keep the Commission regularly updated with the progress made in the implementation of this roadmap.

12 INTERPRETATION

- (1) Subject to any express provision to the contrary in this Agreement, the terms used in this Agreement shall bear the same meaning as attributed to them in the IPA Framework Regulation and the IPA Implementing Regulation.
- (2) Subject to any express provision to the contrary in this Agreement, references to this Agreement are references to such Agreement as amended, supplemented or replaced from time to time.
- (3) Any references to Council or Commission Regulations are made to the version of those regulations as indicated. If required, modifications of these regulations shall be transposed into this Agreement by means of amendments.
- (4) Headings in this Agreement have no legal significance and do not affect its interpretation.

13 PARTIAL INVALIDITY AND UNINTENTIONAL GAPS

- (1) If a provision of this Agreement is or becomes invalid or if this Agreement contains unintentional gaps, this will not affect the validity of the other provisions of this Agreement. The Parties will replace any invalid provision by a valid provision which comes as close as possible to the purpose of and intent of the invalid provision.
- (2) The Parties will fill any unintentional gap by a provision which best suits the purpose and intent of this Agreement, in compliance with the IPA Framework Regulation and the IPA Implementing Regulation.

14 REVIEW AND AMENDMENT

- (1) The implementation of this Agreement will be subject to periodic reviews at times arranged between the Parties.



- (2) Any amendment agreed to by the Parties will be in writing and will form part of this Agreement. Such amendment shall come into effect on the date determined by the Parties.

15 TERMINATION

- (1) Without prejudice to paragraph 2, this Agreement shall terminate ten years after its conclusion. This termination shall not preclude the possibility for the Commission making financial corrections in accordance with Article 56 of the IPA Implementing Regulation.
- (2) This Agreement may be terminated by either Party by giving written notice to the other Party. Such termination shall take effect six calendar months from the date of the written notice.

16 SETTLEMENT OF DIFFERENCES

- (1) Differences arising out of the interpretation, operation and implementation of this Agreement, at any and all levels of participation, will be settled amicably through consultation between the Parties.
- (2) In default of amicable settlement, either Party may refer the matter to arbitration in accordance with the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States in force at the date of this Agreement.
- (3) The language to be used in the arbitration proceedings shall be English. The appointing authority shall be the Secretary General of the Permanent Court of Arbitration following a written request submitted by either Party. The Arbitrator's decision shall be binding on all Parties and there shall be no appeal.

17 NOTICES

- (1) Any communication in connection with this Agreement shall be made in writing and in the English language. Each communication must be signed and must be supplied as an original document or by fax.
- (2) Any communication in connection with this Agreement must be sent to the following addresses:


For the Commission:

DG Enlargement
Rue de la Loi 15 - 1049 Brussels
Belgium
Fax: +32 229-(32-2) 2998648

For the Beneficiary Country

Government of Montenegro
Ministry of Foreign Affairs and European Integration

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Stanka Dragojevića 2
81000 Podgorica
Montenegro
Fax: +382 81 224 552

18 NUMBER OF ORIGINALS

This Agreement is drawn up in duplicate in the English language.


19 ANNEXES

The Annexes A and B shall form an integral part of this Agreement.

20 ENTRY INTO FORCE

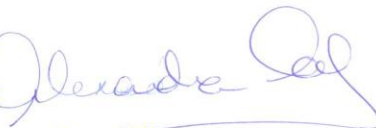
This Agreement shall enter into force on the date of signature. Should the Parties sign on different dates, this Agreement shall enter into force on the date of signature by the second of the two Parties.

Signed, for and on behalf of the Government of Montenegro,

at *Podgorica* 
on *31/1/14*

by **H.E. Ambassador Aleksandar Andrija Pejović**
National IPA Coordinator
Ministry of Foreign Affairs and European Integration

Signed, for and on behalf of the European Commission,

at *Brussels* 
on *19 December 2015*

by **Mrs Alexandra Cas Granje**
Director
European Commission
Directorate-General Enlargement
B – Montenegro, Iceland, the former Yugoslav Republic of Macedonia, Turkey

**ANNEX A NATIONAL PROGRAMME FOR MONTENEGRO UNDER THE IPA
TRANSITION ASSISTANCE AND INSTITUTION BUILDING COMPONENT FOR
THE YEARS 2012 - 2013, PART 2 ADOPTED BY COMMISSION DECISION
C(2013)9394**



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ANNEX B FRAMEWORK AGREEMENT BETWEEN THE COMMISSION OF
THE EUROPEAN COMMUNITIES AND THE GOVERNMENT OF
MONTENEGRO, DATED 15/11/2007



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ANNEX A

NATIONAL PROGRAMME FOR MONTENEGRO UNDER THE IPA
TRANSITION ASSISTANCE AND INSTITUTION BUILDING COMPONENT
FOR THE YEARS 2012 -2013 - PART 2

1 IDENTIFICATION

Beneficiary	MONTENEGRO
CRIS decision number	2012 / 024-276 ; 2013/025-020
Year	2012 and 2013
EU contribution	2012: EUR 3 258 308 ; 2013: EUR 7 285 467
Implementing Authority	European Commission except for Projects 1 and 2 Implemented by joint management with the World Bank through an Administrative Agreement, in accordance with Article 53d 1(a) of the Financial Regulation
Final date for concluding the Financing Agreement	Two separate Financing Agreements will be concluded: One Financing Agreement for the 2012 funds will be concluded at the latest by 31 December 2013 One Financing Agreement for the 2013 funds will be concluded at the latest by 31 December 2014
Final date[s] for contracting	3 years following the date of conclusion of the Financing Agreement for the 2012 funds. 3 years following the date of conclusion of the Financing Agreement for the 2013 funds, except for Project 2 "Strengthening Montenegrin agriculture through IPARD like measures" for which the final date for contracting is 31 December 2015. This date applies also to the national co-financing.
Final date for execution	2 years following the end date for contracting for the 2012 funds. 3 years following the end date for contracting for the 2013 funds. These dates apply also to the national co-financing.
Budget line(s) concerned	22.02.01: national programmes (component Transition Assistance and Institution Building) for Candidates
Programming Unit	Unit B1 Montenegro, Iceland
Implementation Unit/ EU Delegation	Delegation of the European Union in Montenegro



2 THE PROGRAMME

2.1 PRIORITIES SELECTED UNDER THIS PROGRAMME

Part 2 of the national programme for Montenegro supports the following areas of priorities identified within the Multi-Annual Planning Document (MIPD) 2011-2013¹:

- Strengthening of the administrative capacity in the sector of agriculture and rural development, including food safety, veterinary and phytosanitary issues, and focus preparations on setting up basic instruments and institutions for managing the CAP;
- Effective implementation of the *acquis* throughout the programme, and specifically through strengthening the administration capacity, since Montenegro received the status of candidate country in December 2010;

The above priorities were selected to continue strengthening the capacity of the institutions to manage agricultural/rural development aid, in a first instance under the Instrument for Pre-accession Assistance in Rural Development (IPARD) (in short IPA Component V or IPARD) as well as to support the investment needs in the agricultural sector concerning in particular compliance with *acquis*. Support for the *acquis* approximation will be addressed through investments in the agricultural holding/processing companies which aim at complying with EU standards.

Pre-accession financial assistance has been originally allocated to IPA Component V under the budget years 2012 and 2013, following the granting of the candidate country status, as indicated in the MIPD 2011-2013². This allocation could be spent only once the Commission has conferred management powers on Montenegro for the decentralised management of pre-accession assistance under IPA Component V. Given some delays in preparing for the decentralised management of EU funds, the Ministry of Agriculture and Rural Development of Montenegro has requested the reallocation of the 2012 and 2013 IPA funds from Component V to Component I (Transition assistance and Institution building, under the responsibility of DG ELARG). This procedure of reallocation has to be approved by the Budgetary Authority before the present Programme is implemented. As a consequence, Component I has to support the Montenegrin authorities in preparing for the management of these funds and for obtaining conferral of management powers under Component V. This is why part 2 of the IPA National Programme for Montenegro comes at a crucial time in order to support the above mentioned priorities.

¹ Commission Implementing Decision adopting a MIPD 2011-2013 for Montenegro on 18 November 2011, C(2011) 8220. Entered into force on 1st March 2012.

² Commission Implementing Decision adopting a MIPD 2011-2013 for Montenegro on 18 November 2011, C(2011) 8220. Entered into force on 1st March 2012.

2.2 SECTORS SELECTED UNDER THIS PROGRAMME AND DONOR COORDINATION

Part 2 of the IPA 2012-2013 National Programme for Montenegro complements Part 1 of the same programme which covers only limited activities related to agriculture and rural development i.e. one project which focuses on phytosanitary, food safety and veterinary services.

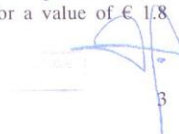
This Part 2 of the programme directly addresses sector 6 of the MIPD. This sector is significantly underdeveloped in Montenegro and needs to be restructured to allow the agricultural producers and processors to become competitive on the EU market. Investments in this sector are needed in particular to upgrade to EU standards and to improve the overall performance of the holdings and enterprises.

In addition to the Commission's Progress Report, Enlargement Strategy and to the Europe 2020 Strategy, several national strategies have been taken into account for the purpose of IPA support such as Montenegro's Agriculture and Rural Development Strategy and the National Programme for Food Production and Rural Development 2009 – 2013. Another major document is the National Programme for Integration 2008-2012 (NPI) which defines specific short and medium term activities of relevant institutions, and is based on a detailed analysis of its implementation capacities, with emphasis on the compatibility of the national legislation with the EU *acquis*.

An IPA Rural Development (IPARD) Programme is currently under finalisation by the Montenegrin Ministry of Agriculture and Rural Development. However, given the delays in setting up the structures required and that the final beneficiaries (farmers, food processing industry) are not yet ready for the implementation of IPARD, the programme will not be adopted by the Commission in 2013 as planned but delayed until 2014. The main purpose of this programme is to propose the implementing measures which would make possible the use of the IPA Component V funds.. The IPARD programme is planned to be focused on supporting the beneficiaries in the milk, meat, fruit/vegetable, fish sectors in order to upgrade them to the EU standards and to improve performance of the enterprises. The projects proposed under this National Programme for Montenegro – Part 2 is designed to pave the way for a smooth phasing in of the support to be provided to the agricultural producers and processors under the upcoming IPARD programme.

The agricultural sector has received **assistance from CARDS and IPA programmes** as well as from bilateral support. Assistance from an IPA 2008 twinning project (€ 1.5 million) supporting preparation for IPARD (finishing in February 2012) was implemented in close collaboration with MIDAS (World Bank) project to adjust the domestic agricultural policy to the principles of the EU CAP, reform institutions and build expertise to implement rural development policy and manage pre-accession assistance under IPARD. Another IPA project in 2008 (€ 1.2 million) supports the strengthening of business environment, business support institutions in rural areas and access to finance. It shall establish the first credit guarantee scheme in Montenegro thus supporting improving access to finance for agriculture and rural enterprises.

The Montenegrin administration is also going to benefit from an IPA 2011 project "Strengthening the Capacity to Implement Rural Development Programme under IPARD (expected period September 2012 – February 2014)" for a value of € 1.8



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million. The purpose of this project is to develop the management and control system under IPARD in view of conferral of management under IPA Component V.

The World Bank is currently financing (June 2009- June 2014) a project entitled "Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS)" with the objective to improve the delivery of governmental assistance for sustainable agriculture and rural development in a manner consistent with the EU pre-accession requirements. In addition, Luxembourg financed a project entitled "Milk Enterprise Development in Northeast Montenegro" supporting the development of the dairy sector from the farmer to the consumer (2005-2009). Lastly, the Danish Government is supporting the development of organic products (January 2009- May 2013).

Experience in the sector shows that success depends on Government commitment to provide adequate resource, as well as on retaining trained staff. Cooperation among various stakeholders involved directly or indirectly in the sector is crucial for building common understanding and commitment to achieving project results in the sector. Special attention should be paid to the set-up of a comprehensive monitoring and evaluation systems of the project and a comprehensive information/training programme to beneficiaries and general public. Also crucial for the success of projects in this sector is the provision of an enabling environment for co-financing the IPARD type of projects.

Consultations with donors held in the country showed that priority areas for future development assistance are environment and climate change, good governance and rule of law, as well as *acquis* related reforms to EU accession as already taken into account in Part 1 of the National Programme. Donor coordination with IPA is crucial for the efficient use of scarce funds. To that purpose, in 2010 a specific position for donor coordination has been created within the Prime Minister's office. To date, no "lead donor" from EU Member States was identified for a given sector, due to the small size of the country and given that the European Union is by far the largest donor. Preliminary discussions between the EU Delegation, the Prime Minister's office, the World Bank and the United Nations has started in view to identifying challenges and opportunities for the introduction of the sector approach under IPA as of 2014 in one or more of the policy areas supported by the IPA programmes.

Montenegro benefits from the EU-12 political and economic transition management experiences, best practices and expertise as detailed in the European Transition Compendium. This Compendium is a useful tool in all priority sectors and objectives as well as to support the ability to assume EU membership and effectively implement the *acquis*.

In addition, the European Commission has contracted a mid-term Meta Evaluation of the EU Instrument for Pre-Accession Assistance³ in view to support its planning and programming of IPA Component I. The present programme seeks to comply as much as possible with the main recommendations of the report released in February 2011: the objectives of the programme are more quantified and time-bound; the objectives of the projects are more focussed and linked to individual MIPD objectives and the

³ Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA). OJ L 210, 31.07.2006, p.1.

National IPA Coordinator (NIPAC) was encouraged to take a more proactive role throughout the project preparation and selection process.

The Government is willing to implement its national strategies and to comply with the recommendations of the sub-committees, which are part of the Stabilisation and Accession Process. The project selection and identification for the purpose of this Part 2 of the 2012 and 2013 National Programme is the result of a close cooperation between the NIPAC office, the Ministry of Agriculture and Rural Development, the EU Delegation to Montenegro, DG Enlargement and DG Agriculture. Ownership has increased with the final beneficiary and other key stakeholders involved in the discussion and preparation of the IPA project.

In 2012, Part 1 of the National Programme for Montenegro 2012/2013 (Component I) has a final amount of EUR 14 546 471. Montenegro benefits in 2012 from pre-accession assistance which has an overall amount of EUR 34 976 068. However, given the higher level of preparation required by Component V, which must operate without ex-ante controls by the Commission from the onset, Montenegro is facing some delays in preparing for the decentralised management of EU funds, although significant efforts as well as IPA funds have been already invested for that purpose since several years. In order to avoid risks of de-commitment of this allocation under Component V at a later stage, the Minister asked in June 2012 for a reallocation of the 2012 funds from Component V to Component I in agreement with the responsible Commission services. This procedure of reallocation has already been approved. Additionally a similar request for reallocation of the 2013 funds from Component V to Component I was received at the end July 2013 and this procedure of reallocation has to be approved by the Budgetary Authority before the present amended programme can be implemented. If the reallocation is completed, Montenegro will benefit under Component I from the funds originally allocated to Component V for both years 2012 and 2013. Therefore, pre-accession assistance under the present Part 2 of the National Programme 2012-2013 for Montenegro (Component I) will amount to **EUR 3 258 308 for the year 2012 and EUR 7 285 467 for the year 2013**. The Minister in agreement with the NIPAC Office has asked to use this allocation for supporting the agricultural sector and processing industry to be in line with the measures designed under the IPARD Programme for Montenegro as well as to be closer to EU standards.

2.3 DESCRIPTION

Part 2 of the annual programme covers three projects.

Project 1 "Support to Montenegrin agriculture to achieve IPARD requirements" amounts to EUR 3 258 308 IPA funds (IPA budget year 2012). The project aims at strengthening the capacity of the IPARD Operating Structures responsible for implementing the IPARD Programme in an efficient and effective manner and to increase the competitiveness of the Agricultural and Rural Development sector of Montenegro. The main results of the project are the following (1) Investments by agricultural producers supported through a grant scheme and (2) Montenegrin administration and final beneficiaries familiarised with the implementation of the IPARD-type of assistance.

Project 2 "Strengthening Montenegrin agriculture through IPARD like measures" comes in complement to project 1 and has the same objective and results than project 1. The amount of IPA funds is EUR 5 285 467 and it is funded by IPA budget year 2013. While project 1 will focus its grants scheme on preparation to measure 101 (Investments in agricultural holdings), project 2 will focus its grant scheme on preparation to measure 103 (Investments in the processing and marketing of agriculture and fishery products).

Project 3 "Strengthening Montenegrin agriculture with establishing Land Parcel Identification Systems (LPIS)" amounts to EUR 2 million IPA funds (IPA budget year 2013). The project aims at supporting the development and implementation of fully functioning systems for the Farm Register and the Land Parcel Identification as an integrated part of a future integrated administration and control system.

The three projects refers to the MIPD sector (6) Agriculture and rural development. The project will in particular contribute to the implementation of the following MIPD priorities selected under the agriculture and rural development sector:

- Improve the administrative capacity for the development and implementation of the agriculture and rural development policy, in particular preparation for the implementation of the pre-accession assistance under rural development (IPARD);
- Contribute to the implementation of the *acquis*;
- Improve overall competitiveness of the agricultural sector and to contribute to the sustainable development of rural areas.

The final beneficiaries of the projects are the Ministry of Agriculture and Rural Development, administrative and technical bodies in charge of the future implementation and management of IPA funds to this sector, the farmers and enterprises within the sector of agriculture, agro-food processing and in rural areas.

The first two projects will be implemented by joint management through an Administrative Agreement with the World Bank in accordance with Article 53d 1(a) of the Financial Regulation.

The total amount of project 1 is EUR 8 121 685. IPA assistance amounts to EUR 3 258 308 with co-financing for a total of EUR 4 863 377 as national co-financing from public (central) level and private contributions. The private and public contributions to the grant scheme amount to 50% and 12.5% of the total investment respectively (for grants), and 20% (public contribution only), for capacity building measures.

The total amount of project 2 is EUR 13 052 940.32. IPA assistance amounts to EUR 5 285 467 with co-financing for a total of EUR 7 767 473.32 as national co-financing from public (central) level and private contributions. The private and public contributions to the grant scheme amount to 50% and 12.5% of the total investment respectively (for grants), and 20% (public contribution only), for capacity building measures.

Project 3 "Strengthening Montenegrin agriculture with establishing Land Parcel Identification Systems (LPIS)" amounts to EUR 2 000 000 with a co-financing of EUR 300 000 for a total of EUR 2 300 000. It will indicatively be implemented by one service contract and one supply contract. Tendering will indicatively be launched in Q2 2014 and Q1 2015.

2.4 CROSS-CUTTING ISSUES

- Equal opportunities and non-discrimination

Equal treatment and opportunities for women and men will be taken into account in the project. Special efforts shall be made to ensure that women are fully included in project activities and benefit from project results. The present programme will also benefit from the IPA 2010 Gender equality project.

- Environmental protection and climate change

The Montenegrin Constitution envisages that the country will become an "ecological state" and requires strict environmental standards to be enforced. However, recent years have seen environmental degradation which directly affects the quality of life, notably of people living in urban areas, and of minorities who are at greater risk of being exposed to environmental hazards. The investments within the project will comply with the environmental standards in the agricultural sector. Part 2 of the 2012-2013 National Programme will also benefit from the IPA 2010 awareness raising project and from the project on strengthening the environmental protection system in Montenegro in Part 1 of the National Programme.

- Respect for and protection of minorities and vulnerable groups

The project will ensure that the principle of equitable representation of ethnic minorities is respected. The programme will also benefit from the IPA 2010 Social Inclusion project and from the implementation of a special project for durable solutions for RAE (Roma, Ashkali and Egyptian) populations in the Konik area funded under the 2011 IPA National Programme.

- Civil Society/Stakeholders involvement

The assistance related to civil society is presented in the Civil Society Facility Commission Decision, and therefore is not part of this document (EUR 1 million to be financed under IPA 2013). In addition, the civil society and stakeholder representatives were involved in the design of the IPARD Programme 2012-2013 on which the supported project is based.

- Good governance, with particular attention to fight against corruption

Principles relating to the fight against corruption were taken into account during the development of the supported project and they will be ensured during the implementation phase. In addition Part 1 of the National Programme 2012-2013 will address rule of law related issues, fight against corruption and organised crime and public administration reform.


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2.5 ASSUMPTIONS AND PRE-CONDITIONS

The programme includes assumptions and pre-conditions expressed in detail in the project fiches. Before contracting, there is enough time to ensure that the pre-conditions are met. These relate to the following aspects, here below presented in general terms:

- The government formally endorses the project described in the fiches, including the identified parallel co-financing commitments.
- The government will ensure that the implementing institutions of the beneficiary country to be involved in the implementation of the project have adequate financial, material and human resources in order that EU financial support is used in the most effective and sustainable manner possible.
- The Government shall ensure long-term sustainability of the actions by allocating the necessary resources, including running costs and maintenance costs, where appropriate.

These conditions are detailed and made specific in the project fiches, which are formally approved by Exchange of Letters between the Commission and the Government. In the event that these conditions are not met, suspension or cancellation of the project or specific activities will be considered by the implementing authority.

2.6 ROADMAP FOR THE DECENTRALISATION OF THE MANAGEMENT OF EU FUNDS

In view of the conferral of management (Decentralised Management (DM)) of IPA funds in the future, Montenegro has prepared several roadmaps, corresponding to Components I and II, to Components III and IV, and to Component V. These preparations are broadly under the responsibility of the Minister of Finance, being the Competent Accrediting Officer (CAO), and for the operational level, of the National Authorising Officer (NAO) who have been appointed in 2011, following the changes of Government in December 2010.

A prerequisite for accessing funds of IPA Components III, IV and V - as opened following the granting of the status of candidate country - is indeed the actual conferral of management of IPA funds by the European Commission to the country. This process requires the establishment of the necessary management and control structures in the country's administration and a Commission conferral decision following a system audit (the accreditation). Montenegro has started its preparations in order to be able to spend in a timely manner the amounts foreseen for Components III and IV in the budget years 2012/ 2013.

A High level Working Group on preparation for Decentralised Management was established in the last quarter of 2011. It is headed by the CAO and meets regularly (twice a month) with a clear result of speeding up the preparations for decentralisation for all IPA Components I-V.

The roadmaps were adopted by the Government of Montenegro in 2011 for Component I to IV. However, there are delays in all components, which at this date are estimated to 3-6 months. Montenegro has submitted its accreditation package for Components I and IIb to the European Commission in July 2012. The expected date for submission of the accreditation packages for Components III and IV is the first quarter of 2013.

The stage of each of the 4 components is presented below:

Stage		IPA Component I & II	IPA Component III & IV
Stage 0	Establishment of the management and control system	Completed	Completed
Stage 1	Gap Assessment		
Stage 2	Gap Plugging		Ongoing
Stage 3	Compliance Assessment	20 March - 20 June 2012	Oct – Dec 2012
Stage 4	National accreditation and submission of application for conferral of management	July 2012	March - April 2013

As regards IPA Component V (DG AGRI in charge), a draft Action Plan towards the conferral of management has been submitted at the end of 2011. Montenegro originally envisaged a submission of the application for conferral of management in the first half of 2013 but delays have been recently announced and an update of the timeline of the action plan is expected to be received by the end of 2013. In order to avoid risks of de-commitment of the allocation under Component V at a later stage, the Minister has consequently asked in June 2012 and July 2013 for a reallocation of the 2012 and 2013 funds from Component V to Component I in agreement with DG ELARG and AGRI (EUR 3 258 308 for 2012 and EUR 7 285 467 for 2013). This procedure of reallocation has to be approved by the Budgetary Authority before the present programme is implemented (the 2012 transfer of commitment appropriations has been approved and the procedures for the 2013 transfer are ongoing).

The final draft of the IPARD Programme has been submitted to the Commission (DG AGRI) in April 2012 and further modification by the Ministry of Agriculture and Rural Development will be made to take account the transfer of the 2012 and 2013 allocations to Component I it is now expected to be updated with newer data and information in line with the latest legislative and political developments and in order to take into account the new rules foreseen under the new financial framework and IPA regulation. The programme is envisaged to be adopted in 2014. The main focus of the preparation for conferral has been given on the preparation of the IPARD agency. The Ministry for Agriculture and Rural Development has established a working group for the monitoring and intensifying activities concerning this process.

3 BUDGET



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3.1 INDICATIVE BUDGET TABLE

IPA 2012

	Institution Building (IB) and Investment (INV)						Total IPA EU contribution	
	Total expenditure		IPA EU contribution		National contribution*		EUR	%
	EUR	%	EUR	%	EUR	%		
Project 1 Support to Montenegrin agriculture to achieve IPARD requirements	8 121 685	40.1%	3 258 308	40.1%	4 863 377	59.9%	3 258 308	40.1%
TOTAL	8 121 685	40.1%	3 258 308	40.1%	4 863 377	59.9%	3 258 308	40.1%

Amounts net of VAT

* Contribution (public and private national and/or international contribution) provided by national counterparts

** Expressed in % of the Total expenditure



IPA 2013

	Institution Building (IB) and Investment (INV)						Total IPA EU contribution	
	Total expenditure		IPA EU contribution		National contribution*		EUR	%
	EUR		EUR	% **	EUR	% **		
Project 2 Strengthening Montenegrin agriculture through IPARD like measures	13 052 940.32		5 285 467	40.49%	7 767 473.32		5 285 467	40.49%
Project 3 Strengthening Montenegrin agriculture with establishing Land Parcel Identification Systems (LPIs)	2 300 000		2 000 000	86.96%	300 000		2 000 000	86.96%
TOTAL	15 352 940.32		7 285 467	47.45%	8067473.32		7 285 467	47.45%

Amounts net of VAT

- * Contribution (public and private national and/or international contribution) provided by national counterparts
- ** Expressed in % of the Total expenditure

Note: the IPA EU contribution for projects 1 and 2 will be contracted through an Administrative Agreement with World Bank which includes management fees and supervision costs, not subject to co-financing. The IPA contribution will be used for Institution Building via technical assistance and for Investments through grants subject to co-financing. Thus, amounts of national and private contribution may decrease accordingly.



3.2 PRINCIPLE OF CO-FINANCING APPLYING TO THE PROGRAMME

The IPA 2012 EU contribution, which represents 40.1% of the total budget allocated to this programme (2012 funds), has been calculated in relation to the **eligible expenditure**, which in the case of centralised management is based on the **total expenditure**. Parallel co-financing will be used.

In total, 59.9 % of co-financing is foreseen for institution building and investment. This overall figure exceeds the minimum required.

The IPA 2013 EU contribution, which represents 47.45 % of the total budget allocated to this programme (2013 funds), has been calculated in relation to the **eligible expenditure**, which in the case of centralised management is based on the **total expenditure**. Parallel co-financing will be used.

In total, 52.55% of co-financing is foreseen for institution building and investment. This overall figure exceeds the minimum required.

In the case of grants, the maximum rate of EU co-financing for grants is 90 % of eligible costs, unless stipulated otherwise for a specific project in section 2.3.

4 IMPLEMENTATION

4.1 MANAGEMENT MODES AND IMPLEMENTATION MODALITIES

The programme will be implemented on a direct centralised basis by the European Commission in accordance with Article 53a of the Financial Regulation⁴ and the corresponding provisions of the Implementing Rules⁵. This corresponds to project 3.

Project 1 and 2 under this programme will be implemented by joint management with the World Bank through an Administrative Agreement in accordance with Article 53d 1(a) of the Financial Regulation.

The use of this body is justified by the wide experience that the World Bank has gained in its international commitments in the Western Balkans during the recent years and in the sector concerned. In Montenegro, the World Bank has a long experience thanks to the MIDAS project in supporting sustainable agriculture and rural development in a manner consistent with the EU pre-accession requirements. Based on this experience it is appropriate to delegate implementing tasks to this public-sector body.

⁴ Regulation 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p.1)

⁵ Regulation 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 1).

4.2 GENERAL RULES FOR PROCUREMENT AND GRANT AWARD PROCEDURES

Procurement shall follow the provisions of Part One, Title V and Part Two, Title IV of the Financial Regulation No 966/2012 of the European Parliament and of the Council of 25 October 2012 and, Articles 260 *et seq.* of its Rules of Application (footnote: Regulation 1268/2012 of 29 October 2012).

The essential selection criteria are the financial and operational capacity of the applicant. The award criteria are relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action. The detailed selection and award criteria will be laid down in the Calls for proposals – Guidelines for applicants.

4.3 ENVIRONMENTAL IMPACT ASSESSMENT AND NATURE CONSERVATION

All investments shall be carried out in compliance with the relevant EU environmental legislation.

All investments made under this programme shall have as ultimate goal to up-date to Community standards, including the relevant EU environmental legislation.

Under this programme only projects shall be selected which will not affect sites of nature conservation importance.

5 MONITORING AND EVALUATION

5.1 MONITORING

The Commission may undertake any actions it deems necessary to monitor the programmes concerned.

5.2 EVALUATION

Programmes shall be subject to ex ante evaluations, as well as interim and/or, ex post evaluations in accordance with Articles 57 and 82 of IPA Implementing Regulation⁶, with the aim of improving the quality, effectiveness and consistency of the assistance from EU funds and the strategy and implementation of the programmes.

The results of evaluations shall be taken into account in the programming and implementation cycle.

The Commission may also carry out strategic evaluations.

6 AUDIT, FINANCIAL CONTROL AND ANTI-FRAUD MEASURES

The accounts and operations of all parties involved in the implementation of this programme, as well as all contracts and agreements implementing this programme, are subject to, on the one hand, the supervision and financial control by the Commission (including the European Anti-Fraud Office), which may carry out checks at its discretion, either by itself or through an

⁶ Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA) (OJ L 170, 29.6.2007, p. 1).

outside auditor and, on the other hand, audits by the European Court of Auditors. This includes measures such as ex-ante verification of tendering and contracting carried out by the EU Delegation in the Beneficiary.

In order to ensure the efficient protection of the financial interests of the European Union, the Commission (including the European Anti-Fraud Office) may conduct on-the-spot checks and inspections in accordance with the procedures foreseen in Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities⁷.

The controls and audits described above are applicable to all contractors, subcontractors and grant beneficiaries who have received EU funds.

7 LIMITED CHANGES

Limited changes in the implementation of this programme affecting essential elements listed under Article 90 of the Implementing Rules to the Financial Regulation, which are of an indicative nature⁸, may be undertaken by the authorising officer by delegation (AOD), or by the authorising officer by sub-delegation (AOSD), in line with the delegation of powers conferred upon him by the AOD, in accordance with the principles of sound financial management without an amending financing decision being necessary.

⁷ OJ L 292; 15.11.1996; p. 2

⁸ These essential elements of an indicative nature are, for procurement, the indicative number and type of contracts envisaged and the indicative time frame for launching the procurement procedures.

List of abbreviations

CAO	Competent Accrediting Officer
CAP	Common Agriculture Policy
	Instrument for Pre-accession Assistance and Agriculture in Rural
	Development
IPARD	Montenegro Institutional Development and Agriculture Strengthening
MIDAS	Multi-Annual Indicative Programming Document
MIPD	Multi-Annual Indicative Programming Document
NPI	National Programme for Integration 2008-2012
RAE	Roma, Ashkali and Egyptian

