

ANNEX I.5

of the annual action plan in favour of Montenegro for 2021

ACTION DOCUMENT “EU REFORM FACILITY”

1. SYNOPSIS

1.1. Action Summary Table

Title	EU Reform Facility			
	Annual Action Plan in favour of Montenegro for 2021			
OPSYS number -	ACT-61143			
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)			
Team Europe Initiative	No			
Zone benefiting from the action	Montenegro			
Programming document	IPA III Programming Framework			
PRIORITY AREAS AND SECTOR INFORMATION				
Window and thematic priority	Window 2: Good Governance, EU <i>Acquis</i> Alignment, Good Neighbourly Relations and Strategic Communication Thematic priority: Good governance			
Sustainable Development Goals (SDGs)	SDG 8: Decent work and Economic Growth SDG 9: Industry, Innovation and Infrastructure			
DAC code(s)	Financial sector 20410 -100%			
Main Delivery Channel @	To be decided			
Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	☐	☐	☒
	Aid to environment	☐	☒	☐
	Gender equality and women’s and girl’s empowerment	☐	☒	☐
	Trade development	☐	☒	☐

	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction	☒	☐	☐
	Inclusion of persons with Disabilities	☒	☐	☐
	Nutrition	☒	☐	☐
	RIO Convention markers @	Not targeted	Significant objective	Principal objective
	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☐	☒	☐
	Climate change adaptation	☐	☒	☐
Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation	☐	☒	☐
	Migration	☒	☐	☐
	Covid-19	☒	☒	☐
BUDGET INFORMATION				
Amounts concerned	Budget line: 15.020101.01 Total estimated cost: EUR 10 000 000 Total amount of EU budget contribution EUR 10 000 000			
MANAGEMENT AND IMPLEMENTATION				
Type of financing and method(s) of implementation	Direct management through Twinning and Procurement Indirect management with an entrusted entity.			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans [only for the Western Balkans]	This will cover Priorities: “Transport”, “Energy”, “Green Agenda”, “Digital Transition”, “Innovation Agenda”, “Private Sector Support”, “Human Capital Development”, “Common Regional Market and Economic Integration”, “Governance, Rule of Law, PAR” This may cover the flagships: “I Connect East-West”, “II Connect North-South”, “III Connect Coastal Regions”, “IV Renewable Energy”, “V Coal Transition”, “VI Renovation Wave”, “VII Waste and Waste Water”, “VIII Digital Infrastructure”, “IX Support Competitiveness”,			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2022			

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

1.2. Summary of the Action

This Action aims to assist the Government in advancing Montenegro's reform process in a post COVID-19 context in a dynamic and focused way.

It is foreseen to be part of a reform-focused investment package including additional and on-going IPA assistance, WBIF support, loans and grants. This package will be linked to a set of conditions to advance with the package's reform to be agreed by the Montenegrin Government, taking into account priorities identified in the accession process, the enlargement package, and particularly Montenegro's own Economic Reform Programme.

The Reform Facility for Montenegro (hereafter "the facility") will in addition be open to cooperation with other partners, notably International Financing Institutions (IFIs), international organisations, private specialised service providers, and EU Member State.

Reinforcing the national authorities' capacities for economic reform. This is also framed in the wider context of the EU accession process and in advancing the Sustainable Development Agenda will constitute the core of the action. The facility should address specific topical needs, identified and agreed upon by the European Commission and Montenegro. This facility shall provide a flexible support funding resource for benefiting from technical expertise and financial resources of IFIs and other partners.

The facility will be managed via a Steering Committee made up of Montenegrin and European Commission stakeholders which should indicatively meet on a quarterly basis to design and plan the implementation and utilisation of the funds in the facility. It is expected that this Committee as also becomes a practical forum to generate discussion and forward-planning for reform oriented initiatives to be financed by this facility.

Full commitment of the Montenegrin authorities will be essential in order to implement a solid reform and investment package along the parameters outlined above.

The facility should indicatively focus on a range of key reform areas and priorities, for example:

1. Improve fiscal stability and management of fiscal risks by reforming State-owned Enterprises (SoEs), and implementation of a sustainable fiscal decentralization of municipalities;
2. Support to Public Investment Management (PIM): supporting the implementation of the public investment portfolio and single project pipeline, in accordance with the PIM Assessment Action Plan, as well as further strengthening institutions working with public capital investments (including via functional reviews, HR management, training), helping the country to prepare important investments as part of the EU's Economic and Investment Plan for the Western Balkans to be supported via the Western Balkans Investment Framework (WBIF);
3. In an on-demand basis, to address other financial and economic reforms, Public Finance Management (PFM) and economic governance challenges, in accordance with priorities such as those included in the PFM reform programme and Economic Reform Programme (ERP) 2022-2024 (e.g. the diversification of the economy, implementation of the Smart Specialisation Strategy, and the fight against the grey economy).

The facility will work in parallel with the on-going policy dialogue between Montenegro, the EU and IFIs in the above areas and further facilitate the access to investments in strategic domains (guarantee schemes, loans, policy based lending etc.).

The facility will contribute to complement existing EU policy and programme initiatives, such as the Economic Reform Programme (ERP), the Stabilisation and Association Agreement (SAA), annual Country Reports and on-going EU Accession negotiations. This facility will also build upon findings and recommendations of 2019 Public Expenditure and Financial Accountability PEFA, evaluation of the PFM Strategy 2016-2020, SIGMA (Support for Improvement in Governance and Management) diagnostic assessments as well as PIMA 2021. Close coordination with other IPA financial support (bilateral as well as multi-country), and other donor support is envisaged.

The facility may also be part of a further to be formulated tailored package that would consist of a range of tools and instruments to be agreed between the Commission, EU Member States, IFIs and Montenegro. That package would potentially include IFI loans, including possible policy-based lending, EU guarantees, and further and enhanced use of the WBIF, particularly in respect of the roll out of the Economic Investment Plan for the Western Balkans (EIP). ¹

Actions may include thematic priorities and preferred aid delivery modalities, including technical assistance, Twinning, and contributions to the innovation fund, in order to provide:

- Support in planning and managing the public investment portfolio and project pipelines – in particular to help the country benefit from large investments made possible by the EIP,

¹ [An Economic and Investment Plan for the Western Balkans \(europa.eu\)](https://europa.eu)

- Technical assistance to analyse deficiencies in management and to implement necessary further restructuring of SOEs, as well as further technical support for the structuring and functioning of the state led Montenegro Works Company,
- Policy advice and dedicated technical assistance (private service providers and/or Twinning) to relevant Ministries and state bodies,
- Support to the establishment and functioning of the Innovation fund as well as support for the implementation of the Smart Specialisation Strategy of Montenegro (S3) 2019-2024, and further diversification of the economy and internationalisation of Montenegrin SMEs,
- Assistance to strengthen national and municipal Programme Implementation Unit (PIU) capacities,
- Support to municipal administration so to achieve functioning fiscal decentralisation,
- Supporting further economic reform measures focused on increasing investment and capacity building in selected sectors with the aim of supporting green practices and digitalisation.
- If appropriate complementary technical assistance to reinforce the implementation of the PFM component in the planned IPA 2022 public administration reform (PAR) / Public Financial Management (PFM) Budget Support Programme.

The facility will become part of the wider EU support to Accession negotiations. It will be an important element to the Commission's efforts in bringing together financial support, including future IPA programmes and Budget Support, blending instruments under the WBIF credits and EU's new guarantee investment instruments for the Western Balkans (e.g. EFSD+ the European Fund for Sustainable Developments). All these instruments should work together in the context of the overarching sectorial policy dialogues.

The facility is designed and will be implemented in the context of the EIP for the Western Balkans, which was adopted in October 2020 with a renewed emphasis on the importance of capital investment to enhance connectivity, to implement the Green Agenda for the Western Balkans and to advance further digital development in the country and the region. The facility should equally work in parallel to on-going education, social and labour market programmes. The facility should also find a mechanism to keep links to civil society actions.²

2. RATIONALE

2.1. Context Analysis

Economic reform is critically important for Montenegro's EU accession efforts. It is key that these also include strong synergies with policies reinforcing the rule of law and fundamental rights and reforming the public administration.

Montenegro is currently undergoing a democratic political transition. The change of government in December 2020 was the result of the August 2020 general election which resulted in a change of the ruling coalition for the first time in Montenegro's modern history.

This democratic transition takes place in a wider political and economic context exacerbated by the COVID-19 pandemic. In March 2020, Montenegro went into a lockdown; like many countries around the World and

² [Green agenda for the western balkans en.pdf \(europa.eu\)](https://ec.europa.eu/eip/wb/green-agenda-western-balkans_en.pdf)

the EU. The Government reacted with a number of packages including social and economic measures, which were rolled out as the crisis developed and well into 2021. As a result, the country suffered a huge contraction in economic activity, estimated at 15% by the statistical office of Montenegro. The pandemic and restrictive measures continue to have a broad range of social, health and economic effects, which are still felt in 2021. Economic forecasts projects that it may take more than two years to return the economy to 2019's level. Much of this is outlined in the latest Enlargement Package Country Report in 2021 which provides the broader baseline of this facility. The profound depth of Montenegro's recession also reflects the country's specific over reliance on tourism, highlighting strongly the need for a broader diversification of its economy and the need to address reforms. It equally well recorded that the pandemic has had a huge negative impact on vulnerable children and adults and their communities in Montenegro. It is noted that women have often borne the brunt of these new social and economic challenges. This also includes Roma communities.

Although Foreign Direct Investments (FDIs) from China remains small³, credit arrangements provided by China for the construction of the priority section of the key Bar-Boljare highway has become emblematic of Montenegro's weak investment position. The state-owned Chinese company China Road and Bridge Corporation (CRBC) was chosen to build the 41-km long priority section (Smokovac-Matesevo) out of the 170 km Bar-Boljare complete motorway. The total construction costs for this section were set at EUR 809.6 Million, 85% of which provided by the Chinese Exim Bank loan under favourable conditions⁴. This credit arrangement is part of the USD 10 Billion package of the '17+one' regional initiative. However, construction delays (the project implementation has been delayed by almost three years), and cost overruns will most likely push completion of this complex project to the end of 2021 raising the final costs of this to approximately EUR 1 Billion.

In March 2018, the previous government signed a Memorandum of Understanding with a Chinese contractor for the construction of the next sections of the highway on a public-private partnership basis. Notwithstanding this, the Montenegrin authorities subsequently also expressed interest to pursue the construction of the road with 'new European partners'. In 2018, the country applied for WBIF grants (EUR 55 Million) for the construction of the next section (Matesevo – Andrijevisa). The status of this application was still pending in August 2021, awaiting the completion of the preliminary feasibility study and cost benefit analysis for the whole stretch of the highway. The Chinese Exim Bank also provided a EUR 40 Million loan to finance the purchase of two Chinese-made cargo ships (bulk carriers) in 2010.

Two Montenegrin state-owned maritime transport companies (Crnogorska Plovidba and Barska Plovidba) could not regularly service the loan to Exim bank for these ships, and the authorities negotiated to re-programme the loans in order to avoid an activation of the state's guarantees. Additionally, the COVID - 19 crisis pushed public debt to 105% of GDP at the end of 2020 and the Chinese loan, which accounts for approximately 16% of the overall debt (and 25% of the country's GDP), became more expensive due to the recent changes in the EUR/USD exchange rate. Over the next 13 years, Montenegro will have to pay back the Chinese highway loan. In June 2021 Montenegro announced a deal with EU and US international private banks shielding the country from the risks from the Chinese highway loan of currency exchanges between the EURO and the US Dollar.

2.2. Problem analysis by areas of support

³ This was totalling around EUR 9 Million for the period 2006-2019. By 2020 China's investment in 2020 surged instead to EUR 71.2 million on the back of investment by its state-owned company

⁴ The contract with Exim Bank was signed in October 2014, and entered into force on 14 April 2015. It allowed for withdrawal of USD 944 Million loan within the next six-year period. The agreement stipulated completion of the construction works within four years, i.e. in May 2019, providing for another two years for auditing quality of works, which is in total duration of the grace period for the loan repayment (six years).

Beyond the complex questions of indebtedness and investment, there are also wider economic questions which are also critical for the country's future.

Economic governance remains critical as this is the system by which institutions, including independent actors like the central bank, regulate and steer the economy. The fundamentals first approach to EU enlargement encourages candidate countries to also tackle economic fundamentals as priority. This requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union and involves macroeconomic stability, a welcoming business environment, functioning labour and financial markets, good levels of human capital/education, infrastructure, innovation and economic integration with the EU and the world.

To that end, the reforms supported by this facility will take into account the reforms and priorities foreseen in the next 2022-2024 ERP. In this way, the ERP will become closely associated with the IPA financial assistance programming, contributing both processes to the achievement of more ambitious reforms, backed by the recommendations from the Commission's annual Enlargement Package too, and by the Stabilisation and Association process.

In this context, structural reforms are necessary to introduce changes in the broader fabric of public finances and the economy, including the strengthening and improving public institutions. Some of these reforms have been or are being addressed. However, more can be achieved and the facility can accelerate the reforms.

The reforms to be supported by the facility are meant to address longer-term aspects in the country's economic framework, and tackle obstacles to the fundamental drivers of growth by reforming labour, product and service markets, thereby encouraging job creation and investment, and improving productivity, particularly through a strengthened and more dynamic private sector. Sound public finances, efficient and effective management of the public investments as well as reforms in the management structures of state-owned enterprises are set to contribute to the overall success of the structural reforms, in the context of the enlargement process, supported by the ERP process and IPA funds. The reforms have the potential of accelerating the necessary structural changes across the Montenegrin economy. Not least, the areas of action proposed in the context of this facility could be also considered as necessary to bring about synergies between different EU accession negotiation chapters with technical and financial support to Montenegro.

Continuing and building upon the reform of Public Finance management is a priority recognised by the Commission's Country Reports, Montenegro's ERP and other policy documents as well. Montenegro adopted the Public Finance Management Reform Programme (2016-2020) on 3 December 2015. The Programme defined the key reform plans in this area, aimed at increasing responsibility and ensuring reliable financial management, by improving the economy, the effectiveness and the efficiency in public resources management. A PEFA assessment, concluded in December 2019, shows mixed performance across different PFM processes and institutions. The EU-financed and OECD-led SIGMA initiative produces regularly diagnostic assessments on the state of play in the PAR and PFM fields which direct wider reform efforts in this field.

A new PFM Strategy (2021-2025) is at an advanced stage of preparation and will require the partnerships and financial support of the EU for its implementation. The consultation and preparation process of the strategy involved international institutions and they remain key for its future implementation, such as SIGMA and IMF. Additionally, a Public Investment Management Assessment (PIMA) exercise took place in June-July 2021, and a draft report was submitted to the Ministry of Finance. This strategic assessment will result in an action plan to be included in future PFM strategies. The PIMA confirmed that the fundamentals of the PFM system are in place, and core functions are performing at the higher end of the assessment scores. These fundamentals and core functions relate to budget reliability, transparency of budget and fiscal information, revenue mobilization and budget execution, internal control and internal audit (IA), external audit and parliamentary scrutiny and, to certain extent, accounting and financial reporting. On the other hand, more

advanced elements of the PFM system suggest there is room for further improvement and continued strengthening. It is widely agreed that preserving efficient and reliable fundamentals while developing additional capacity for advanced PFM practices can enhance the management of public finances in the long-run, and thus contribute to the country's broader goals, such as economic growth and more efficient public service delivery. Areas for further improvement include the linkage between strategic plans and budget resources; medium-term perspective in planning and budgeting; management of public investments, assets, and fiscal risks; and meaningful performance measurement and evaluation. The Commission also supports this process through the Budget Support to the Public Administration Reform (PAR) programme, and plans to sustain this with a consecutive Budget Support to keep continuous reforms in the area of PAR and PFM. In parallel, the implementation of the PIMA Action Plan is expected to be carried out in the coming years. The IMF remains a prominent partner to Montenegro and the region in that regard in the past years, not only in carrying out the PIMA itself, but working in many relevant areas providing its technical assistance.

Moreover, Montenegro still faces structural and functional challenges in attracting foreign investments which also is an obstacle to fully benefit from the EIP. The EIP currently foresees more than EUR 9 billion of funds available for the wider region, much of which to be implemented via the WBIF. Gaining access to and utilising EIP funds through WBIF needs a sound and long term strategic planning, and most importantly, technical knowledge and capacities of the institutions involved. This requires functioning national structures, which are coordinated, staffed and experienced in order to plan, design and implement in longer term perspective, not only under the EIP framework. Having solid public finances in place is one key aspect, but policy coherence and coordination as well as close collaboration and preparedness of relevant Ministries, local authorities and the National IPA Coordinator/Chief Negotiators office are also essential pre-conditions for success. It should nonetheless be noted that Montenegro has over the last ten years already had some considerable investment via WBIF, including financing from the EIB. However, a dynamic national Single Project Pipeline as roadmap is agreed by all as being necessary. Accordingly, the implementing bodies the Montenegro's Central Financing and Contracting Unit (CFCU) and Public Works Administration (PWA) have a key role to play, particularly the PWA as it must work closely with several Ministries in order to ensure a smooth implementation of capital projects, especially large complex ones in transport, energy and environment. In general, the cooperation between the National IPA Coordinator, National Authorising Officer (in the Ministry of Finance) and the line Ministries must also be strengthened in this reform and investment context.

Montenegro has moved forward in the region by developing the first innovative Smart Specialisation Strategy in June 2019 (S3 2019-2024). This was made in close collaboration with the Joint Research Centre of the European Commission. In this context the authorities plan to benefit from future technical support, which will help to a properly focused implementation of the strategy, which is then expected to lead to greater diversification of the economy, further investments and an expansion of Montenegrin SMEs activities into new sectors and foreign markets. Therefore, the implementation of the S3 strategy is itself a key structural reform included in 2021-2023 ERP. In the context of the S3 Strategy, the need for strengthening the digital economy was brought into focus, during the COVID-19 pandemic lockdown.

The Innovation Fund, aimed at this stage to be a key implementing body for the S3 strategy, will also need international technical knowledge and support for its functioning. An integrated information system for research and innovation and the Science and Technology Park of Montenegro with a National Technology Transfer Office should be constructed to provide for the necessary innovation infrastructure. The establishment of strong clusters aligned with S3 is yet to take place, as well as entities for networking and connectivity within the knowledge triangle and similar bodies spurring the exchange of knowledge, internationalisation and accelerating commercialisation of high-value products. Many small and medium-sized enterprises also need support services for digital transformation in order to be able to integrate online operations with traditional business methods under the new circumstances caused by the pandemic.

More than 90% of the country's SoEs had been privatized by 2021. However, some of the country's most important enterprises still remain state-owned, including new national air carrier branded Air Montenegro,

Airports of Montenegro, Montenegro Railways, and several companies in the tourism and energy sectors. Currently, the Montenegro state is the majority or full owner of 32 companies – and according to some state data up to 43, many of which at municipal level. SOEs operate under different legal forms: those which provide “public” goods and are mainly established by local municipalities. Some estimates suggest that state-owned companies in Montenegro employ almost 8 000 people, accounting for an estimated 3.3% of national employment, slightly over the OECD average of approximately 2-3%.

The latest OECD’s South East Europe Competitiveness Outlook report (July 2021) also outlined a number of issues related to State Owned Enterprises (SOE) in Montenegro. A positive step was the adoption of the new Law on Business Organisations, which is an element of the closing benchmarks under Chapter 6 “Company Law” in the context of Montenegro’s EU accession negotiations. The new law affects the legislative framework for SOEs, for instance by further professionalising managing boards and strengthening their operational autonomy. Montenegrin SOEs are subject to sound financial disclosure and auditing requirements. A level-playing field between state-owned and private companies is present on paper, owing to the fact that SOEs mostly operate according to the general company law (the Law on Business Organisations).

At the same time, some of these public enterprises has brought a heavy burden on the state budget in terms of debts and subsidies, due to high employment and running costs relative to their revenues. OECD data highlights the low returns to the state’s investments in these companies and the fact that five majority-owned companies are currently undergoing bankruptcy procedures due to inefficiencies. A great number of SOEs operate with a loss. Although individual SOEs may have performance targets, there is not as a whole an overview of performance objectives or how well the SOE portfolio is performing overall. Granting of state aid to the national carrier Montenegro Airlines was found illegal by the Agency for the Protection of Competition (ACP) as the competent authority for competition policy and State aid . Similarly, according to OECD, Montenegro achieves a relatively low score in indicators related lack of an ownership policy and insufficiently harmonised ownership practices. State ownership responsibilities for Montenegro’s SoEs are exercised directly by the government, by a variety of line ministries and a number of state funds. There is currently no common or transparent approach across Montenegrin SOEs in terms of board nomination procedures, which may have led to political appointees. According to monitoring by the Securities Commission, only around half of state-owned joint-stock companies respect these disclosure requirements. The World Bank’s 2019 ‘Doing Business’ report also underlined persistent shortcomings in minority shareholder rights and gives Montenegro an average score of only 3.0 out of 6.0 for the extent of shareholder rights, which attests for the need of further improvement of legal framework to protect minority shareholders’ rights.

In August 2021, the Government announced the establishment of a company (Montenegro Works) to support the financial management of the SoEs, under the supervision of Ministry of Finance and Social Welfare. Discussions between the Ministry of Finance, the Ministry of Public Administration and the Ministry of Economy regarding a strategy for State Owned Enterprises are at an early stage. This will have broader implications for public administration, public finances and for competitiveness. The outputs and outcomes of the Regional Trust Fund, that the European Commission has recently signed with the World Bank on State Owned Enterprises, should also be taken into consideration.

A Corporate Governance Improvement Department was established within the Ministry of Capital Investment in May 2021. It is understood that the goal of this new department is to support SOEs that are under supervision of Ministry of Capital Investment in analysis of their current economic conditions and their related industries, strategic planning processes, creation of business development policies, as well as making an introduction and follow up on main key performance indicators with cross reference to peer groups in order to improve the

business efficiency and financial results of SOEs. It is envisaged that this department monitors business results of SOEs, preparing periodical reports for, currently 21 companies. Established reporting package includes actual financial results and certain business statistics compared with historical data, with intention to expend information with budgeted figures and operational KPIs as well. This report should give in one place, on quarterly basis, breakdown of current results for 21 SOEs compared with the budget and previous two years actuals, sending on-time warnings to the owner for underperformers. It is equally foreseen that department also works on harmonizing of ownership practices over SOEs under the responsibility of Ministry of Capital Investment.

As noted above the facility is also aimed to be part of a tailored package to be agreed between Montenegro, the Commission, EU Member States, IFIs and other partners. This may include IFI loans, including possible policy based lending, guarantees, and cooperation with the WBIF. It is underlined that such a package will not exclude other smaller and focused interventions helping Montenegro to bring about critical steps in reform. Other programmes in IPA II and in IPA III, for instance IPA Budget Support programmes for PAR/PFM and for the Integrated Border Management (IBM) would be of an important complementary nature to the wider package of support to Montenegro's renewed reform process.

In the coming years it is envisaged that the WBIF can be progressively used as a tool for facilitating and leveraging reforms within the region. Within the framework of this facility and the WBIF, IFIs are equally expected to play a stronger role in supporting the implementation of relevant reforms in the country. Initiatives aiming at the creation of project implementation units, staffed with investment experts in specific fields, can also be considered, following the example in the past 25 years.

The facility should encourage Montenegro to continue developing new and innovative opportunities, for instance in the field of innovation, where it has developed a Smart Specialisation Strategy. The S3 strategy gives a great opportunity for further focusing on Montenegro's large green energy potential. It is noted that the external shock of the pandemic became a warning sign of the overreliance of the country on tourism. New opportunities focused on the diversification of the economy must be carefully evaluated. Those which are considered feasible should be promoted in order to rebuild a more resilient economy, addressing its weaknesses and structural challenges.

Larger investments and sound public funds management, which are expected to stimulate diversification and revitalization of the economy, will have a multiplier effects on other key structural challenges such as labour markets, (specialised) education, further research and innovations, social and human development. Thus, the facility and the package at large will complement other dedicated instruments such as the Youth Guarantee which is to be supported initially by the EU via IPA financial assistance.

2.3. Relevance and complementarity with strategies supported by key national stakeholders

Continuing financial and economic reform is a central ambition of the authorities as underlined in the ERP.

The Country's last ERP projected a fast and overly optimistic recovery of the economy after COVID-19. Due to the significant deterioration in external and domestic demand, real GDP dropped by an estimated 15.2% in 2020. The ERP baseline scenario expected the economy to rebound strongly in 2021, supported by improvement in the health situation in the second half of the year, and to return to its pre-crisis level already in 2022. The completion of the first section of the Bar-Boljare highway in 2021 together with an expected recovery of tourism would lead to a narrowing of the current account deficit, making net exports the key driver of growth. However, as elsewhere, risks are to the downside, and delays in the launch of COVID-19

vaccination could challenge this recovery scenario. Growth is projected to ease to 6.5% in 2022 and to 5.8% in 2023 when tourism would recover – or even exceed – its pre-crisis level.

The fiscal strategy projects a significant improvement of the budget over the medium term. However, the impact of the pandemic in turn widened the budget deficit, which rose to 11% of GDP in 2020, while public debt surpassed 100% of GDP. From 2021 onwards, the programme foresees a sizeable improvement in the budget balance, which is set to reach a surplus in 2023. The rebounding of GDP growth, the reimbursement of debt using accumulated government deposits, together with a tight control of expenditure would significantly reduce the public debt-to-GDP ratio (by some 34 pps.).

However, a high degree of uncertainty surrounds that favourable scenario. Although the programme provides some budgetary savings, these are offset by concurrent expenditure increases. Given the prevalence of ad hoc decisions and a track record of fiscal slippages, there is a need to continue strengthening fiscal frameworks and governance.

The main challenges facing Montenegro according to the Commission's assessment of the latest Economic and Reform Programme include the following:⁵

- Stabilising public finances through a stronger commitment to a credible consolidation path once the economic recovery takes hold;
- Strengthening fiscal governance in order to prevent budget slippages and unburden the private sector;
- Making the regulatory environment less burdensome for businesses;
- Tackling the large informal economy;
- Addressing the persistence of unfavourable labour market outcomes which undermines potential growth and the improvement of living standards.

In addition, Montenegro's Smart Specialisation Strategy (2019-2024) is also important. The strategy aims to bring about diversification of the economy, further investments and it is hoped an expansion of Montenegrin SMEs into new sectors and foreign markets. In turn, S3 strategy is also a key part of the ERP included in 2021-2023. Digital is central to S3 Strategy. The linked Innovation Fund shall also require support as the newly established national implementing body for the Smart Specialisation Strategy and Innovation. Complementarity with the country's PFM strategy is also key to the work of the facility as well as being critical to the country's on-going reform progress.

⁵ [2021 Economic Reform Programmes of Albania, Montenegro, North Macedonia, Serbia, Turkey, Bosnia and Herzegovina and Kosovo: The Commission's Overview and Country Assessments | European Commission \(europa.eu\)](#)

2.4. Relevance and complementarity with EU policy and EU and other donors' assistance

The facility will take into account on-going EU support already being managed in IPA via bilateral and multi-country programmes either in IPA II or III. Multi-country programmes are important and there are a number of key regional programmes including with the IMF, which contributes with technical assistance in the area of public finances. In general projects and initiatives in the facility should try to closely liaise and coordinate with the World Bank and the IMF given their important role in the sector.

Complementarity also has to be ensured with the WBIF given the centrality of this framework in terms of planning and implementing programmes.

The action is fully in line with the developments in the Economic Investment Plan and the Western Balkans Investment Framework launched in October 2020. The action also is equally framed in the context of the EU's Green Deal.⁶ The action is also complementary to social and economic measures being taken by the Government as well as linking to EU financed programmes and projects in the social, education and employment sectors to which this financial sector is closely linked.

In addition, in line with the policy-first approach, the programme will aim to contribute to achieving the objectives identified in the IPA III Programming Framework and is in line with the recommendations derived from the specific instruments of the enlargement process, in particular: the negotiating framework, the recommendations of the Enlargement Package, the Economic Reform Programme (ERP) and the policy guidance agreed annually in the joint conclusions, the conclusions of the meetings organised in the context of the SAA as well as, where applicable, the Western Balkans Strategy, the Macro-Regional Strategies and the national plans for the adoption of the EU acquis. In particular, the European Commission's Reports, prepared in the framework of the annual Enlargement Package, provide an annual detailed assessment of both the level of preparedness and the degree of progress achieved over the preceding reporting period.

2.5. Lessons learned and links with previous financial assistance

There are a number of lessons learnt or previous/ongoing financial assistance. Much of this can be found in reports from IPA projects and from the ERP over the last ten years.

Note must be made of the evaluation of the current PFM programme and the current PAR budget support which have highlighted areas which have progressed and which need further support. Outputs and outcomes from the IPA PFM-PAR Budget Supports are of particular interest. Other projects which should be referenced include public investment projects financed by IPA, including digitalization initiatives.

The IMF, the World Bank and the Commission, together with Montenegrin authorities themselves, have underlined the limited absorption capacities, in terms of TA. The evaluation of the previous PFM programme has, as one of the main recommendations, underlined the need to ensure ownership of the Ministry of Finance and of all actors involved in PFM.

⁶ [Green agenda for the western balkans en.pdf\(europa.eu\)](#)

It has also been underlined that actions focused on reforms must be adapted to the context and fully supported and owned by the authorities. This is critically important since the national administration has undergone considerable changes in terms of structuring and staffing since December 2020.

In addition, an EU financed Country Evaluation carried out by independent experts and which looked at a number of areas of cooperation and assistance in the Montenegrin context was finalised in 2021 and. Amongst a number of other recommendations the report outlined the need for building closer links between dialogue and programme, as well as for greater coordination between the ERP and wider policy dialogue and IPA assistance.

It is noted that the Project Preparation Facility (PPF) and Support Measures Facility (SMF) funds under previous IPA programmes have been both utilized for delivering short-term assistance in: designing effective strategic plans in different sector areas, often followed by more detailed investment strategies; providing ad hoc support in particular in topical areas of EU accession negotiations; supporting planning and programming of the EU funded actions by assisting in stakeholder consultations; drafting the action documents; and drafting the tender documentation and support the evaluations for the implementation of EU funded actions. Lessons learned implementing these must be integrated into the work of this facility.

3. DESCRIPTION OF THE ACTION

3.1. Planned results and intervention logic

The foreseen impact related to the overall objective of the action is for Montenegro to have advanced and implemented a number of key reforms in the economic governance context. It is moreover intended that sustained reforms in Montenegro will improve the country's attractiveness for investment and for improved public sector financial management. This facility will aim to support this move.

The following outcomes and outputs should lead to this overall result/impact:

Outcome 1: Advanced SoEs reform (both at national and local level);

Outcome 2: Improved management of the national capital investment portfolio – with particular focus on EIP participation;

Outcome 3: Increased share of innovative SMEs in the economy.

Indicative outputs are (non-exhaustive):

- Legislative changes made in the context of SoE reform;
- Where feasible Independent selection of SOE's management board members conducted where the state is majority stakeholder; including capacity building for board members (on ethics/anti-corruption, etc.);
- Functional and Structural review conducted in most SoEs; including regarding right-sizing of staff;
- Montenegro Works company supported with technical expertise in the first period of its existence;
- New ownership policy of SoEs adopted and implemented;

- Introduction of merit-based recruitment of staff in SoEs;
- Restructured and functioning list of capital investment pipeline and project selection criteria in place;
- Assistance in its implementation and creation of project implementation units dealing with investment in various ministries and agencies;
- Timely and full implementation of the PIMA Action plan as part of the PFM reform strategy;
- Improved management and oversight of local government finance (decentralisation);
- Set up and function of the Innovation Fund where possible already extending grants for innovation.

It is intended that the financial focus of this programme will support and be complementary to on-going and planned social and labour market initiatives.

3.2. Indicative type of activities

This Action shall focus on a range of tools, policy advice, technical support and capacity building related to the EU accession process and it should also ensure effectiveness and impact of other actions financed through IPA III.

The Facility shall provide flexible support to the national authorities aimed at addressing specific needs identified as part of the challenges in the reform process.

It shall include, but is not restricted to, the following:

- Specific interventions from IFIs, EU MS, international organisations, and other partners focused on achieving outcomes, and outputs of the programme;
- Studies, reviews and regulatory analysis in the context of PFM and fiscal reform (e.g. SoEs, PIM. etc.);
- Support for the strategic planning of EU assistance with the focus on sector-wide approach and preparation for future cohesion and structural funds;
- Support for the strategic planning of EU assistance with the focus on sector wide approach and preparation for future cohesion and structural funds, including support to set up the necessary operating structures to manage sector operational programmes;
- Technical assistance in preparation of sector strategies or multi-sector strategies, drafting of regulatory amendments, preparation of (pre-)feasibility and impact studies as well as in preparation of investment or other strategies;
- Capacity building and policy advice from IFIs and other financial institutions to the authorities.

3.3. Risks and assumptions

Risks	Risk level (H/M/L)	Mitigating measures
Risk 1 Political changes in the Government and / or changes in political policies	H	The facility is sufficiently flexible in its make up enough to design measures which can adapt to and side step potential obstacles in time – the Steering Committee and monitoring will be critical in this respect
Risk 2 Deterioration or problems in the country' fiscal space and worsening debt management situation	M	The facility is sufficiently flexible to have in place appropriate and focused activities which address weaknesses which come out of any instability – as above the role of the Steering Committee shall be fundamental
Risk 4 lack of institutional capacity	H	The facility has enough resources to deal with issues which come lack of capacity amongst state bodies
Risk 4 regional and world economic downturn	M	The facility is wide ranging and adaptable enough to mitigate the impact of global changes
Assumptions The establishment and functioning of all relevant coordination mechanisms related to the state bodies, in particular the Ministry of Finance and Ministry of Economy, and the availability and commitment of the staff of the Government bodies for capacity building interventions, are the main requirements for the implementation of this Action and are key for its successful implementation. Political commitment and sound budgetary management are also amongst the main conditions for implementation. The continued and renewed commitment of the different Government structures to the EU accession process is one of the main conditions that have to be in place for an effective and timely implementation of this Action. The Government of Montenegro has expressed its strong commitment to membership to the European Union, which remains Montenegro's highest strategic priority.		

3.4. Mainstreaming

This Action will specifically contribute to the enhancement of the capacities of staff in all line ministries contributing towards the achievement of gender-related UN, EU, Council of Europe and Organisation for Security and Cooperation in Europe requirements for gender sensitive policies, legislation and programming as well as gender balanced representation in relevant operational structures, participation in capacity building interventions, etc. Finally, the concept of gender mainstreaming will be taken into account in all stages of the projects implementation so as to enable and encourage participation of women in all areas of policy development that this Action will help formulate and support.

The development of Environment protection legislation in Montenegro is going through an intensive and challenging process of harmonisation with the EU acquis. The proposed Action will accordingly give due attention to environmental issues.

The Action will ensure that the internal policies, structures or operating procedures conform with and promote equal opportunity. In supporting legislative harmonisation, gender needs will be taken into consideration and provisions that enhance equal opportunities will be introduced. All Action activities will respect the principles of equal treatment and opportunities for women, especially trainings and awareness events. In terms of the implementation (scope and nature of funded activities) of this action, emphasis will be given to the actions aimed at enhancing the living conditions and inclusion of Roma communities, as a specific group recognized as a priority one for social inclusion according to the social policies of the Government of Montenegro.

3.5. Conditions for implementation

N.A

3.6. Logical Framework for PROJECT MODALITY

Results	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (2021)	Targets (2022)	Sources of data (1 per indicator)	Assumptions
Impact	Montenegro has advanced with regards to its wider fiscal and investment reform commitments	Improvement of fiscal space conditions in the country Amount of IFIs and private sector investments in the country Improved attractiveness for investment and public sector financial management, evidenced by increased investment and international rankings	Baselines – the assessment for 2021 in the Country Report and ERP	Baselines – the assessment for 2021 in the Country Report and ERP	IMF (and World Bank) and Commission reports ERP reports Commission Reports OECD and other reports	<i>Not applicable</i>
Outcome 1		Reformed, and fully operational holding body in place, delivering better value for the country Records of decreased SOEs indebtedness, increased	Baselines – the assessment for 2021 in the Country Report and ERP	Baselines – the assessment for 2021 in the Country Report and ERP	IMF Commission reports and ERP reports Academic and other reports Commission Report	Continued commitment of the Government structures to the EU accession

	Advanced SoE reform throughout Montenegro	profitability and positive contributions to the budget			PAR/PFM reports OECD and other reports including CoE	process and to reform Ensured adequate staff for state administration
Outcome 2	Improved management of the national investment portfolio	Improved single investment pipeline and structure in place; increased number of quality and range of investments including those in the EI Number of new and large investments Strengthened PFM structures and implementation	Baselines – the assessment for 2021 in the Country Report and ERP	Baselines – the assessment for 2021 in the Country Report and ERP	IMF and Commission reports ERP reports Academic and other reports Commission Report PAR/PFM reports OECD and other reports including CoE, WBIF and EIP documentation	
Outcome 3	Improved percentage share of innovative sectors in the economy	Increased diversification, digitalisation and greening of the economy in line with S3 strategy Stronger links between the education and innovation sectors	Baselines – the assessment for 2021 in the Country Report and ERP	Baselines – the assessment for 2021 in the Country Report and ERP		

Outputs related outcome 1	to	Legislative changes made in the context of SoE reform Independent selection of board members conducted in the majority of SoEs where the state is majority stakeholder); corresponding capacity building for board members (ethics/anti-corruption, etc) Functional and Structural review conducted in the majority of SoEs; corresponding right-sizing of staff conducted Montenegro Works LLC supported with technical expertise in the first period of its existence: Ownership policy of SoEs adopted and implemented Introduction of merit-based recruitment of staff in SoEs	Examples of more effective delivery of public services (including those impacting on vulnerable people, women and girls), costumer/end user support and feedback, greater economic and financial stability Implementation of legislative changes, reflecting for example improvement in minority stakeholder’s rights legislation etc. Financial and performance audit conducted and corresponding recommendations implemented Evidence of disclosure requirements fulfilled Evidence of municipal administration working under sustainable fiscal decentralisation	Baselines – the assessment for 2021 in the Country Report and ERP	Baselines – the assessment for 2021 in the Country Report and ERP	IMF Commission reports and Academic and other reports Commission Report PAR/PFM reports OECD, CoE and other reports	All relevant coordination mechanisms established and functioning Availability and commitment of staff for capacity building interventions
Outputs related outcome 2	to	Restructured and functioning investment pipeline and structure in place	Number of strategic projects planned and being implemented	Baselines – the	Baselines – the	IMF Commission reports and	

	Assistance in its implementation and creation of project implementation units dealing with investment in various ministries and agencies Review and update made of investment portfolio Timely and full implementation of the PIMA Action plan as part of the PFM reform Strategy Improved control/management of local government finance (decentralisation) – including better functioning PIUs Increased cooperation between ministries, implementing bodies (Central Financing and Contracting Unit CFCU and Public Works Administration PWA)	in the Single Project Pipeline - and part of the EIP Increase in the number investments being made with IFIs and where appropriate private sector donors Increased number of government supported green focused grants Reduction of funds being lost due to lack of cooperation between state bodies such as Ministries, CFCU, PWA Increased number of investments led from local government Evidence of strengthened local PFM structures in place	assessment for 2021 in the Country Report and ERP	assessment for 2021 in the Country Report and ERP	ERP reports Academic and other reports Commission Report PAR/PFM reports OECD, CoE and other reports WBIF and EIP documentation	
Outputs related to outcome 3	Strengthened new and existing national structures working with investment including better functioning PIUs	Restructured and fully operational investment pipeline and structure in place	Baselines – the assessment for 2021 in the Country	Baselines – the assessment for 2021 in the Country	IMF and Commission reports ERP reports Academic and other reports	

	Innovation Fund set up and functioning and where feasible distributing grants for innovation Increased cooperation between ministries, implementing bodies CFCU and PWA	Innovation sector investments, including IFIs and/or private sector donors and investors Number of projects being implemented or planned as part of the EIP Increase in the number of government supported innovation grants, with additional emphasis on those run by women Increase in the number of government supported green focused grants Increase in the number of innovative products offered to the Montenegrin and foreign markets Number of SMEs supported in introducing digitalization and green practices in their production increased, including those run by women Reduction of funds being lost through lack of cooperation	Report and ERP	Report and ERP	Commission Report PAR/PFM reports OECD, CoE and other reports WBIF and EIP documentation	
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		between state bodies such as Ministries, CFCU, PWA				
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4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing agreement

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

4.2. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁷.

Part of this programme is focused on policy advice, which might entail a number of projects and contracts being devised, designed and the launched and contracted. To that end it is suggested that third party organisations might be charged with the responsibility of being a secretariat for the implementation so to reduce the burden on the EU Delegation services.

4.2.1. Direct Management (Grants) - Twinning

(a) Purpose of the grant(s)

Each of the outcomes mentioned in point 3 Description of the action, may have a component on Policy advice to relevant Ministries and state bodies. Twinning grants are the most suiting implementation modality for this sort of action, which aim at sharing good practices developed within the EU with beneficiary public administrations through peer-to-peer support.

(b) Type of applicants targeted

Applicants targeted by the Twinning grants must be EU Member State administrations or their mandated bodies.

4.2.2. Direct Management (Procurement)

Procurement will contribute to achieving all the objectives established in the Action. Outcome 1: Advanced SoEs reform (both at national and local level); Outcome 2: Improved management of the national capital investment portfolio – with particular focus on EIP participation; Outcome 3: Increased share of innovative SMEs in the economy.

This Action shall provide capacity building in programming and identification of specific reform initiatives Sector Support Programmes / Sector Support Actions / Sector Support Oriented Actions /Stand-alone Actions

⁷ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

to SWGs, line ministries and other stakeholders (other state bodies, independent regulators, local governments, social partners, civil society, etc.).

The programme shall support the Government via the Ministry of Finance and the NIPAC Office to coordinate the overall process of EU integration and reform, but it will simultaneously have an impact on capacities and ownership of line ministries, working groups for specific chapters, sector working groups and other stakeholders as well as programming of reform and EU assistance.

4.2.3. Indirect management with entrusted entities

A part of this action may be implemented in indirect management with an entity which will be selected by the Commission's services using the following criteria: To be an International Organisation, an IFI, an EU Member financial or administrative body, or another partner possessing adequate expertise on the particularities and nature of the action; to have strong operational capacity and demonstrate added value, technical expertise in the sectors covered by the Facility and knowledge of the Western Balkans region as well as of the particular context of Montenegro. The implementation by this entity entails management of allocated EU funds and implementation of operational activities covering of all objectives set out in point 3 Description of the Action. It should be ensured that any entity selected has been pillar-assessed or is currently undergoing an ex-ante assessment including the complementary pillar assessment, keeping in mind the potential need of any relevant supervisory measures.

4.2.4. Changes from indirect to direct management mode (and viceversa) due to exceptional circumstances (one alternative second option)

In exceptional circumstances and upon authorization of the European Commission, changes from indirect to direct management mode (and vice-versa) are possible.

4.3. Scope of geographical eligibility for procurement and grants

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

4.4. Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
All outputs related to outcomes 1,2 and 3; composed of	8 000 000	N.A.
Indirect management with - Member State Organisation, third donor country, EU specialised (traditional/regulatory) agency, international organisation	8 000 000	N.A.
All outputs related to outcomes 1,2 and 3; composed of	2 000 000	N.A.
Direct management – procurement, cf section 4.2.2	N.A.	
Direct management - Grants – Twinning, cf section 4.2.1	N.A.	
Procurement – total envelope under section 4.2.2	1 000 000	N.A.
Grants – total envelope under section 4.2.1	1 000 000	N.A.
Evaluation	will be covered by another decision	N.A.
Audit/Expenditure verification	will be covered by another decision	N.A.
Communication and visibility	N.A.	N.A.
Contingencies	N.A.	N.A.
Total	10 000 000	N.A.

4.5. Organisational set-up and responsibilities

Organisational set-up and responsibilities shall be defined in more details by the Rules of procedure for functioning of the Steering Committee for the Reform Facility.

The Steering Committee shall be in principle composed of representatives of the key Government representative, key Ministries tbc, the NIPAC Office and of the European Commission and the Delegation of the European Union in Podgorica.

The Committee should meet on a quarterly basis to plan and implement the facility in line with this programme document's objectives.

5. PERFORMANCE/RESULTS MONITORING AND REPORTING

5.1. Internal monitoring

A Monitoring Committee (MCI) for this facility shall be established after the entry into force of the Financing agreement related to the AD. The Monitoring Committee will be co-chaired by Ministry of Finance, with the NIPAC or high-ranking official representative of the Government, and a representative of the Delegation, representatives from DG NEAR or other EU services might also be asked to join if appropriate.

As noted above in part 4.5 the Steering Committee (SC) shall also be established to review the progress at contract level, comprising of representatives of this specific Thematic Working Group (TWG), beneficiary institutions, relevant implementing body, NIPAC Office and the Delegation, plus other EU services. It shall review the effectiveness, efficiency, quality, coherence, coordination and compliance of the implementation of the activities of the AD and their consistency with the relevant national and, whenever relevant, regional sector strategies. It shall measure progress in relation to achieving the objectives of the actions and their expected outputs, results and impact by means of indicators related to a baseline situation, as well as progress with regard to financial execution. The SC may invite other organizations to attend meetings in cases where this will bring added value to discussion, direction and outcomes of the AD, e.g. a representative from the national gender equality machinery, to help bring a gender perspective to this specific sector.

Implementation of this AD will be subject of special attention of the IPA Monitoring Committee, which shall measure progress in relation to achieving the objectives of the actions and their expected outputs, results and impact by means of indicators related to a baseline situation, as well as progress with regard to financial execution. Operational conclusions, including any recommendations, will be drawn at the end of the SC meetings. These conclusions, including proposals and/or corrective actions, shall be subject to adequate follow-up and a review in the following committee meetings and shall be the basis for reporting to the IPA monitoring committee on progress made.

5.1. Roles & responsibilities for data collection, analysis & reporting

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

5.2. Evaluation

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations.

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

In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

6. AUDIT

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

In all Financing Agreements it is foreseen that audit services may be contracted under a framework contract or any other action specific terms. All Financing Agreements as well as all resulting programmes, actions and subsequent contracts shall be subject to supervision, control and audit by the Commission, including the European Anti-Fraud Office (OLAF), and audits by the European Court of Auditors. As stated in the IPA III Programming Framework, financing will also be provided for support measures for the implementation, monitoring, audit and evaluation of IPA III programmes. The IPA III beneficiary shall also ensure that the agents or representatives of the Commission, including OLAF, have the right to inspect all relevant documentation and accounts pertaining to items financed under the related Financing Agreement and assist the European Court of Auditors to carry out audits relating to the use of IPA III assistance.

For the part of the action incorporating a form of financing not linked to costs but on the achievement of results, the verification mechanisms will focus on the results and performance indicators previously agreed.

7. COMMUNICATION AND VISIBILITY

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

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

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

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

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

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

If the Action includes Union programmes, visibility and communication measures shall be implemented in accordance with the EU communication and visibility requirements in force and the specific rules of each Union programme. The relevant programme managing entity shall be responsible for monitoring the visibility and communication activities. The European Commission and the EU Delegation should be fully informed of the planning and implementation of the specific visibility and communication activities.

8. SUSTAINABILITY

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

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