

FINANCING AGREEMENT SPECIAL CONDITIONS

The European Commission, hereinafter referred to as "**the Commission**", acting on behalf of the European Union, hereinafter referred to as "**the Union**",

of the one part, and

Montenegro, hereinafter referred to as "IPA II beneficiary", represented by the Government of Montenegro,

of the other part,

have agreed as follows:

Article 1 - The Programme

(1) The Union agrees to finance and the IPA II beneficiary agrees to accept the financing of the following Programme:

Title National Programme Montenegro 2014 (Objective 1 - part 1 and Objective 2- part 1)
2014/032-022 and 2014/032-803

Actions of the National Programme covered by this Financing Agreement: Action 1 "Support to the Tax administration"; Action 2 "Improvement of the public finance management policies"; Action 3 "Support to the Customs administration"; Action 4 "Implementation of an e-procurement system"; Action 5 "Participation in Union Programmes and Agencies"; Action 9 "Strengthening the capacities for air quality management in Montenegro"; Action 11 "Development of a road network database and a safety assessment Programme"; Action 12 "Rehabilitation of the railway section Kos-Trebešica"; Action 13 "Enhancement of business environment and competitiveness of the private sector"; Action 14 "Support to regulation of financial services"; Action 15 "Alignment with and implementation of the EU internal market acquis"

This Programme is financed from the Union Budget under the following basic act: Instrument for Pre-Accession Assistance, IPA II.¹

(2) The total estimated cost of this Programme is EUR 24,515,340.00 and the maximum Union contribution to this Programme is set at EUR 21,288,220.00.

This Programme requires financial contributions from both the IPA II beneficiary and the Union. The breakdown of the respective financial contributions is set out in Annex I.

¹ Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II), OJ L 77, 15.03.2014, p. 11.

- (3) The Programme shall be implemented in accordance with the description provided in Annex I, which is further detailed in Action documents to be agreed on by exchange of letters between the Commission and the IPA II beneficiary.

Article 2 – Execution period and operational implementation period

- (1) The execution period of this Financing Agreement as defined in Article 12 of Annex II (General Conditions) is fixed at 12 years, from the entry into force of this Financing Agreement.
- (2) The duration of the operational implementation period as defined in Article 12 of Annex II (General Conditions) is fixed at 6 years, from the entry into force of this Financing Agreement.

Article 3 – Addresses and Communication

All communication concerning the implementation of this Financing Agreement shall be in writing, shall refer expressly to this Programme as identified in Article 1(1) and shall be sent to the following addresses:

(1) for the Commission

Mr Jean-Eric Paquet
Director D, Western Balkans
Directorate-General for Neighbourhood and Enlargement Negotiations
European Commission, 15, Rue de la Loi
B - 1049 Brussels, Belgium
E-mail: NEAR-D1.@ec.europa.eu

(2) for the IPA II beneficiary

Ambassador Aleksandar Andrija Pejović
State Secretary for European Integration and National IPA Coordinator
Ministry of Foreign Affairs and European Integration
Stanka Dragojevića 2, 81000 Podgorica, Montenegro
Fax: +382 20 225 591
E-mail: aleksandar.pejovic@mfa.gov.me

Article 4 – OLAF contact point

The contact point of the IPA II beneficiary having the appropriate powers to cooperate directly with the European Anti-Fraud Office (OLAF) in order to facilitate OLAF's operational activities shall be:

Ms Anja Pavličić, AFCOS contact point/AFCOS office
Ministry of Finance of Montenegro
Stanka Dragojevića 2, 81000 Podgorica, Montenegro



Tel: + 382 20 224 480

Mob: + 382 67 506 765

Fax: +382 20 224 450

E-mail: anja.pavlicic@mif.gov.me

Article 5 – Framework Agreement

The Programme shall be implemented in accordance with the provisions of the Framework Agreement between the European Commission and Montenegro on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-Accession Assistance (IPA II) which entered into force on 04 June 2015 (hereafter referred to as “the Framework Agreement”). This Financing Agreement supplements the provisions of the Framework Agreement. In case of conflict between, on the one hand, the provisions of this Financing Agreement and, on the other hand, the provisions of the Framework Agreement, the latter shall take precedence.

Article 6 - Annexes

(1) This Financing Agreement is composed of:

- (a) these Special Conditions;
 - (b) Annex I: Annual Country Action Programme for Montenegro for the year 2014, detailing the objectives, expected results, activities, description of the budget-implementation tasks entrusted and budget of this Programme;
 - (c) Annex II: General Conditions;
 - (d) Annex III: Model Annual Report on the implementation of IPA II assistance as per Article(s) 58 and 59(1) of the Framework Agreement;
 - (e) Annex IV: Model Financial Report as per Article 59(2) of the Framework Agreement;
 - (f) Annex V: Accrual Based Accounting System Minimum Specification;
 - (g) Annex VI - Conditions related to indirect management.
- (2) In the event of a conflict between, on the one hand, the provisions of the Annexes and, on the other hand, the provisions of these Special Conditions, the latter shall take precedence. In the event of a conflict between the provisions of Annex I and/or Annex IA on the one hand and, the provisions of Annex II, on the other hand, the latter shall take precedence.

Article 7 – Provisions derogating from or supplementing Annex II

It is not possible to re-allocate funds between the amount of 9,827,920.00 of global commitment number 2014/032-022 and the amount of 11,460,300.00 of global commitment number 2014/032-803



Article 8 – Entry into force

This Financing Agreement shall enter into force on the date on which it is signed by the last party, at the latest by 31 December 2015.

This Financing Agreement is drawn up in duplicate in the English language, one being handed to the Commission and one to the IPA II beneficiary.

For the IPA II beneficiary:

Ambassador Aleksandar Andrija Pejović

National IPA Coordinator (NIPAC)

Ministry of Foreign Affairs and European
Integration



Podgorica,

2015

10/12/2015

For the Commission:

Mr Jean-Eric Paquet

Director D, Western Balkans

Directorate – General for Neighbourhood Policy and
Enlargement Negotiations

Brussels,  2015

23.10.2015

ANNEX 1

Annual Country Action Programme for Montenegro for the year 2014

1 IDENTIFICATION

Beneficiary	MONTENEGRO
CRIS/ABAC Commitment references	2014/032-022 EUR 9 827 920.00 - 22.02 01 01 – indirect management 2014/032-803 EUR 11 460 300.00 - 22.02 01 02 – indirect management 2014/037-803 EUR 9 639 080.00 - 22.02 01 01 – direct management 2014/037-812 EUR 4 780 000.00 - 22.02 01 02 – direct management
Total cost	EUR 39 227 420.00
EU Contribution	EUR 35 707 300.00
Budget lines	22.020101 and 22.020102
Management Mode/ Entrusted entities	1. Direct management by the European Commission for Actions 6, 7,8,10,16 and 17 2. Indirect management by Montenegro for the following actions: 2.1. by the Central Financial and Contracting Unit (CFCU), together with the following beneficiaries): - Ministry of Finance: Actions 1, 2, 3 and 4 - Ministry of Foreign Affairs and European Integration: Action 5;

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	<ul style="list-style-type: none"> - Ministry of Sustainable Development: Action 9; - Ministry of Transport: Action 11; - Ministry of Economy: Actions 13, 14 and 15 <p>2.2. by the Department of Public Works (Ministry of Sustainable Development and Tourism), together with the following beneficiary:</p> <ul style="list-style-type: none"> - Ministry of Transport: Action 12.
Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary	At the latest by 31 December 2015
Final date for concluding <u>delegation agreements</u> under indirect management	At the latest by 31 December 2015
Final date for concluding <u>procurement and grant contracts</u>	3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation.
Final date for operational implementation	6 years following the date of conclusion of the Financing Agreement.
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement.
Programming Unit	DG Enlargement Unit B1 "Montenegro, Iceland"
Implementing Unit/ EU Delegation	EU Delegation to Montenegro

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2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- **Rationale for the selection of the specific sectors under this programme:**

The European Commission 2013-2014 Enlargement Strategy¹ emphasises the need for addressing fundamental reforms first. Therefore a renewed focus on democracy and governance, rule of law and fundamental rights, as well as on measures improving economic governance and competitiveness have shaped the design of the Action Programme 2014 for Montenegro. Out of the eight priority sectors defined in the Indicative Strategy Paper 2014-2020², six of them are addressed under this Action Programme. A high number of sectors are addressed because of the needs identified in numerous chapters during the negotiations process. The small size and limited absorption capacity also prevents the implementation of larger interventions at this stage of preparation.

Actions included in the **Democracy and Governance** sector address the reform of the public financial management (PFM) system, which is an integral part of the public administration reform (PAR). Furthermore, in the areas of taxation, customs and procurement the programme supports Montenegro's efforts to align with the EU *acquis*. Lastly, an EU integration Facility will support IPA II implementation and programming as well as the preparation of the negotiation process in the sectors not otherwise addressed in the Programme. The **Rule of Law and Fundamental Rights** sector will support the implementation of the Action Plans for Chapters 23 and 24 with a focus on the judiciary and the fight against organised crime and corruption as well as on anti-discrimination and gender equality policies.

In the **Environment and Climate Action** sector, the programme will support the harmonisation of the national legislation, especially in relation with the water directive, and an improved administrative capacity in line with the requirements of EU *acquis* on environment. The **Transport** sector will aim, on the one hand, at improving the road transportation systems while, on the other hand, at promoting the connection Bar-Belgrade through the rehabilitation of a section of railways in Montenegro. The IPA II 2014 Action Programme will contribute in the **Competitiveness and Innovation** sector to improving the business environment and supporting Montenegro in aligning and implementing the EU *acquis* related to financial services and internal market. Lastly, in the **Agriculture and Rural Development** sector, two actions will address the subsectors veterinary and fishery.

The Education, Employment and Social Policies sector is not included in the Action Programme. The implementation of the "Human Resources Development" Operational Programme 2012-2013 adopted in 2012 is expected to start in autumn 2014. A follow-up programme could therefore be envisaged at a later stage.

¹ COM(2013)700 of 16.10.2013 - Communication from the Commission to the Council and the European Parliament, "Enlargement Strategy and Main Challenges 2013-2014" and corresponding progress reports

² C(2014)5771 of 18.08.2014 – Commission Implementing Decision adopting an Indicative Strategy Paper for Montenegro for the period 2014-2020"



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In addition to the actions included in this Programme, the Regional and Territorial Cooperation sector will be supported in 2014 through multi-country action programmes, Cross-Border Cooperation Programmes and ERDF trans-national cooperation programmes.

In 2014, Montenegro has been indicatively allocated an amount of EUR 39 457 300.00 IPA funds. Out of this allocation, EUR 2 250 000.00 is earmarked for the Civil Society Facility and EUR 1 500 000.00 for the Regional Housing Programme (through separate Financing Decisions). The funds allocated under this Action Programme therefore amount to **EUR 35 707 300.00**.

- **Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:**

No "lead donor" from EU Member States or from other organisations was identified for a given sector, given that most donors have phased out their assistance from Montenegro as a candidate country. As a result, the European Union remains by far the principal donor, or the exclusive donor in several areas³.

- In the *Democracy and Governance* sector, previous IPA support addressed the reform of the civil service and its legal framework. The United Nations Development Programme (UNDP) and the OECD, through the EU-funded SIGMA programme, have been key partners on enhancing good governance and participatory democracy.

- In the *Rule of Law and Fundamental Rights* sector, past EU assistance has continuously financially supported the reform in this sector. In addition other donors such as the Council of Europe, as well as bilateral donors have previously been active in this sector.

- In the *Environment and Climate Action* sector, past IPA assistance in the areas of environment and climate change focused on alignment with the *acquis* and administrative capacity building, as well as on creating a cleaner, safer environment. International financial institutions, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), as well as Kreditanstalt für Wiederaufbau (KfW) provide financing for investments in environmental infrastructure.

- In the *Transport* sector, IPA focused previously on the development of the Bar-Belgrade corridor offering combined maritime-railway transport. In the area of road transport, IPA funded improvements to regional traffic flow conditions. As regards other donors active in the transport sector, the EBRD, EIB and KfW are also ready to support Montenegro in both road and railway infrastructure. In addition, Montenegro has signed an agreement with China for the financing and construction of the Smokovac-Mateševac segment of the Bar-Boljare highway.

- In the *Competitiveness and Innovation* sector, past IPA assistance in this area focused on supporting the development of the SME Development Strategy, as well as financing measures to strengthen business environment and facilitate access to the Internal Market.

³ For further details on donors' coordination per sector, cf. the country specific report on Montenegro annexed to the study "Mapping of Sector Strategies" released on 28 February 2014 and available at: http://ec.europa.eu/enlargement/news_corner/key-documents/index_en.htm (section evaluations)



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As regards other donors, EBRD, the World Bank group (WB) and KFW support Montenegro in this sector.

- In the *Agriculture and Rural Development* sector, previous IPA support focused on capacity building projects, both as regards the alignment with EU standards and the establishment of the necessary structures for the management of the EU funds. In addition, funds were allocated to rural development measures, implemented through a trust fund managed by the WB. Additional support has been received through bilateral aid from other donors.

List of Actions foreseen under the selected Sectors/Priorities:

Democracy and Governance

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
Action 1 "Support to the Tax administration"	EUR 900 000.00		
Action 2 "Improvement of the public finance management policies"	EUR 3 600 000.00		
Action 3 "Support to the Customs administration"	EUR 2 970 000.00		
Action 4 "Implementation of an e-procurement system"	EUR 1 500 000.00		
Action 5 "Participation in Union Programmes and Agencies"	EUR 857 920.00		
		Action 6 "EU Integration Facility"	EUR 4 604 080.00
TOTAL	EUR 9 827 920.00	TOTAL	EUR 4 604 080.00

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Rule of Law and Fundamental Rights

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
		Action 7 "Support to the implementation of Chapters 23 and 24 Action Plans"	EUR 3 600 000.00
		Action 8 "Support to the anti-discrimination and gender equality policies"	EUR 1 435 000.00
		TOTAL	EUR 5 035 000.00

Environment and Climate Action

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
Action 9 "Strengthening the capacities for air quality management in Montenegro"	EUR 935 000.00		
		Action 10 "Implementation of the Water Framework Directive"	EUR 1 900 000.00
TOTAL	EUR 935,000.00	TOTAL	EUR 1 900 000.00



Transport

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
Action 11 "Development of a road network database and a safety assessment Programme"	EUR 1 035 300.00		
Action 12 "Rehabilitation of the railway section Kos- Trebešica"	EUR 4 140 000.00		
TOTAL	EUR 5 175 300.00		

Competitiveness and Innovation

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
Action 13 "Enhancement of business environment and competitiveness of the private sector"	EUR 1 500 000.00		
Action 14 "Support to regulation of financial services"	EUR 1 700 000.00		
Action 15 "Alignment with and implementation of the EU internal market acquis"	EUR 2 150 000.00		

TOTAL	EUR 5 350 000.00		
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Agriculture and Rural Development

INDIRECT MANAGEMENT BY THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS (DIRECT MANAGEMENT BY THE EU DELEGATION)	
		Action 16 "Enhanced control and management of fisheries"	EUR 550 000.00
		Action 17 "Support to the veterinary sector"	EUR 2 330 000.00
		TOTAL	EUR 2 880 000.00
GRAND TOTAL	EUR 21 288 220.00	GRAND TOTAL	EUR 14 419 080.00

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

SECTOR 1	Democracy and Governance	EUR 14 432 000.00
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Actions under this sector, except Action 6 – EU Integration Facility - will be managed under indirect management by the CFCU. The entrusted entity shall be responsible for carrying out the tasks relating to the implementation of the Action. The entrusted entity shall be responsible for the overall administration of all the activities required to implement the Action, including preparation, implementation and conclusion of grant and procurement contracts, and management of corresponding expenditures.



Action 1	Support to the Tax Administration	EUR 900 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to strengthen the administrative and operational capacities of the Montenegrin Tax Administration in accordance with EU standards *acquis*. It is expected from this Action that:

- The Montenegrin legal framework in the field of tax administrative cooperation is further aligned and mutual assistance developed in line with EU *acquis* on indirect and direct taxes;
- A comprehensive training programme is implemented, and consequently the Montenegrin Tax Administration's organisation, risk management, administrative and control procedures are enhanced;
- Conditions for the administrative co-operation and mutual assistance with EU Member States are improved;
- The operational capacity and computerisation of the Montenegrin Tax Administration are further strengthened.

Progress will be measured according to a number of key indicators, including:

- % of indicators within particular chapters of Fiscal Blueprints met by the Tax Administration by the end of the Action
- % of top level business managers trained on strategic and modern performance oriented management;
- Level of alignment with the EU taxation *acquis* (qualitative assessment).

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. Effective political commitment and a good co-operation between all stakeholders are also essential to the reform process.

National co-financing of EUR 100 000 will be provided to achieve the above mentioned results.

Action 2	Improvement of public finance management policies	EUR 3 600 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to improve the efficiency, effectiveness and transparency of the Public Finance Management (PFM) policies. It is expected from this Action that:

- The budget system based on transparent programme structure, clear policy objectives and performance indicators is improved ;
- The transparency and accountability of decision making as regards PFM is improved;
- The key PFM policies, such as state aid, concessions and public procurement are improved as regards legislation, institutional set-up and capacities;
- The external audit performed by the State Audit Institution and the Audit Authority is strengthened.

Progress will be measured according to a number of key indicators, including:

- Progress in the accession negotiations on related chapters number 5, 8, 17, 18, 32 and 33
- Significant improvement in the Public Expenditure and Financial Accountability rating
- Decreasing number/ Increased implementation rate of structural SAI recommendations on PFM

(2) Assumptions and conditions

The action presupposes that a PFM Reform Strategy is prepared by the national authorities and that a coordination and monitoring mechanism is established.

Montenegro also needs to ensure appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. Effective political commitment and a good co-operation between all stakeholders are also essential to the reform process.

National co-financing of EUR 400 000 will be provided to achieve the above mentioned results.

<i>Action 3</i>	<i>Support to the Customs administration</i>	<i>EUR 2 970 000.00</i>
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to strengthen the operational capacity of the Customs Administration of Montenegro (MCA) in order to implement national transit procedures fully aligned to the requirements of Common transit procedures of the European Union and in order to implement National Transit Application (NTA) fully aligned to the requirements of the New Computerised Transit System (NCTS). It is expected from this Action that:

- MCA staff and economic operators are ready for applying the new transit rules;
- Server equipment and licences for databases and other system software necessary for the NCTS implementation is supplied;



- NTA is fully operational in line with EU requirements, and the MCA is capable of working and managing the NTA application and to provide advice to the trade community;
- The Montenegro NTA is ready for NCTS conformance testing using Common Communications Network/Common Systems Interface

Progress will be measured according to a number of key indicators, including:

- NTA tested at national level;
- Ratification and implementation of relevant common customs conventions;
- Level of alignment of customs legislation with EU *acquis*.

(2) Assumptions and conditions

Montenegro ensures that the national transit legislation is adapted to the Convention on Common transit procedure and the amendments to the Customs Law and implementing provisions, as well as the plan for NCTS are adopted within the required timeframe. Furthermore, Montenegro provides the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented.

National co-financing of EUR 330 000 will be provided to achieve the above mentioned results.

<i>Action 4</i>	<i>Implementation of an e-procurement system</i>	<i>EUR 1 500 000.00</i>
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to establish an e-procurement system in line with the EU *acquis* and best practices. It is expected from this Action that:

- An electronic public procurement system is developed and supports the electronic implementation of public procurement procedures and
- The business community and national administration are prepared to use the e-procurement system.

Progress will be measured according to a number of key indicators, including:

- Number of public procurement procedures conducted through e-procurement system;
- Degree of alignment of customs legislation with EU *acquis* on public procurement.

(2) Assumptions and conditions

- Government and Parliament are ready to adopt new legislation harmonised with the EU;
- Good and continuous interaction between the Public Procurement Administration and other stakeholders relevant for the enforcement of e-procurement;

- Ensured budget sustainability for supporting e-procurement policy;
- Institutional set-up and administrative capacities of Public Procurement Administration are sufficient to effectively absorb the activities

National co-financing of EUR 150 000 will be provided to achieve the above mentioned results.

Action 5	Participation in Union Programmes and Agencies	EUR 857 920.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to ensure participation of Montenegro in Union Programmes and agencies, such as COSME, Europe for Citizens, ERASMUS+, Customs, Fiscalis, Horizon 2020, Creative Europe or EaSI, by co-financing of the costs of the entry-tickets/participation fees to be paid. The following is expected from this Action:

- Enhanced participation of Montenegro in Union Programmes, including increased exchanges with EU Member States;
- Strengthened ownership and responsibility of Montenegro (including in financial terms) for participation in Union Programmes.

Progress will be measured according to a number of key indicators, including:

- Number of successful applications to the Union programmes
- Participation rates in the respective European Union Programmes

(2) Assumptions and conditions

Each institution signatory of an Agreement for participation to a Union Programme ensures sufficient budget allocation to pay annual contributions.

Montenegro is responsible for paying the full amount of the entry ticket, prior to receiving the partial reimbursement from IPA II. The reimbursement will be paid as a grant to Montenegro. Following the reimbursement of the entry ticket from IPA funds, national co-financing will amount to at least EUR 801 920.00.

Action 6	EU Integration Facility	EUR 4 604 080.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of this Action is to support the preparation and implementation of already adopted IPA programmes, the better programming of new IPA programmes and the preparation of the negotiation process in the sectors or subsectors not addressed in the

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Programme. The beneficiaries are the National IPA Co-ordinator (NIPAC) office, line Ministries, and other stakeholders. It is expected from this Action that:

- Tender documentation is prepared to allow the effective and timely implementation of IPA programmes;
- Activities linked to the effective and timely implementation, and to improve the impact, quality and achievements of the results already defined in the programme are financed.
- Capacity of the stakeholders in the identification, programming, implementation and evaluation of IPA funds is enhanced and well-targeted, mature and good quality actions or sector proposals are produced.
- Sector coordination is enhanced, sector strategic documents are prepared and disseminated and sector approach fully applied.
- Ad hoc support in some specific areas linked to the EU acquis is provided.
- Recommendations of the evaluation of actions of this programme are taken into account in future programming and during the implementation of future programmes.

Progress will be measured according to a number of key indicators, including:

- Progress of Montenegro towards meeting the political, institutional, administrative reforms assessed by the Progress reports (qualitative assessment)
- Overall level of administrative capacity assessed by the Progress reports (qualitative assessment)

(2) Assumptions and conditions

The implementation of the Action requires an effective coordination mechanism being put in place by the NIPAC office, together with all line ministries and other IPA stakeholders.

(3) Essential elements of the action (for direct management)

Procurement:

- Global budgetary envelope reserved for procurement: EUR 3 104 080;
- Indicative number and type of contracts: a number of service, supplies, works contracts -at least 10.
- Indicative time frame for launching the procurement procedure: Q3 2015 - Q4 2017

Grants

An indicative amount of up to EUR 1 500 000.00 could be used for activities to be implemented through twinning light or grants to international organisations.

a) Objectives and foreseen results: Support to meeting criteria for accession and capacity building of the national administration

b) The essential eligibility criteria: applicants must be EU Member State administrations, mandated bodies or international organisations with recognised technical and administrative experience in the field.

c) The essential selection criterion is the financial and operational capacity of the applicant.



d) The essential award criteria are technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

e) Maximum rate of EU co-financing: The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

f) Indicative amount of grant contract: up to EUR 500 000, unless justified by the objective and nature of the intervention

g) Indicative date for launching the selection procedure: Q3 2015 - Q4 2017

SECTOR 2	Rule of Law and Fundamental Rights	EUR 5 035 000.00
<i>Action 7</i>	<i>Support to the implementation of Chapters 23 and 24 Action Plans</i>	<i>EUR 3 600 000.00</i>

(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to support Montenegro to strengthen the efficiency of the judiciary and to counter corruption and organised crime. It is expected from this Action that:

- The efficiency of the judicial system (Ministry of Justice, Court Authorities and Prosecutors) is strengthened;
- Legislation concerning the fight against organised crime and corruption are effectively enforced. This includes the enhancement of financial investigations capacity and the coordination mechanism of the State Prosecution Office, Police, Courts Authorities, Anti Money Laundering administration, Customs administration and Tax administration.
- The Integrity plans are effectively enforced, thus contributing to prevention of corruption.
- A Rationalisation plan and preliminary and final design for courts and prosecutor's network is prepared
- Support to the programming of IPA assistance and to the monitoring of the implementation of possible Sector Budget Support programmes in the rule of law area is provided.

Progress will be measured according to a number of key indicators, including:

- Chapters 23 and 24 Actions Plans are implemented in line with EU standards and best practices;



- Track record of organised crime and corruption cases is established and improved. Number of integrity plans being adopted and implemented throughout the public administration.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. Effective political commitment and a good co-operation between all stakeholders are also essential to the reform process. The implementation of the EU 2012 Rule of Law project is successfully finalised and activities carried out and results achieved are fully taken on board during the implementation of the Action.

(3) Essential elements of the action (for direct management)

Grant – Call for proposal (EUR 3 000 000):

a) Objectives and foreseen results: The action aims at strengthening the efficiency of the Judiciary, the prevention and fight against corruption and organised crime. Expected results include an enhanced efficiency of the judicial system and an effective enforcement of legislation concerning the fight against organised crime and corruption.

b) The essential eligibility criteria: Types of action eligible for financing include (a) thematic meetings, seminars and conferences, round tables with police and security services, intelligence services, judicial authorities, financial investigation; (b) Study visits, workshops, training activities; (c) Specialised expert missions and gaps and needs-analysis sessions, specific studies, assessment missions; (d) Actions improving operational cooperation and coordination (strengthening networking, mutual confidence and understanding, exchange and dissemination of information, lessons learned, experience and best practices); (e) Development and transfer of technology and methodology; (f) Provision of advice on legislation, regulations, operational procedures; (g) Procurement of equipment for strengthening law enforcement and justice reform.

In order to be eligible for a grant, applicants must be (a) a European Union Member State public sector institution/operator or mandated body; (b) directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), if any, not acting as an intermediary.

c) The essential selection criteria are financial and operational capacity of the applicant, including experience in the law enforcement and justice sector.

d) The essential award criteria are relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

e) Maximum rate of EU co-financing: The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

f) Indicative amount of the call: 3 000 000

g) Indicative date for launch of the call for proposals: Q3 2015

Grant – Twinning – Call for proposals (EUR 600 000):

a) Objectives and foreseen results: Effective enforcement of integrity plans thus contributing to prevention of corruption.

b) The essential eligibility criteria: applicants must be EU Member State administrations or mandated bodies.

c) The essential selection criterion is the operational capacity of the applicant.

d) The essential award criteria are technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

e) Maximum rate of EU co-financing: The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

f) Indicative amount of Twinning contract: EUR 600 000

g) Indicative date for launching the selection procedure: Q3 2015

Action 8	<i>Support to the anti-discrimination and gender equality policies</i>	<i>EUR 1 435 000.00</i>
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to improve the social and institutional responsiveness towards promotion, protection and enforcement of human rights and equal opportunities, specifically focusing on the implementation of the anti-discrimination and gender equality policies. It is expected from this Action that:

- The Anti-discrimination framework is known, understood, and implemented especially towards Roma, Lesbian, Gay, Bisexual, Transgender and Intersex, Persons with disability, Women and minorities.
- An efficient and effective system for accomplishment of gender equality and women's empowerment standards is established;
- The system of protection of human rights of persons deprived of liberty is enhanced.

Progress will be measured according to a number of key indicators, including:



- % of fulfilled objectives of the strategic frameworks regarding anti-discrimination
- Change of perceptions on benefits and challenges of diversity within society

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. Effective political commitment and a good co-operation between all stakeholders are also essential to the reform process.

National co-financing of EUR 293 000 will be provided in parallel to achieve the above mentioned results.

(3) Essential elements of the action (for direct management)

Two direct grants will be awarded to the Council of Europe (CoE) and UNDP respectively:

Grant to the CoE- Direct grant award (EUR): 700 000.00

a) Objectives and foreseen results: Capacity building of relevant institutions and civil servants in the area of anti-discrimination in order to ensure more effective multi-disciplinary and inter-institutional response to discrimination, through strengthening mechanisms for cooperation among institutions in charge of anti-discrimination, with the aim to decrease the level of discrimination in Montenegro through raising awareness of the general population on human rights of marginalized groups and raise capacities, understanding, knowledge and commitment of civil servants, police, judiciary members and politicians to work in accordance with EU and international human rights standards, and to offer more effective protection and services to people who are victims of any kind of discrimination

b) Justification for the use of an exception to calls for proposals: Council of Europe, given specific characteristics of the action that require a particular type of body on account of its technical competence, its high degree of specialisation and certain administrative power in the concerned sector, which falls under *Article 190 (f) of the Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012*.

c) Name of the beneficiary: *Council of Europe*

d) Indicative amount of the grant: EUR 700 000.00

e) Maximum rate of EU co-financing: the maximum possible rate of EU co-financing for grants under this call is 100% of the eligible cost of the action.

f) Indicative date for signing the grant agreement: Q2 2015

Grant to the UNDP- Direct grant award (EUR): 735 000.00

a) Objectives and foreseen results: Capacity building of relevant institutions and civil servants in the area of anti-discrimination and gender equality and ensuring more effective multi-disciplinary and inter-institutional response to discrimination and family violence, through

strengthening mechanisms for cooperation among institutions in charge of anti-discrimination and family violence. Decrease the level of discrimination in Montenegro through raising awareness of the general population and raise capacities, understanding, knowledge and commitment of civil servants, police, judiciary members and politicians to work in accordance with EU and international human rights standards, and to offer more effective protection and services to people who are victims of any kind of discrimination. Ensuring full, equal and effective participation and leadership of women at all levels of decision-making in the public spheres and elimination of harmful practices such as unequal employment opportunities and decent work or violence in family.

b) Justification for the use of an exception to calls for proposals: UNDP, given specific characteristics of the action that require a particular type of body on account of its technical competence, its high degree of specialisation and certain administrative power in the concerned sector, which falls under *Article 190 (f) of the Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012*.

c) Name of the beneficiary: *UNDP*

d) Indicative amount of the grant: *EUR 735 000.00*

e) Maximum rate of EU co-financing: the maximum possible rate of EU co-financing for grants under this call is 100% of the eligible cost of the action.

f) Indicative date for signing the grant agreement: *Q2 2015*

SECTOR 3	Environment and climate action	EUR 2 835 000.00
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Actions under this sector, except Action 10 – Implementation of the Water Framework Directive (WFD) – will be managed under indirect management by the CFCU. The entrusted entity shall be responsible for carrying out the tasks relating to the implementation of the Action. The entrusted entity shall be responsible for the overall administration of all the activities required to implement the Action, including preparation, implementation and conclusion of grant and procurement contracts, and management of corresponding expenditures.

Action 9	Strengthening the capacities for air quality management in Montenegro	EUR 935 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to complete the monitoring network in line with the Air Quality Directives (2008/50/EC and 2004/107/EC) and the Convention on Long-range Transboundary

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Air Pollution (CLRTAP) and the European Monitoring and Evaluation Programme (EMEP) Protocol. It is expected from this Action that:

- The implementation (monitoring and reporting) of the air quality acquis and CLRTAP/EMEP Protocol is improved;

Progress will be measured according to a number of key indicators, including:

- Rate of coverage of the AQ monitoring
- Quality and quantity of air quality data;
- Number of new AQ monitoring stations and EMEP station

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented.

National co-financing of EUR 165 000.00 will be provided to achieve the above mentioned results.

Action 10	<i>Strengthening the Capacities for Implementation of the Water Framework Directive</i>	<i>EUR 1 900 000.00</i>
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of this Action is to contribute to the implementation of the transposed Water Framework Directive (2000/60/EC). The specific objective of the intervention is to prepare the River Basins Management Plans (RBMPs) for the Adriatic and Black Sea Basins. This project will also contribute in capacity building and involvement of competent authorities contributing to the development of technical capacities for the sound implementation of the Directive. It is expected from this Action that:

- The preconditions for preparation of water management and river basin plans are ensured and water monitoring according to WFD is operative – monitoring equipment procured;
- The RBMPs for the Adriatic and Black Sea are prepared;

Progress will be measured according to a number of key indicators, including:

- Overall assessment of the administrative and institutional capacity for the implementation of the Water Framework Directive (qualitative assessment);
- Level of alignment with the EU environmental *acquis*.

(2) Assumptions and conditions



Montenegro ensures that the new Law on amendments on the existing Law on Waters is adopted and that staffing and funding for water management institutions are in place in accordance with the relevant legal provisions. Furthermore, the cooperation among the Ministries and local authorities responsible for various aspects of water management is strengthened.

(3) Essential elements of the action (for direct management)

Procurement:

- Global budgetary envelope reserved for procurement: EUR 1 900 000
- Indicative number and type of contracts: At least one service and one supply contract
- Indicative time frame for launching the procurement procedure: Q2 2015

SECTOR 4	Transport	EUR 5 175 300.00
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Actions under this sector will be managed under indirect management and by the CFCU (Action 11 - Road network database) and by the Department of Public Works (Action 12 - Railway rehabilitation) respectively. The entrusted entity shall be responsible for carrying out the tasks relating to the implementation of the Action. The entrusted entity shall be responsible for the overall administration of all the activities required to implement the Action, including preparation, implementation and conclusion of grant and procurement contracts, and management of corresponding expenditures.

Action 11	Development of a road network database and a safety assessment programme	EUR 1 035 300.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to improve the management, planning and development of the road transport network in order to reduce traffic accidents.

It is expected from this Action that:

- A database of the state and regional road transport network is established and operational;
- The capacities of the Directorate for Transport in planning and managing the road transport network are increased;
- The Risk mapping and Road Investment Plan are in place and capacities built in addressing road safety issues.

Progress will be measured according to a number of key indicators, including:

- Quality of traffic flow along the core transport network;

- Number of traffic accidents and fatalities.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented.

National co-financing of EUR 182,700.00 will be provided to achieve the above mentioned results.

Action 12	Rehabilitation of the railway section Kos-Trebešica	EUR 4 140 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to improve the railway network condition by rehabilitating the railway route Bar-Belgrade on the section Kos-Trebešica. It is expected from this Action that:

- The superstructure is rehabilitated and the rails/wooden sleepers/etc. are replaced;
- The telecommunication equipment and Remote Control Centre connection to earth/interlocking are installed.

Progress will be measured according to the following key indicator:

- Travel time and speed on the railway section Kos-Trebešica.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. Sufficient budgetary resources are allocated to ensure the maintenance and sustainability of the investment.

National co-financing of EUR 460 000.00 will be provided to achieve the above mentioned results.

SECTOR 6	Competitiveness and Innovation	EUR 5 350 000.00
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Actions under this sector will be managed under indirect management by the CFCU. The entrusted entity shall be responsible for carrying out the tasks relating to the implementation of the Action. The entrusted entity shall be responsible for the overall administration of all the activities required to implement the Action, including preparation, implementation and

conclusion of grant and procurement contracts, and management of corresponding expenditures.

Action 13	Enhancement of business environment and competitiveness of the private sector	EUR 1 500 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to strengthen the administrative capacities and framework for coordination, planning and implementation within the Competitiveness and Innovation sector through targeted support for development, research and innovation.

It is expected from this Action that:

- An Operational Programme for Competitiveness and Innovation 2016-2020 is developed and a comprehensive strategic and operational framework for the Industrial Competitiveness and Small and Medium Enterprises (SMEs) policies is established;
- The institutional capacities for designing and implementing an Operational Programme for Competitiveness and Innovation, as well as for the implementation of the Industrial Competitiveness Policy and SME development policies are strengthened, including through actions targeting the research and innovation capacity;
- Measures fostering competitiveness and innovation are developed.

Progress will be measured according to a number of key indicators, including:

- Number of institutions capacitated to implement competitiveness and innovation policy;
- Doing Business - distance to frontier.
- Rate of participation of SMEs in Horizon 2020 and COSME.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. The Industrial Competitiveness Policy is finalised and adopted and the drafting of the SME Development Strategy 2016 – 2020 is initiated.

National co-financing of EUR 160 000.00 will be provided to achieve the above mentioned results.



Action 14	Support to regulation of financial services	EUR 1 700 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to further align the legislation related to financial services with the EU acquis and to strengthen the regulatory and supervisory capacities of the relevant institutions.

It is expected from this Action that:

- The regulatory framework in the banking sector is further aligned and the capacity of the Central Bank (CBM) is further strengthened;
- The legislation for insurance market is further aligned with EU acquis and the technical and human capacities of the Insurance Supervisory Agency (ISA) are improved;
- The capital market regulation is further harmonised; the technical and administrative capacities at Securities and Exchange Commission of Montenegro (SECMN) are strengthened.

Progress will be measured according to a number of key indicators, including:

- Level of alignment with *acquis* on financial services (qualitative assessment).

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented.

National co-financing of EUR 200 000.00 will be provided to achieve the above mentioned results.

Action 15	Alignment with and implementation of the EU internal market acquis	EUR 2 150 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to align and implement the EU internal market legislation. It is expected from this Action that:

- A significant part of the national legislation under Chapter 1 "Free Movement of Goods", as well as a significant part of the relevant legislation on consumer protection are aligned with the EU acquis.

- The administrative capacity of all the relevant institutions for implementing the national strategic framework on Internal Market is significantly improved.

Progress will be measured according to a number of key indicators, including:

- % in the Exports/Import of goods and services to EU, relative to GDP;
- Level of alignment with *acquis* on the internal market (qualitative assessment)

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. Effective political commitment and a good co-operation between all stakeholders are also essential to the reform process. Montenegro adopts relevant Strategy and Action Plans for the implementation of the EU *acquis* pertaining to the Internal Market, especially the Strategy and Action Plan for the Implementation of the EU *acquis* in the Field of Free Movement of Goods, as well as the National Consumer Protection Programme.

National co-financing of EUR 277 500.00 will be provided to achieve the above mentioned results.

SECTOR 8	Agriculture and rural Development	EUR 2 880 000.00
Action 16	Enhanced control and management of fisheries	EUR 550 000.00

(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to align the electronic data collection in fisheries with the EU standards. It is expected from this Action that:

- The sub systems are established in order to improve the control and management of the fishery activities;
- A system for the automatic location and identification of vessels is established and functional;
- Fishermen and fisheries inspectors are trained and a manual for using electronic log book is prepared.

Progress will be measured according to a number of key indicators, including:

- Functioning and operability of control and management systems of fisheries activities;
- Level of alignment with the EU fisheries *acquis*.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented.

(3) Essential elements of the action (for direct management)

Procurement:

- Global budgetary envelope reserved for procurement: EUR 550 000.00
- Indicative number and type of contracts: At least one service and one supply contract
- Indicative time frame for launching the procurement procedure: Q4 2015

Action 17	Support to the veterinary sector	EUR 2 330 000.00
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(1) Description of the Action, objective, expected results and key performance indicators

The objective of the Action is to contribute to the further alignment and enforcement of the EU veterinary standards and eradicate certain animal diseases. It is expected from this Action that:

- The legislation is prepared and adopted in accordance with the EU acquis of Chapter 12 "food safety, veterinary and phytosanitary policy";
- The capacities of the veterinary services are strengthened;
- Rabies and Classical Swine Fever control and eradication programmes are rationally implemented;
- The system for control of udder health and quality of raw milk is upgraded.

Progress will be measured according to a number of key indicators, including:

- Level of alignment with the EU veterinary *acquis*.

(2) Assumptions and conditions

Montenegro ensures the appropriate human and financial resources in the target institutions to ensure the sustainability and long-term impact of this action. The recommendations and proposals made in the course of this action are effectively implemented. The vaccination of wild carnivores is successfully applied in neighbouring countries.

(3) Essential elements of the action (for direct management)

Procurement:

- Global budgetary envelope reserved for procurement: EUR 2 330 000.00;
- Indicative number and type of contracts: At least one service and two supply contracts
- Indicative timeframe for launching the procurement procedure: by Q3 2016



3 BUDGET

3.1 INDICATIVE BUDGET TABLE - COUNTRY ACTION PROGRAMME FOR MONTENEGRO

	Indirect management with the IPA II beneficiary			Other Implementation arrangements						
Titles	EU Contribution	IPA II Beneficiary co-financing	Total expenditure	EU Contribution	IPA II Beneficiary co-financing	Total expenditure	MM	Total programme	Total EU Contribution	
Sector 1 - Democracy and Governance	9,827,920.00	1,781,920.00	11,609,840.00	4,604,080.00	0.00	4,604,080.00		16,213,920.00	14,432,000.00	
Action 1 - Support to the Tax administration	900,000.00	100,000.00	1,000,000.00				IM			
Action 2 - Support to public finance management policies	3,600,000.00	400,000.00	4,000,000.00				IM			
Action 3 - Support to the Customs administration	2,970,000.00	330,000.00	3,300,000.00				IM			
Action 4 - Implementation of an e-procurement system	1,500,000.00	150,000.00	1,650,000.00				IM			
Action 5 - Participation in Union Programmes and Agencies	857,920.00	801,920.00	1,659,840.00				IM			
Action 6 - EU Integration Facility				4,604,080.00	0.00	4,604,080.00	direct			
Sector 2 - Rule of Law and Fundamental Rights	0.00	0.00		5,035,000.00	293,000.00	5,328,000.00		5,328,000.00	5,035,000.00	
Action 7 -Support to the implementation of Chapters 23 and 24 Action Plans				3,600,000.00		3,600,000.00	direct			

Action 15 - Alignment and Implementation of the EU internal market acquis	2,150,000.00	277,500.00	2,427,500.00						IM		
Sector 8 - Agriculture and Rural Development	0.00	0.00	0.00	2,880,000.00	0.00	2,880,000.00				2,880,000.00	2,880,000.00
Action 16 - Enhanced control and management of fisheries			0.00	550,000.00		550,000.00			direct		
Action 17 - Support to the veterinary sector			0.00	2,330,000.00		2,330,000.00			direct		
TOTAL	11,460,300.00	1,445,200.00	12,905,500.00	4,780,000.00	0.00	4,780,000.00				17,685,500.00	16,240,300.00
TOTALS	21,288,220.00	3,227,120.00	24,515,340.00	14,419,080.00	293,000.00	14,712,080.00				39,227,420.00	35,707,300.00

4 IMPLEMENTATION MODALITIES AND GENERAL RULES FOR PROCUREMENT AND GRANT AWARD PROCEDURES

DIRECT MANAGEMENT:

Part of this programme shall be implemented by direct management by the European Union Delegation in Montenegro in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part Two Title II Chapter 4 of its Rules of Application.

Under the Financial Regulation, Parts One and Three of the Financial Regulation and its Rules of Application shall apply to external actions except as otherwise provided in Part Two, Title IV.

The Commission may also use services and supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

Twinning:

Twinning projects shall be set up in the form of a grant agreement, whereby the selected Member State administrations agree to provide the requested public sector expertise against the reimbursement of the expenses thus incurred.

The contract may in particular provide for the long-term secondment of an official assigned to provide full-time advice to the administration of the IPA II beneficiary as resident twinning advisor.

The twinning grant agreement shall be established in accordance with relevant provisions of Part Two Title IV Chapter 4 of the Financial Regulation and Part Two Title II Chapter 4 of its Rules of Application. Parts One and Three of the Financial Regulation and its Rules of Application shall apply to external actions except as otherwise provided in Part Two, Title IV.

INDIRECT MANAGEMENT:

Part of this programme shall be implemented by indirect management by Montenegro in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the Financing Agreement and the relevant delegation agreements between the Commission and the entrusted entity implementing such action.



5 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper for Montenegro.

In the specific context of indirect management by Montenegro, the NIPAC will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) Montenegro's own monitoring system; c) self-monitoring performed by the EU Delegation in Montenegro; d) joint monitoring by DG Enlargement and Montenegro, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring Committee, supported by Sectoral Monitoring Committees, which will ensure a monitoring process at sector level.



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Part One: Provisions Applicable to Activities for which the IPA II beneficiary is the Contracting Authority

Article 1 - General principles

- (1) The purpose of Part One is to lay out the rules for implementing the entrusted budget-implementation tasks as described in Annex I and to define rights and obligations of the IPA II beneficiary and the Commission respectively in carrying out these tasks.

Part One shall apply to the budget-implementation tasks entrusted to the IPA II beneficiary related to the Union contribution alone, or combined with funds of the IPA II beneficiary or funds of a third party, in case such funds are implemented in joint co-financing, i.e. where they are pooled.

- (2) The IPA II beneficiary shall remain responsible for the fulfillment of the obligations stipulated in this Financing Agreement and in the Framework Agreement, even if it sub-delegates to other entities identified in Annex I to carry out certain entrusted budget implementation tasks. The Commission, in particular, reserves the right to suspend payments, and to suspend and/or terminate this Financing Agreement on the basis of the acts, omissions and/or situations of any designated entity.
- (3) The tasks referred to in paragraph 1 of this Article shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts in external actions, in force at the time of the launch of the procedure in question (PRAG), as well as in accordance with the required visibility and communication standards referred to in Article 2(2).
The IPA II beneficiary shall conduct the procurement and grant award procedures, conclude the resulting contracts, and ensure that all relevant documents for audit trail are in the language of this Financing Agreement.
- (4) The IPA II beneficiary shall respect the minimum rate of its contribution specified in Annex I. In case of contributions from both the IPA II beneficiary and the Union, the IPA II beneficiary contribution shall be made available at the same time as the corresponding contribution from the Union.
- (5) The IPA II beneficiary shall inform the Commission when a candidate, tenderer or applicant is in a situation of exclusion from participating in procurement and grant award procedures, or has been found in serious breach of its contractual obligations.

In such cases, without prejudice to the power of the Commission to take measures against such an entity according to the applicable Financial Regulation, financial penalties mentioned in the provisions on administrative and financial penalties of the General Conditions of procurement and grant contracts concluded by the IPA II beneficiary may be imposed on the contractors and grant beneficiaries by this IPA II beneficiary if this is allowed by its national law. Such financial penalties shall be imposed following an adversarial procedure ensuring the right of defense of the contractor or grant beneficiary. The IPA II beneficiary shall take into account the information contained in the Central Exclusion Database, when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation with the Commission¹ (European Commission, Directorate- General for Budget, Accounting Officer of the Commission,

¹ The IPA II beneficiary shall be allowed to have direct access to the Central exclusion database through a liaison point when the Beneficiary certifies to the Commission service responsible that it applies the adequate data protection measures as provided in the Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data (OJ L 8, 12.1.2001, p. 1).

BRE2-13/505, B-1049 Brussels, Belgium and by email to BUDG-C01-EXCL-DB@ec.europa.eu in copy to the Commission address identified in Article 3 of the Special Conditions).

- (6) The IPA II beneficiary shall keep all relevant financial and contractual supporting documents from the date of the entry into force of this Financing Agreement or as from an earlier date in case if the procurement procedure, call for proposals or direct grant award procedure was launched prior to the entry into force of this Financing Agreement:
- (a) For procurement procedures in particular:
- a) Forecast notice with proof of publication of the procurement notice and any corrigenda;
 - b) Appointment of shortlist panel;
 - c) Shortlist report (incl. annexes) and applications;
 - d) Proof of publication of the shortlist notice;
 - e) Letters to non-shortlisted candidates;
 - f) Invitation to tender or equivalent;
 - g) Tender dossier including annexes, clarifications, minutes of the meetings, proof of publication;
 - h) Appointment of the evaluation committee;
 - i) Tender opening report, including annexes;
 - j) Evaluation / negotiation report, including annexes and bids received;²
 - k) Notification letter;
 - l) Cover letter for submission of contract;
 - m) Letters to unsuccessful candidates;
 - n) Award / cancellation notice, including proof of publication;
 - o) Signed contracts, amendments, riders, implementation reports, and relevant correspondence.
- (b) For calls for proposals and direct award of grants in particular:
- a) Appointment of the evaluation committee;
 - b) Opening and administrative report including annexes and applications received;³
 - c) Letters to successful and unsuccessful applicants following concept note evaluation;
 - d) Concept note evaluation report;
 - e) Evaluation report of the full application or negotiation report with relevant annexes;
 - f) Eligibility check and supporting documents;
 - g) Letters to successful and unsuccessful applicants with approved reserve list following full application evaluation;

² Elimination of unsuccessful bids five years after the closure of the procurement procedure.

³ Elimination of unsuccessful applications three years after the closure of the grant procedure.

- h) Cover letter for submission of grant contract;
- i) Award/cancellation notice with proof of publication;
- j) Signed contracts, amendments, riders and relevant correspondence.

In addition, financial and contractual documents referred to in paragraph 6(a) and (b) of this Article shall be complemented by all relevant supporting documents as required by the procedures referred to in section 3 of this Article, as well as all relevant documentation relating to payments, recoveries and operating costs, for example project and on the spots checks reports, acceptance of supplies and works, guarantees, warranties, reports of supervising engineers.

All relevant financial and contractual documents shall be kept for the same duration in accordance with Article 49 of the Framework Agreement.

Article 2 - Visibility and communication

- (1) In accordance with Article 24(3) of the Framework Agreement, the IPA II beneficiary shall take the necessary measures to ensure the visibility of EU funding for the activities entrusted to it, and prepare a coherent plan of visibility and communication activities which should be submitted to the Commission for an agreement within 2 months after the entry into force of this Financing Agreement.
- (2) These communication and visibility activities shall comply with the Communications and Visibility Manual for EU External Actions laid down and published by the Commission in force at the time of the activities.

Article 3 - *Ex-ante* controls on grant and procurement procedures and on *ex post* controls on contracts and grants to be performed by the Commission

- (1) The Commission may exercise *ex ante* controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants for the following stages of procurement or grant award:
 - (a) approval of contract notices for procurement, work programmes for calls for proposals, and any corrigenda thereof;
 - (b) approval of tender dossiers and guidelines for applicants on grants;
 - (c) approval of the composition of Evaluation Committees;
 - (d) approval of evaluation reports and award decisions⁴;
 - (e) approval of contract dossiers and contract addenda.
- (2) With regard to *ex ante* controls the Commission shall decide:
 - (a) to perform *ex ante* controls on all files, or
 - (b) to perform *ex ante* controls on a selection of such files, or
 - (c) to completely dispense with *ex ante* controls.
- (3) If the Commission decides to perform *ex ante* controls in accordance with paragraph 2(a) or (b) of this Article, it shall inform the IPA II beneficiary of the files selected for *ex ante* controls. The IPA II beneficiary shall provide all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex ante* control, at the latest at the time of submission of the contract notice or the work programme for publication.

⁴ For service contracts this steps includes *ex ante* controls concerning approval of the shortlist.

- (4) The Commission may decide to perform *ex post* controls, including audits and on-the-spot controls, at any time on any contracts or grants awarded by the IPA II beneficiary arising out of this Financing Agreement. The IPA II beneficiary shall make available all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex post* control. The Commission may authorize a person or an entity to perform *ex post* controls on its behalf.

Article 4 - Bank accounts, accounting systems, and cost recognised

- (1) After the entry into force of this Financing Agreement, the National Fund and the operating structure of the IPA II beneficiary that is the Contracting Authority for the Programme shall open at least one bank account denominated in euro. The total bank balance for the Programme shall be the sum of the balances on all the Programme bank accounts held by the National Fund and all participating operating structures in the IPA II beneficiary.
- (2) The IPA II beneficiary shall prepare and submit to the Commission disbursement forecast plans for the duration of the implementation period of the Programme. These forecasts shall be updated for the annual financial report referred to in Article 14(2) and for each request for funds. The forecasts shall be based on a documented detailed analysis (including the planned contracting and payment schedule per contract for the following fourteen months) which shall be available to the Commission on request.
- (3) The initial disbursement forecast plan shall contain summary annual disbursement forecasts for the whole implementation period and monthly disbursement forecasts for the first fourteen months of the Programme. Subsequent plans shall contain summary annual disbursement forecasts for the balance of the implementation period of the Programme and monthly disbursement forecasts for the following fourteen months.
- (4) The IPA II beneficiary is required to establish and maintain an accounting system in accordance with Clause 2(3)(b) of Annex A to the Framework Agreement which will hold at least the information for the contracts managed under the Programme indicated in Annex V.
- (5) Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.
- (6) The IPA II beneficiary shall provide to the Commission reports as follows:
- (a) Cut-off report - as set out in Article 14(4);
 - (b) Annual reports as set out in paragraphs (2) to (4) of Article 14;
 - (c) Request for funds reports as referred to in Article 5.

Article 5 - Provisions on payments made by the Commission to the IPA II beneficiary

- (1) The IPA II beneficiary shall submit its initial disbursement forecast for the Programme, prepared pursuant to Article 4(2), with the first pre-financing payment request. The first pre-financing payment shall be for 100 % of the forecast disbursements for the first year of the disbursement forecast plan.
- (2) The IPA II beneficiary shall submit subsequent pre-financing payment requests when the total bank balance for the Programme falls below the disbursements forecast for the following five months of the Programme.
- (3) Each request for additional pre-financing shall be supported by the following reports in accordance with points (a), (b) and (d) of Annex IV:
- (a) A summary statement of all disbursements made for the Programme;

- (b) The bank balances for the Programme at the cut-off date of the request;
 - (c) A forecast of disbursements for the Programme for the following fourteen months at the cut-off date of the request.
- (4) The IPA II beneficiary may request for each subsequent pre-financing the amount of total disbursements forecast for the fourteen months following the cut-off date of the request, less the balances referred to in section 3(b) of this Article at the cut-off date of the request for funds increased by any amount funded by the IPA II beneficiary under paragraph 5 of this Article and not yet reimbursed.
- The Commission reserves the right to reduce each subsequent pre-financing payment if the total bank balances held by the IPA II beneficiary under this Programme and on all other IPA I or IPA II programmes managed by the IPA II beneficiary exceeds the disbursement forecast for the next fourteen months.
- (5) Where the payment is reduced under paragraph 4 of this Article, the IPA II beneficiary must fund the Programme from its own resources up to the amount of the reduction. The IPA II beneficiary may then request the reimbursement of that funding as part of the next request for funds as specified in paragraph 4 of this Article.
- (6) The Commission shall have the right to recover excessive bank balances which have remained unused for more than twelve months. Before exercising this right, the Commission shall invite the IPA II beneficiary to give reasons for the delay in disbursing the funds and demonstrate a continuing need for them within the next following two months.
- (7) Interest generated by pre-financing of the Programme bank balances shall not be due.
- (8) Following Article 33(4) of the Framework Agreement, if interruption of time limit for payment request exceeds two months, the IPA II beneficiary may request a decision by the Commission on whether the interruption of time limit is to be continued.
- (9) The final financial declaration referred to in Article 37(2) of the Framework Agreement shall be submitted by the NAO no later than 16 months after the end of operational implementation period.

Article 6 - Interruption of payments

- (1) Without prejudice to the suspension or termination of this Financing Agreement according to Articles 18 and 19 respectively, as well as without prejudice to Article 39 of the Framework Agreement, the Commission may interrupt payments partially or fully, if:
- (a) the Commission has established, or has serious concerns that the IPA II beneficiary has committed substantial errors, irregularities or fraud questioning the legality or regularity of the underlying particular transactions in the implementation of the Programme, or has failed to comply with its obligations under this Financing Agreement, including obligations regarding the implementation of the Visibility and Communication plan;
 - (b) the Commission has established that or has serious concerns, whether the IPA II beneficiary has committed systemic or recurrent errors, irregularities, fraud or breach of obligations under this or other Financing Agreements, provided that those errors, irregularities, fraud or breach of obligations have a material impact on the implementation on this Financing Agreement or call into question the reliability of the IPA II beneficiary's internal control system or the legality and regularity of the underlying expenditure.

Article 7 - Recovery of funds

- (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary as provided in the Financial Regulation, in particular in case of:
 - (a) the Commission established that objectives of the Programme set out in Annex I are not achieved;
 - (b) non eligible expenditure;
 - (c) non respect of the contribution rate, as provided in Annex I;
 - (d) expenditure incurred as a result of errors, irregularities, fraud or breach of obligations in the implementation of the Programme, in particular in the procurement and grant award procedure.
- (2) In accordance with national law, the IPA II beneficiary shall recover the Union contribution paid to the IPA II beneficiary from recipients who were in any situation defined in paragraph 1 points b) or d) of this Article or referred to in Article 41 of the Framework Agreement. The fact that the IPA II beneficiary does not succeed in recovering all or part of the funds shall not prevent the Commission from recovering the funds from the IPA II beneficiary.
- (3) Amounts unduly paid or recovered by the IPA II beneficiary, amounts from financial, performance and pre-financing guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed by the IPA II beneficiary on candidates, tenderers, applicants, contractors or grant beneficiaries, to the IPA II beneficiary shall be either re-used for the Programme or returned to the Commission.

Part Two: Provisions Applicable to Budget Support

Article 8 - Policy dialogue

The IPA II beneficiary and the Commission commit to engage in a regular constructive dialogue at the appropriate level on the implementation of this Financing Agreement.

Article 9 - Verification of conditions and disbursement

- (1) The Commission shall verify the conditions for the payment of the tranches of the budget support component, as identified in Annex I and Annex IA.
- (2) Where the Commission concludes that the conditions for payment are not fulfilled, it shall inform the IPA II beneficiary thereof without undue delay.
- (3) Disbursement requests submitted by the IPA II beneficiary shall be eligible for EU financing provided that they are in accordance with the provisions set out in Annex I and Annex IA and that they are submitted during the operational implementation phase.
- (4) The IPA II beneficiary shall apply its national foreign exchange regulations in a nondiscriminatory manner to all disbursements of the budget support component.

Article 10 - Transparency of budget support

The IPA II beneficiary hereby agrees to the publication by the Commission, of this Financing Agreement and any amendment thereof, including by electronic means, and of such basic information on the budget support which the Commission deems appropriate. The content of such publication shall be in accordance with the EU laws applicable to the protection of personal data.

Article 11 - Recovery of budget support

All or part of the budget support disbursements may be recovered by the Commission, with due respect to the principle of proportionality, if the Commission establishes that payment has been vitiated by a serious irregularity attributable to the IPA II beneficiary, in particular if the IPA II beneficiary provided unreliable or incorrect information, or if corruption or fraud was involved.

Part Three: Provisions Applicable to this Financing Agreement Irrespective of the Management Mode

Article 12 - Execution period, operational implementation period and contracting deadline

- (1) The execution period is the period during which the Financing Agreement is implemented and includes the operational implementation period as well as a closure phase. The duration of the execution period is stipulated in Article 2(2) of the Special Conditions, and it shall start on the entry into force of this Financing Agreement.
- (2) The operational implementation period is the period in which all operational activities covered by procurement, grant contracts and delegation agreements are completed. The duration of this period is stipulated in Article 2(2) of the Special Conditions, and it shall start on the entry into force of this Financing Agreement.
- (3) The execution and operational implementation periods shall be respected by the Contracting Authority when concluding and implementing procurement, grant contracts and delegation agreements within this Financing Agreement.
- (4) Costs related to the activities shall be eligible for EU financing only if they have been incurred during the operational implementation period; the costs incurred by the IPA II beneficiary before the entry into force of the Financing Agreement shall not be eligible for EU financing.
- (5) The procurement and grant contracts shall be concluded at the latest within three years of the entry into force of the Financing Agreement, except:
 - (a) amendments to contracts already concluded;
 - (b) individual procurement contracts to be concluded after early termination of an existing procurement contract;
 - (c) contracts relating to audit and evaluation, which can be signed after operational implementation;
 - (d) change of the entity charged with entrusted tasks.
- (6) A procurement or grant contract which has not given rise to any payment within two years of its signature shall be automatically terminated and its funding shall be de-committed.

Article 13 - Permits and authorisation

Any type of permit and/or authorisation required for the implementation of the Programme shall be provided in due time by the competent authorities of the IPA II beneficiary, in accordance with national law.

Article 14 - Reporting requirements

- (1) For the purpose of the general reporting requirements to the Commission set out in Article 58 of the Framework Agreement and the specific reporting requirements under indirect management set out in Articles 59(1) of the Framework Agreement on the annual report on the implementation of IPA II assistance, the NIPACs shall use the template provided for in Annex III to this Financing Agreement.
- (2) For the purpose of the specific reporting requirements under indirect management set out in point (a) of Article 59(2) of the Framework Agreement on the annual financial report or statements, the NAO in the IPA II beneficiary shall use the templates provided for in Annex IV to this Financing Agreement.
- (3) For the purpose of Article 59(4) of the Framework Agreement, the NIPAC shall submit a final report on the implementation of IPA II assistance of this Programme to the Commission no later than four months after the last disbursement to its contractors or grant beneficiaries.
- (4) For the purpose of Article 59(6) of the Framework Agreement the NAO shall provide by 15 January of the following financial year in electronic format a copy of the data held in the accounting system established under Article 4(4). This should be supported by a signed un-audited summary financial report in accordance with point (c) of Annex IV.

Article 15 - Intellectual property rights

- (1) Contracts financed under this Financing Agreement shall ensure that the IPA II beneficiary acquire all necessary intellectual property rights with regard to information technology, studies, drawings, plans, publicity and any other material made for planning, implementation, monitoring and evaluation purposes.
- (2) The IPA II beneficiary shall guarantee that the Commission, or anybody or person authorised by the Commission, shall have access and the right to use such a material. The Commission will only use such material for its own purposes.

Article 16 - Consultation between the IPA II beneficiary and the Commission

- (1) The IPA II beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this Financing Agreement further pursuant to Article 20.
- (2) Where the Commission becomes aware of problems in carrying out procedures relating to the implementation of this Financing Agreement, it shall establish all necessary contacts with the IPA II beneficiary to remedy the situation and take any steps that are necessary.
- (3) The consultation may lead to an amendment, suspension or termination of this Financing Agreement.
- (4) The Commission shall regularly inform the IPA II beneficiary of the implementation of activities described in Annex I which do not fall under Part One of these General Conditions.

Article 17 - Amendment of this Financing Agreement

- (1) Any amendment of this Financing Agreement shall be made in writing.
- (2) If the IPA II beneficiary requests an amendment, the request shall be submitted to the Commission at least six months before the amendment is intended to enter into force.
- (3) The Commission can amend the Model Documents in Annex III, IV and V without this necessitating an amendment to this Financing Agreement. The IPA II beneficiaries shall be informed in writing about any such amendment and its entry into force.

Article 18 - Suspension of this Financing Agreement

- (1) The Financing Agreement may be suspended in the following cases:
 - (a) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary breaches an obligation under this Financing Agreement;
 - (b) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary breaches any obligation set under the procedures and standard documents referred to in Article 18(2) of the Framework Agreement;
 - (c) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary does not meet requirements for entrusting budget implementation tasks;
 - (d) The Commission may suspend the implementation of this Financing Agreement if the IPA II beneficiary decides to suspend or cease the EU Membership accession process;
 - (e) The Commission may suspend this Financing Agreement if the IPA II beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption;
 - (f) This Financing Agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the parties' control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by a case of force majeure of which the other party is duly informed. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage. If force majeure impacts only part of the Programme, the suspension of the Financing Agreement can be partial;
 - (g) Neither of the Parties shall be held liable for breach of its obligations under this Financing Agreement if it is prevented from fulfilling them by force majeure, provided it takes measures to minimise any possible damage.
- (2) The Commission may suspend this Financing Agreement without prior notice.
- (3) The Commission may take any appropriate precautionary measure before suspension takes place.
- (4) When the suspension is notified, the consequences for the on-going or to be signed procurement and grant contracts, and delegation agreements shall be indicated.

- (5) A suspension of this Financing Agreement is without prejudice to the interruption of payments and termination of this Financing Agreement by the Commission in accordance with Article 6 and Article 19.
- (6) The parties shall resume the implementation of the Financing Agreement once the conditions allow with the prior written approval of the Commission. This is without prejudice to any amendments of this Financing Agreement which may be necessary to adapt the Programme to the new implementing conditions, including, if possible, the extension of the operational implementation and execution periods, or the termination of this Financing Agreement in accordance with Article 19.

Article 19 - Termination of this Financing Agreement

- (1) If the issues which led to the suspension of this Financing Agreement have not been resolved within a maximum period of 180 days, either party may terminate the Financing Agreement at 30 days' notice.
- (2) This Financing Agreement shall be automatically terminated, if within the period of two years of its signature:
 - (a) it has not given rise to any payment;
 - (b) no implementing contract or delegation agreement has been signed.
- (3) When the termination is notified, the consequences for the on-going procurement and grant contracts, delegation agreements and such contracts or grants, and delegation agreements to be signed shall be indicated.
- (4) The termination of this Financing Agreement shall not preclude the possibility of the Commission to make financial corrections in accordance with Articles 36 to 44 of the Framework Agreement.

Article 20 - Dispute settlement arrangements

- (1) Any dispute concerning the Financing Agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 16 may be settled by arbitration at one of the parties' request.
- (2) Each party shall designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within 30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.
- (3) Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.
- (4) Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.

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Period covered by the report:

01/01/20XX-31/12/20XX

Report issued on XX/XX/20XX

**Annual Report on the implementation of IPA II assistance under indirect management
by Montenegro submitted by the National IPA Coordinator**

I. Executive Summary

1. Reference to the objectives of the Country Strategy Papers and a brief overview of challenges in the sectors
2. Involvement in programming
3. Relations with the European Commission.
4. Problems encountered in meeting the required conditions for implementation and in ensuring sustainability, related measures taken/planned, recommendations for further action.
5. Relevant issues stemming from the IPA II beneficiary's participation in the IPA monitoring committee and in sectoral monitoring committees (including Joint Monitoring Committee for CBC), if any.
6. Involvement in Multi-country actions and any related issues.
7. Monitoring and evaluation activities, main lessons learned & follow-up to recommendations.
8. Communication and visibility activities.
9. Donor coordination.

10. Overall implementation of IPA assistance under indirect management (max. one page).
11. Main horizontal problems encountered in the implementation of IPA assistance and subsequent measures taken/planned (max. half page).
12. Recommendations for further actions (max. half page).
13. Audits – main findings and recommendations and corrective actions taken



II. Information per Sector

Sector title¹: [*Transport*]

Narrative part: summary per sector, including the following information:

1. Involvement in programming
2. Overview of results in moving towards a fully-fledged sector approach (i.e. targets reached as per sector roadmap in the Sector planning document).
3. Coordination with other instruments and/or donors/ IFI's within the sector
4. The impact of IPA II actions within the sector on the development of the relevant national administrative capacity in the sector, strategic planning and budgeting

Under indirect management the following information should also be included:

5. Operating structure(s) in place and related changes, if relevant: [*Ministry of Transport*]
6. Information on the implementation of programmes in the sector
7. Main achievements in the sector
8. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
9. Recommendations for further actions
10. Implemented monitoring and evaluation activities, audits – main findings & lessons learned, recommendations, follow-up and corrective action taken

Sector title: Cross-Border Cooperation²

1. Involvement in programming as appropriate.
2. Progress made in implementing the CBC programme and in particular in achieving the specific objectives per thematic priority (including qualitative and quantitative elements indicating progress in relation to targets)
3. A summary of problems encountered in implementing the CBC programme and any corrective actions taken, as well as recommendations for further corrective actions.

¹ As per the sectors in the indicative Strategy Papers.

² For Cross-border Cooperation specific reporting is required.



4. Monitoring, including data collection arrangements and where applicable evaluation activities.
5. Communication and visibility activities.
6. Coordination with the partner country.

Under indirect management the following information should also be included:

1. Operating structure in place and related changes, if relevant.
2. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
3. Recommendations for further actions
4. Implemented audits – main findings & recommendations and corrective action taken



II a. Performance indicators in the [e.g. Transport] sector covering both direct and indirect management:

Indicators³ per programme

Financing Agreement/Programme reference ⁴	Indicator for sector [Transport]	Source	Baseline	Milestone (2017)	Target (2020)	Value (2014 ⁵)
2014 country programme	Reduction of average travel time of passengers between major urban centres by transport mode					
2014-20xx multiannual programme	Reduced transportation costs per unit of output					

³ These should be mostly outcome, as well as selected relevant output indicators

⁴ It has to be consistent with the way of programming (annual, multi-annual with or without split commitments) and with the NAO report

⁵ Number of columns to be adjusted for all years from 2014 up to the year of the reporting period. Values should be cumulative.

II b. Overview at the action level for sector [*e.g. Transport*]

Financing Agreement/ Programme reference	Action	State of play/Progress for particular action (e.g. ToR in preparation, tender launched, contracted, under implementation, completed)	Main achievements and their assessment	Significant problems encountered in implementing the entrusted tasks and the measures taken/planned to overcome them	Developments that influence implementation for the future	Recommendations for corrective further actions
[2014 country programme]	Electrification of the railway line from xxx to border with xxx	e.g. Service contract for preparation of ToR for the works contract signed and under implementation, tender for works contract to be launched in the second quarter of 2015		e.g. The service contract for the preparation of ToR for the works contract was delayed as the negotiated procedure failed and had to be re-launched	e.g. change of local law, like alignment with and implementation of the fourth Railway package	

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Under indirect management the following annexes should also be provided:

Annex 1

Overview of the functioning of the management and control systems (including changes in the institutional structure) (max. one page).

Transparency, visibility, information and communication activities in line with FWA (max. one page)

Annex 2

Success stories (N.B. this section may be used for the annual financial assistance report prepared by the European Commission)

Annex 3

Annual procurement plan

For both direct and indirect management, the following annex should be provided:

Annex 4

Sector approach roadmap – achievements (highlighting whether planned targets have been fulfilled or not)



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Annex 10 - IPF - Financial Report - 1. Subsidy

IPA II Beneficiary (annual report 1)

1	2	3	Local Control Activities										Specified control				Total at month end		20	21	22																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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IPA II beneficiary financial report (*)

Programme Reference	Financing Agreement contract number	Programme EU Contribution Budget	Local Contract Activities								Total Open Pre-financing	Open Pre-financing %
			Total Amount Contracted	Total Amount Decommitted on closure	Decommitted %	Total Amount Disbursed	Disbursed %	Total Costs Recognised	Costs %			
1	2	3	4	5	6	7	8	9	10	11	12	
NP2010	2010/123-456											
Sub-programme Action												

(*) 15 February





IPA II beneficiary financial report (*)

Programme Reference	Financing Agreement contract number	Programme EU Contribution Budget	Local Contract Activities				Bank Balances
			Total Amount Contracted	Total Amount Decommited on closure	Total Amount Disbursed	Total Costs Recognised	Total Open Pre-financing
1	2	3	4	5	6	7	8
NP2010	2010/123-456						9

(*) 15 January

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Annex IV (d) - payments forecast

Programme Reference	Planned Disbursement Forecasts (Add years as necessary)												
	Monthly Disbursement Forecast (Year 1)												Total Year 1
	1	2	3	4	5	6	7	8	9	10	11	12	Year 2
													Year 3
NP2010													
CBC AA/BB 2010													

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The accounting system of the IPA II beneficiary shall meet following requirements:

1. Reflect the organisational structure put in place for the internal control systems suited to the performance of duties. In particular before an operation is authorised, all aspects (both operational and financial) of the operation have to be verified by members of staff other than the one who initiated the operation. The person dealing with the verification cannot be subordinated to the initiator of the transaction.
2. Include an audit trail for all transactions and amendments.
3. Possess adequate physical and electronic security including back-up and recovery systems.
4. The accounting system should hold at least the following information for the local contracts managed under each programme:
 - (a) Contract reference;
 - (b) Contract value including any amendments;
 - (c) Contract signature dates (both parties);
 - (d) Contract implementation start date;

This is in addition to the contract signature date and may differ from it, as when the contract works start date is given after the signature of the contract through an Administrative Order.

- (e) Contract implementation end date including any amendments;

This is the final date on which eligible costs can be incurred. It does not include any guarantee period or time allowed for report preparation by the contractor.

- (f) Total paid (cash) by contract;
 - (g) Pre-financing paid by contract;

Explicit recognition and recording on the balance sheet of contractually required pre-financing.

- (h) Cost recognised – direct (by contract);

Explicit recognition of cost as a charge to expenses for the year. Some payments will directly cover costs already incurred. No pre-financing is involved. They may be final

payments where any pre-financing has already been cleared or interim payments where pre-financing has been cleared or where the contract does not include the provision of pre-financing.

(i) Cost recognised – indirect (by contract);

Explicit recognition of cost as a charge to expenses for the year. Some invoices or cost claims submitted by a grant beneficiary or contractor will relate to costs that are covered by pre-financing paid earlier in the implementation period of the grant agreement or contract. In these cases the payment made will be less than the reported cost. It may even be zero if all the cost is covered by pre-financing. (it will certainly be zero if the reported costs are insufficient to absorb the pre-financing and a recovery order is issued for the unused balance of the pre-financing.) In all such cases the system should record the full value of the reported eligible cost as expenses for the year and reduce the balance of pre-financing by the amount of cost offset against the pre-financing when determining the amount payable.

(j) Recovery orders to reduce pre-financing (by contract);

Recognition of the reduction of pre-financing on the balance sheet following a recovery of unused pre-financing.

(k) Recovery orders to reduce cost (by contract);

When a recovery is made against cost that had earlier been accepted – possibly following an investigation for fraud. In such cases the recorded costs for the year must be reduced if the cost was accepted in the same year as the subsequent recovery; or income must be recorded where the cost was accepted in an earlier year than that of the recovery.

(l) Supplier's invoice date for each invoice or other document accompanied by a financial report giving rise to recognised costs;

(m) Recovery context information on ineligible cost and recoveries.

Annex VI - Conditions related to indirect management

The following conditions will need to be addressed at given deadlines:

1. All IPA entities		
Conditions	Priority	Implementation Deadline
<i>Control environment</i>		
a) A well substantiated workload analyses must be developed, which take account of all activities assigned to every concerned entity.	Medium	3 months after entry into force of this Financing Agreement
<i>Information and communication</i>		
b) The ICT environment must comply with all applicable internationally accepted standards (in particular ISO/IEC 27002).	Medium	3 months after entry into force of this Financing Agreement
<i>Monitoring of internal control framework</i>		
c) Staff assigned to internal audit must meet the job requirements and to be ready to meet the rigours of the internal audit profession.	Medium	3 months after entry into force of this Financing Agreement

2. National Authorising Officer (NAO), National Authorising Officer Support Office (NAOSO) and National Fund (NF)		
Conditions	Priority	Implementation Deadline
<i>NAO supervision of proper implementation of the recommendations</i>		
a) All modalities of the supervisory and follow-up tools must be set up for an effective and timely implementation of the recommendations in this Annex.	High	1 month after entry into force of this Financing Agreement
<i>Control environment</i>		
b) The NAOSO and NF must be established in such a way that they are functionally separated and operationally subordinated to the NAO.	Medium	3 months after entry into force of this Financing Agreement
<i>Monitoring of internal control framework</i>		
c) The efficiency of the systems and respect of the principle of sound financial management must be ensured.	Medium	3 months after entry into force of this Financing Agreement
d) The assurance mechanisms in place to ensure NAO and NAOSO have sufficient control over the internal control systems as to their operations, guaranteeing a level of protection of the financial interests of the European Union equivalent to that required under the Financial Regulation must be strengthened.	Medium	3 months after entry into force of this Financing Agreement
e) A mix of operational & budget execution indicators must be developed and used, to ensure that the principle of sound financial management is respected and the functioning of the internal control systems is effective and efficient.	Medium	3 months after entry into force of this Financing Agreement
f) A central set of procedures and training materials for identifying, recognising, reporting and monitoring irregularities, for all implementation levels must be developed.	Medium	3 months after entry into force of this Financing Agreement

3. National Fund (NF) and Operating Structures (OSs)		
Conditions	Priority	Implementation Deadline
<i>Control activities</i>		
a) Procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles must be finalised.	Medium	3 months after entry into force of this Financing Agreement

4. Line Ministries (LMs)		
Conditions	Priority	Implementation Deadline
<i>Control activities</i>		
a) The risk of inadequate segregation of duties must be adequately recognised and evaluated and subsequently it must be ensured that necessary mitigating controls are put in place, and/or increase supervision and/or additional controls if necessary.	Medium	3 months after entry into force of this Financing Agreement

5. Audit Authority (AA)		
Conditions	Priority	Implementation Deadline
<i>Control environment</i>		
a) Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources must be ensured.	Low	6 months after entry into force of this Financing Agreement
<i>Monitoring of Staffing policy</i>		
b) A well substantiated workload analysis must be developed, which takes account of audit activities related to both 2007-2013 and 2014-2020 IPA funds including CBC programme subject to the AA's review, based on which the number and qualifications (experience and technical skills) of staff are made visible and correspond to the identified needs.	Low	6 months after entry into force of this Financing Agreement
c) Staff must be recruited and/or allocated tasks in accordance with needs identified in its up-dated workload analysis. AA will regularly report to the EC on its staffing level.	Low	6 months after entry into force of this Financing Agreement