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ANNEX C

Annual Action Programme for Montenegro for the year 2020

1 IDENTIFICATION

Beneficiary	Montenegro
Basic act:	Instrument for Pre-accession Assistance (IPA-II) <i>Western Balkans</i>
CRIS/ABAC Commitment references and budget line(s):	2020/CRIS/042-142 EUR 4 484 025 from 22.02 01 01 2020/CRIS/042-145 EUR 17 565 975 from 22.02 01 02
Total cost:	EUR 24 435 734.94
EU Contribution:	EUR 22 050 000
Method of implementation	<p>Direct management by the European Commission</p> <p>Action 2 - EU Integration Facility</p> <p>Action 3 – EU for Rule of Law III</p> <p>Action 4 – EU for strengthening the competitiveness and innovation capacity of the private sector of Montenegro</p> <ul style="list-style-type: none"> • Result 1 – Private sector development and industry competitiveness increased with a focus on small and medium enterprises (SMEs) and support for female and young entrepreneurs. <ul style="list-style-type: none"> ○ Activity A.1 – Advanced business development services for improving the capacities of SMEs • Result 3 – Administrative capacity and level of alignment to the EU <i>acquis</i> in the field of Competitiveness and Innovation increased <ul style="list-style-type: none"> ○ Activity A.2 - Provision of horizontal assistance for increasing the capacity of relevant institutions for harmonisation and implementation of <i>acquis</i> in the area of Competitiveness and Innovation <p>Action 5 – EU for smart and inclusive growth -</p>

	<p>employment and social inclusion 2020.</p> <ul style="list-style-type: none"> • Result 2 – Strengthened capacities to implement sector wide approach and assume obligations deriving from the EU accession process in Education, Employment and Social Policies (EESP) sector in line with the relevant EU <i>acquis</i>. <ul style="list-style-type: none"> ○ Activity 2.1 - Improved evidence-based policymaking, implementation practices and coordination in the ESP sector and strengthened capacities to participate in the European Social Fund (ESF). <p>Action 6 - Support to COVID-19 crisis response in Montenegro (Budget Support)</p> <p>Indirect management with Montenegro</p> <p>The Operating structures responsible for the implementation of the actions are:</p> <p><i>1. Directorate for Management Structure</i></p> <p>Action 1 – Support to Participation in Union Programmes – Implementation will consist in the payment of the IPA part of the financial contribution to the programmes by the National Fund</p> <p><i>2. Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)</i></p> <p>Action 4 – EU for strengthening the competitiveness and innovation capacity of the private sector of Montenegro – All activities except:</p> <ul style="list-style-type: none"> • Activity A.1 under Result 1 • Activity A.2 under Result 3 <p>Action 5 – EU for smart and inclusive growth - employment and social inclusion 2020</p> <p>All activities except:</p> <ul style="list-style-type: none"> • Activity 2.1 under Result 2
<p>Final date for concluding <u>Financing Agreement(s)</u> with the IPA II beneficiary</p>	<p>At the latest by 15 November 2020</p>
<p>Final date for contracting, including the conclusion of contribution/delegation agreements</p>	<p>three years following the date of conclusion of the Financing Agreement</p>

Indicative operational implementation period	six 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.

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 Annual Action Programme (AAP) for Montenegro for the year 2014 contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro and its subsequent revision¹ through formulating actions covering six of the eight priorities defined in the ISP. The first sectors initially covered by IPA II funds included *democracy and governance, the rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, and the Agriculture and rural development sector.*

The *Annual Action Programme for Montenegro for the year 2015* covered *Democracy and governance* and the *Rule of law and fundamental rights* sectors. It also included the first sector budget support programme aimed at supporting the implementation of the integrated border management strategy.

In 2015, Montenegro developed a *Regional Development Operational Programme 2016-2020 (RDOP)* to provide a multiannual framework for IPA programming in *environment, competitiveness and transport* sectors. Two actions, focusing on economic development and growth by providing assistance to the environment and climate action and competitiveness and innovation sectors, were included in the *Action Programme for the year 2016*. A third action aiming at the improvement and development of the transport sector was included in part 1 of the *Annual Action Programme for Montenegro for the year 2017*.

The *Annual Action Programme for Montenegro for the year 2017* part 2 strengthened and complemented the existing EU support to the democracy and governance sector targeting the area of public administration reform (PAR) as public administration reform is one of the key priorities of the Enlargement Strategy.

In 2018, the Annual Action Programme for Montenegro addressed issues concerning Democracy and Governance, Rule of Law and Fundamental Rights and Competitiveness and Innovation, Agriculture and Rural Development. In addition, the AAP 2018 included an action funded under the performance reward granted to Montenegro in the area of Education, Employment and Social Policies focusing in the area of Health.

The Annual Action Programme for Montenegro for the year 2019 continued its support in the environment, climate action and energy sector by passing from a capacity building approach in 2016 to an infrastructure development and investment phase in 2019. The programme also supported the transport sector with further investments in the railway transport to support the corridor Bar-Belgrade, the modernisation of the network and the promotion of inter-modality systems.

¹ Commission Implementing Decision C(2018) 5026 of 3.8.2018 amending Commission Decision C(2014)5771 of 18.8.2014 adopting the Indicative Strategy Paper for Montenegro for the period 2014-2020

In 2020, the Annual Action Programme will target the sectors of Democracy and Governance, Rule of Law, Competitiveness and Innovation Employment and Social Issues, and Education, employment and social policies.

As regards the area of **Rule of Law and Fundamental Rights**, the activities under this Action target the following key needs and results from the revised Indicative Strategy Paper for Montenegro 2014-2020, after the 2018 mid-term review:

- To strengthen efficiency and professionalism of the judiciary.
- To rationalise the judicial network.
- To strengthen the independence and capacity of the Centre for Training in Judiciary and State Prosecution Service.
- To provide for reliable and comprehensive system of judicial statistics.
- To fight against drug smuggling, trafficking in human beings and money-laundering.
- To improve technical equipment, including information technology (IT) databases, adequately train human resources and reinforce inter-institutional cooperation.
- Enhanced independence, efficiency and professionalism of the judiciary and strengthened integrity safeguards.
- Improved coherence and consistency of jurisprudence and improved enforcement of judicial rulings.
- Increased efficiency of and co-operation between the law enforcement agencies.
- Reduced level of organised and serious crime and a solid track record of investigations, prosecutions, final convictions, and recovery of assets in corruption and organised crime cases developed.

Concerning the sector of **Competitiveness and Innovation** the action contributes to support the achievement of the revised ISP expected results, notably with respect to:

- Development of a Smart Specialisation Strategy.
- Small Business Act recommendations (SME Policy Index) regularly followed up and implemented.

The Action proposed under the sector or **Education, Employment and Social Policies (EESP)** is in line with the overall objective in the revised ISP for Montenegro and will address participation in the labour market and improved opportunities for vulnerable groups in society.

Some of the ISP's key results that will be targeted by this Action are:

- Improved employability of human resources through modernising the vocational, educational, training and research systems in Montenegro, updating their teaching methods and enhancing their mobility opportunities.
- Improved , research and social protection systems with the needs of the labour market and overall economy.
- Improved access to health and employment opportunities for all citizens, with a particular focus on socially disadvantaged or marginalised groups.

In addition to the above mentioned sectors, the AAP 2020 will contribute to the Participation in Union Programmes with an allocation of EUR 1 000 000 and will set up a new EU Integration Facility (EUIF) with EUR 984,025.00 contribution under the

Democracy and Governance sector. Action 1 ensures Montenegro's participation in European Programmes by co-financing the participation fees or entry tickets. The EU Integration Facility focuses mainly on technical support and capacity building related to the EU accession process. By ensuring the effectiveness and impact of actions financed through IPA II, the EUIF will also help the preparation for future cohesion and structural funds. In addition, special attention will be granted to ensuring good communication and visibility of EU actions in specific sectors as well as performing programme evaluations that will inform and steer preparation of future IPA III programmes.

Within Education, employment and social policies sector, EUR 6 865 975 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID 19 pandemic.

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

Rule of Law and Fundamental Rights

The Action supporting the Rule of Law in Montenegro takes into account previous support provided to the country such as "EUROL I" under IPA I, "EUROL II" and "Results Oriented Review of the Delivery of Justice in Montenegro" under IPA II. The current support will be a continuation of past assistance building up on sustainable results achieved by national authorities. Specific attention has been granted to the outcomes and good practices identified during the implementation of EUROL II as well as to the recommendations of the recent evaluation on EU Support on Rule of Law. Following past experience, the following issues have been taken into consideration while developing this Action and will be important during its implementation:

- Proper analysis and adequate planning and sequencing increase the sustainability of actions and absorption capacity.
- Given the complexity and diversity of the sector, the success of any intervention depends on adequate planning and cooperation.
- Communication and coordination with negotiating structures is essential for quality programming and implementation.
- Quality of donor coordination is precondition for sustainable results.
- Policies that ensure efficient human resources management and investments in new technologies should be carefully planned during the process.
- Adequate financial framework should be carefully planned and provided in line with strategic prioritisation.
- Importance of stakeholder's proactive and meaningful participation during project implementation and planning of activities should be ensured by an efficient participation mechanism.
- The implementation of the Joint Action Plan on Counter-Terrorism for the Western Balkans, signed by the EU and all Western Balkans partners (including Montenegro) on 5 October 2018 in Tirana, through a Counter-Terrorism Arrangement between the European Commission and Montenegrin authorities.

The action will continue to build on the donor coordination matrix developed by the Ministry of Justice to ensure complementarities among different stakeholders and synergies with other donor activities.

Competitiveness and Innovation

Assistance under IPA II 2014 – 2020 in the Competitiveness and Innovation sector has focused on three main pillars of intervention:

- Enhancement of the business environment and private sector development.
- Improvement of innovation capacity of private sector.
- Administrative capacity and level of alignment to the EU *acquis*.

Planning and programming of the current Action took into consideration past experiences through the previous process of programming and implementation of IPA 2014 and IPA 2016 and was designed to contribute to overcome several issues by:

- Improving communication and coordination among projects.
- Increasing administrative and monitoring capacity.
- Better linkages between the EU assistance to national sector strategies and action plans and the Montenegrin economy.

Both IPA 2014 and IPA 2016 Actions aimed at improving technical and administrative capacities of the relevant institutions in related chapters. IPA 2014 project *Technical Assistance for Alignment and Implementation of the EU Internal Market acquis – AIM II* is particularly of high relevance for Montenegro, since it is intended to be one of the key instruments for further advancement of the country towards the full membership in the EU, within the area of free movement of goods and consumer protection.

The programme will take into account other important programmes currently financed by other organisations and donors such as:

The project "*Strengthening the capacity to accelerate the process of negotiations with the European Union*", financed by the **Norwegian Ministry of Foreign Affairs**, implemented by the United Nations Development Programme (UNDP) in Montenegro, in cooperation with the Office for European Affairs and the General Secretariat of the Government of Montenegro, engaged three experts to support the government in the negotiations of Chapter 8 – Competition.

The European Bank for Reconstruction and Development (**EBRD**) is promoting the implementation of a fair and competitive business environment in Montenegro with a capacity building project for the National Agency for the Protection of Competition. The project includes training for staff and judges on merger and antitrust cases, the introduction of econometric software to analyse competition cases and activities to raise public awareness about competition rules among businesses.

Montenegro also benefits from the **Western Balkans Enterprise Development and Innovation Facility (WB EDIF)** which is funded by the EU and managed by the European Investment Fund (EIF). The programme aims at improving access to finance to SMEs in the Western Balkans.

Education, Employment and Social Policies

In the EESP sector, this programme covers two actions. On the one hand, Action 5 on EU for smart and inclusive growth - employment and social inclusion 2020. Regarding this action, past IPA assistance focused on issues of labour market performance and social

inclusion. Significant efforts have been invested in developing the law on social welfare and child protection and creating the necessary structures, particularly addressing the problems of children, minority groups and internally displaced people.

For the period 2015-2017, the Multi-annual action programme on Employment, Education and Social policies (SOPEES) was programmed, worth EUR 15.3 million. There are four actions to be implemented through this Programme:

- Improving the Labour Market and Increasing Employability;
- Enhancing the Education System;
- Improving Social Inclusion and Social and Child Protection System;
- Technical Assistance.

This action will build upon results and lessons learned under the following SOPEES actions: Improving the Labour Market and Increasing Employability and Improving Social Inclusion and Social and Child Protection System. It will go a step further taking new and innovative approaches to tackle persisting and new challenges in employment and social policy.

Regarding other donors active in this sector, the UN Development Programme UNDP provides support for social inclusion; UNICEF's priority is child protection and social inclusion; the Council of Europe Development Bank (CEB) provides support for health and social housing;

- On the other hand, regarding the Action 6 on Support to COVID-19 crisis response in Montenegro. Within the Response to the COVID-19 crisis, in order to mitigate the impact of the COVID-19 pandemic and crisis in Montenegro, a large-scale and all-encompassing budget support programme, worth EUR 40.5 million EU contribution has been identified as the most effective and efficient intervention to help Montenegro reduce the negative effects of the crisis on the economy, preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services and increase access of vulnerable business to economic relief.
- In the EU response to the crisis, synergies are sought between this programme and the following operations, either already provided or planned, also in conjunction with other donors:
 - Montenegro has requested an emergency financial support from the **European Macro Financial Assistance** (MFA), up to EUR 60 million. MFA is an EU crisis response instrument linked to the emergency Rapid Financing Instrument of the International Monetary Fund (IMF). The objective of this assistance is to ease the country's external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the country address the current external and financial vulnerabilities. The MFA is available for 12 months period and disbursed in two instalments of up to EUR 30 million each. The policy conditions attached to this assistance will be based on the economic stabilisation and reform programme endorsed by the Montenegrin authorities and consistent with agreements reached by Montenegro with the IMF. The process of agreeing upon a Memorandum of Understanding and setting the MFA conditionality is ongoing.
 - **SOPEES programme** (National IPA 2020, EUR 3.5 million): the programme aims at enhancing inclusion and employability of the long-term unemployed, with the focus on

social welfare beneficiaries, women, youth, by supporting life in the community and through local partnerships initiatives for employment.

- **Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System (National IPA 2014, EUR 1.3 million):** the project aims to increase fiscal sustainability and sound management of public finances in line with EU requirements. The specific objectives of the contract are: a) the full implementation of a medium-term budget framework, b) the full development and implementation of a program budgeting based system and c) the improvement of Public Internal Financial Control system. The contract will include complementary activities to support the transition to accrual accounting, to improve the quality of budget documents and for the establishment of a system of prevention and recovery from potential threats to business continuity.
- **Development and strengthening of the capacities of State Audit Institution and Audit Authority (National IPA 2014, EUR 0.6 million):** the project aims to further strengthening public sector external audit in Montenegro by providing support to Audit Authority (AA) and State Audit Institution (SAI). This includes strategic advice, improvements of operational manuals and procedures for different type of audit including usage of ad hoc IT tools, trainings, on the job assistance and strengthening relationships with the parliament.
- **Support to strengthening health systems and vulnerable groups (EUR 20 million IPA multicountry):** 1. New interventions to support needs of vulnerable groups, especially elderly and children; 2. Interventions to improve the resilience of health systems, by intensifying existing work through the European Centre for Disease Prevention and Control, as well as a new engagement with the WHO.
- **Economic Reactivation Package (EUR 455 million, IPA multicountry):** The interventions will support the economy recover and inject much needed liquidity to financial intermediaries and SMEs in the region through work with the IFIs (EUR 202 million reorientation of existing programmes, plus “new funding” including: EUR 95 million reprogrammed IPA funds, EUR 38 million of the IPA 2020 programme adapted to COVID-19, and EUR 120 million of the Western Balkans Guarantee reoriented to mitigate the socio-economic consequences of the pandemic).
- In addition, a package of **emergency support measures dedicated to Western Balkan Countries** has being discussed, to be implemented by EIB, in the amount of EUR 700 million. Funds will be granted, if requested, primarily to help the health sector, small and medium-sized enterprises and entrepreneurs to overcome the liquidity problems caused by the pandemic crisis. The assistance will also include the expertise of the EIB together with partner banks in the countries. The definition of needs and priorities is ongoing.
- In the response of the international community, close coordination will be ensured between the EU and the following entities and projects:
- **The Rapid Financing Instrument (RFI) (IMF, EUR 30 million)** provides rapid and low-access financial assistance to its member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks,

natural disasters, conflict and post-conflict situations, and emergencies resulting from fragility. Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. Montenegro requested RFI assistance in April, and the procedures for its approval is ongoing.

- **Second Fiscal and Financial Sector Resilience Policy-Based Guarantee** (World Bank, EUR 80 million) was used for the execution of EUR 250 million syndicated loan in May from commercial banks. The 12-year loan has been withdrawn in mid-May, with a 3.63% interest rate. Its release was conditioned to the implementation of governmental reforms to safeguard fiscal sustainability and make the financial sector more resilient to potential shocks. The WB is considering to increase the guarantee of additional EUR 25 million with the aim to further ease the COVID-19-related pressure on the public finances.
- **Support to the reform of the system for determination of disabilities (UNDP, EUR 1 million EU support)**: the purpose of this action is to rationalise the way the National Disability Determination System is conducted in Montenegro, as to facilitate access to the adequate services to the right users. The foreseen result will be the establishment of a functional national disability determination system. This area has been identified by the EU as a gap in the overall governmental programme dealing with the social card system.
- **Gender Programme (UNDP, EUR 0.735 million EU support)**: the project focuses on 3 areas of gender equality: economic empowerment of women, fight against gender based violence and political participation of women. The activities include training of around 150 women in entrepreneurship in Podgorica and Nicksic, with the development of business plans. In addition, 16 municipalities allocated budget lines for women entrepreneurship (EUR 120 000).
- **Protection of children from violence (UNICEF, EUR 0.3 million EU support)**: the project aims at providing quality prevention and protection services so that children are effectively protected from all forms of violence and exploitation. Its specific objective is to strengthen the capacities of social and child protection, health, education, police, and justice professionals to prevent and protect children from violence and to enhance inter-sectoral collaboration so that children are provided with high quality, multi-sectoral support. Activities include the *improvement of the case management system* and *training for case managers* who work with children who were exposed to violence;
- The project **Early Childhood Development (ECD) in Montenegro (UNICEF, EUR 1 million EU support)** aims to support the improvement of health and development of children up to 6 years of age, including children with disabilities, in order to reach their full potential. Its specific aim is to ensure that young children, especially the most vulnerable, and their parents/caregivers benefit from quality, equitable, mutually reinforcing systems of health, education, social and child protection. In addition, the action will support the development of the first national ECD policy, with a costed Action Plan and a clear monitoring and evaluation framework. Start date: 1st August 2020.
- **Supporting Entrepreneurship through Advanced Advisory and Information Services for SMEs (EBRD, EUR 1.4 million (EU support)**: the project aims to enhance the business environment and competitiveness of the private sector of Montenegro, by providing direct advisory assistance for SME and by supporting the development of the Single Access Point for business information.

List of Actions foreseen under the selected Sectors/Priorities:

Sector/Priority/Action	Direct management [EUR]	Indirect management	
		With entrusted entity [EUR]	With IPA II beneficiary [EUR]
Democracy and Governance			
Action 1 – Support to participation in Union Programmes	0	0	1 000 000
Action 2 – EU Integration Facility	984 025	0	0
TOTAL	984 025	0	1 000 000
Rule of Law			
Action 3 – EU for Rule of Law III	2 500 000	0	0
TOTAL	2 500 000	0	0
Competitiveness and Innovation, Agriculture and Rural Development			
Action 4 – EU for strengthening the competitiveness and innovation capacity of the private sector of Montenegro	1 997 500	0	2 002 500
TOTAL	1 997 500	0	2 002 500
Education, Employment and Social Policies			
Action 5 – EU for smart and inclusive growth - employment and social inclusion 2020	850 000	0	5 850 000
Action 6 - Support to COVID-19 crisis response in Montenegro	6 865 975	0	0
TOTAL	7 715 975	0	5 850 000
TOTAL	13 197 500	0	8 852 500

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

The envisaged assistance is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU².

SECTOR	Democracy and Governance	EUR 2 984 025
Action 1	Support to Participation in Union Programmes	EUR 1 000 000

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

- Description of the action and objectives

The Union Programmes are a series of integrated measures promoted by the European Union, aimed at strengthening the co-operation among the Member States regarding EU policies for a period of time. Union Programmes are financed from the general budget of the European Union, covering different areas: from environmental protection, research and innovation, energy and transport to the development of entrepreneurship and competitiveness, and they represent significant instruments for defining and conducting internal EU policies. For Montenegro, as candidate country which negotiates accession to the EU, the participation in these programmes represents an opportunity to be better prepared for accession and also to familiarise itself with the EU policies and operating methods.

The *objective* of this Action is to ensure participation of Montenegro in Union Programmes by co-financing the costs of the entry-tickets/participation fees to be paid by Montenegro as set out in the respective international agreements governing the participation in Union programmes in areas such as justice, education, science, culture, employment, entrepreneurship and innovation, taxation, custom system and IT technological development.

- Expected results and key performance indicators

The following *expected results* are foreseen:

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

The results achieved will be measured by the following *indicators*:

- Number of programmes for which an International Agreement has been concluded;

² www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

- Number of institutions/organisations fully benefiting under EU Programmes and initiatives;
- Montenegro's competent institutions receive reimbursement of entry-tickets in a timely manner;
- Level of ownership and commitment of Montenegro, including in financial terms, over participation in Union programmes;
- Level of awareness in the country on the Union Programmes (e.g. level of participation and interest in the various programmes);
- Level of engagement and outreach with minority communities, to the extent applicable, for each specific programme in the country.

(2) Assumptions and conditions

The following assumptions have been identified:

- Timely defined Union programmes novelties within IPA III perspective considering that within this action funds are planned for reimbursement of the fees for the first programming year of IPA III perspective (2021);
- The responsible line ministries ensure timely payment of the total entry ticket, as well as timely and documented requests for reimbursement;
- Responsible ministries continuously facilitate the support to applicants' participation in the programmes, in a transparent and non-discriminatory way;
- National Contact Points and line ministries are regularly communicating with beneficiaries and potential EU Programmes applicants.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities:

(3)(a) *Indirect management* with Montenegro

Implementation will consist in the payment of the IPA part of the financial contribution to the programmes by the Directorate for Management Structure.

Action 2	<i>EU Integration Facility</i>	<i>EUR 984 025</i>
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(1) Description of the Action, objectives, expected results and key performance indicators

- Description of the action and objectives

This action will provide effective and efficient response to emerging priorities linked to the EU accession process as well as to improve the quality and maturity of planning and programming documents and to support effective implementation and visibility of EU assistance.

This action focuses mainly on technical support and capacity building related to the EU accession process and it should ensure adequate visibility, effectiveness and impact of actions financed through IPA II. The EU Integration Facility provides flexible support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, but it may also be used in ad-hoc circumstances where EU assistance is required and/or suggested.

The **objective** of the action is to support Montenegro in the successful conducting of EU accession, including compliance with cohesion and structural funds related rules and standards.

- Expected results and key performance indicators

The **expected results** of this action are:

- Legislative and institutional capacities of Montenegrin administration for transposition and implementation of the *acquis* and capacities for leading and carrying out the accession negotiations strengthened;
- Capacities and relevant documentation for identification, programming, implementation, visibility and evaluation of EU assistance developed.

The achievement of the results envisaged by the action will be measured by the following **indicators**:

- Number of projects focusing on capacity building activities under the EUIF;
- Percentage of successful EUIF applications;
- Number of Actions Programmes adopted by the European Commission.

(2) Assumptions and conditions

Assumptions for this action are:

- Continued commitment of government structures to the accession process;
- Ensured adequate staff for state administration;
- All relevant coordination mechanisms established and functioning;
- Availability and commitment of staff for capacity building interventions.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities:

(3)(a) Indirect management with international organisation.

(i) A part of this action may be implemented in indirect management with an entity which will be selected by the Commission services using the following criteria: nature of the action, operational and technical capacity, value added, transparency and absence of conflict of interest. The implementation by this entity entails the activities deemed necessary to be implemented under Indirect Management with International Organisations. This modality will contribute to achieve both results mentioned in section 1. Its use will depend on the beneficiary's needs and requests.

(3)(b) Direct management (project approach)

Procurement:

The envisaged procurements will contribute to achieving all results of the action. The action provides flexible support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, including ad hoc requests. Scope covered by the procurement will depend on the specific request of the beneficiary. The global budgetary envelope reserved for procurement: EUR 734 025 .

Grants

a) **Purpose of the grants:**

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

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

b) **Type of applicants targeted:**

In case of grants:

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

In the case of Twinning:

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

The global budgetary envelope reserved for grants: EUR 250 000

(4) Scope of geographical eligibility for procurement and grants

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

Without prejudice to the above, the Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

SECTOR	<i>Rule of Law and Fundamental Rights</i>	<i>EUR 2 500 000</i>
Action 3	<i>EU for Rule of Law</i>	<i>EUR 2 500 000</i>

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

- Description of the action and objectives

The support provided by this action is in line with the Commission's commitment to the 'Fundamentals First' approach in the enlargement process. The aim is to ensure further improvement of the Justice and Law enforcement system, in supporting the accountability, transparency, efficiency and professionalism of the judiciary, establishing a concrete and sustained track record of tackling corruption, money laundering/terrorist financing, trafficking in human beings, organised crime, including cybercrime, and terrorism as well as improving the results on confiscation of proceeds of crime in Montenegro.

Activities will primarily involve coaching and mentoring by EU Member States judges/prosecutors/police and peer-to-peer exchange among national and EU experts with possibility for hands-on transfer of experience. A limited number of *ad hoc* study visits might be foreseen.

The Action aims also to improve Montenegro’s ability to deliver concrete results and strengthen its track record on fighting corruption, organised crime and terrorism by further strengthening of international and regional judicial cooperation, the increase of general and specific knowledge of the judicial office holders about the EU, its legal system and judicial practice of the courts of EU.

In this context, the **Objective** of the Action is to prepare Montenegro for accession to the EU by assisting it to align with and effectively implement the relevant EU *acquis* and European standards in the fields of justice, freedom and security.

- Expected results and key performance indicators

The **Expected Results** of this Action are:

- Improved track record in fighting organised crime, corruption and terrorism/violent extremism, both offline and online;
- Improved efficiency and performance of the judiciary;
- Improved Judicial Cooperation;

- Improved performance of the Institutions involved in meeting standards under Chapters 23 (Judiciary and fundamental rights) and 24 (Justice, freedom and security).

The achievement of the results envisaged by the action will be measured by the following *indicators*:

- Increased number of detections, investigations, prosecutions and final decisions on organised crime, terrorism, anti-money laundering/terrorist financing and corruption charges;
- Number of Interpol communications;
- Advance Passenger Information / Passenger Name Record (API/PNR) system in place;
- Asset Recovery Office fully operational and in line with EU standards;
- Number of replies to asset tracing requests by the Asset Recovery Office of Montenegro and number of asset tracing requests sent to the Asset Recovery Offices of the EU Member States;
- Number of freezing and confiscation orders issued and estimated value of the assets frozen or confiscated;
- Rate of implementation of the measures planned in the Strategy for the Reform of the Judiciary 2019-2022 and its Action plan;
- Rate of implementation of concrete rationalisation measures;
- Rate of implementation of the Information and Communication Technology (ICT) Strategy in the Judiciary 2016-2020;
- Increased number of court-to-court direct cooperation;
- Improved rate of answers to Mutual Legal Assistance (MLA) requests from third countries in a given period of time;
- Increased number of MLA requests transmitted to third countries;
- Increased number of judges and prosecutors with a sufficient level of English language to process requests in English;
- Normative and technical conditions for the European Criminal Records Information Exchange System (ECRIS) established;
- Number of ad hoc trainings and assistance;
- Rate of support in legislation (i.e alignment on adoption of procedural rights);
- Number of procured equipment.

(2) Assumptions and conditions

The main assumptions for the success of this Action are:

- Political commitment to EU Accession and for gradual alignment with Chapters 23 (Judiciary and fundamental rights) and 24 (Justice, freedom and security);
- Support and commitment of relevant institution;
- Government of Montenegro ensures budgeting, staffing and operational means.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities

(3)(b) Direct management (project approach)

Grants:

c) Purpose of the grants:

The call for proposals will contribute to achieving all objectives mentioned in section 1.

d) Type of applicants targeted:

The applicants targeted are EU Member States administrations or their mandated bodies.

The **global** budgetary envelope reserved for grants: EUR 2 500 000.

This call might be launched under a suspensive clause prior to the adoption of this decision. This is justified because of the urgency to minimise the gap between the current ongoing EUROL II assistance and the new action in order to ensure sustainability and preserve achievements accomplished by the action.

(4) Scope of geographical eligibility for procurement and grants

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

Without prejudice to the above, the Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

SECTOR	<i>Competitiveness and Innovation and Agriculture and Rural Development</i>	<i>EUR 4 000 000</i>
Action 4	<i>EU for Strengthening the competitiveness and innovation capacity of the private sector of Montenegro</i>	<i>EUR 4 000 000</i>

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

- Description of the action and objectives

This action is designed as an extension of the Action 2 *Strengthening the Competitiveness and Innovation sector of Montenegro* under *Country Action Programme for Montenegro for the year IPA 2016* and it will add value to Montenegrin economy.

It contributes to the increase of SMEs competitiveness and innovation capacity with a focus on providing adequate advisory services to the private sector, supporting development of the Smart Specialisation Strategy (S3) and assisting woman and youth entrepreneurship development in order to strengthen the capacity of the SMEs to create decent jobs. In addition, it will support the increase of administrative capacity and level of alignment to the EU *acquis* in the field of competitiveness and innovation.

Thus, the **objective** of this Action is to support the development of the private sector, particularly encouraging female and youth entrepreneurship and self-employment, and of a knowledge-based economy in Montenegro, in line with the EU *acquis*.

- Expected results and key performance indicators

The **expected results** of this Action are:

- Private sector development and industry competitiveness increased with a focus on small and medium-sized enterprises (SMEs) and support for female and young entrepreneurs;
- Private sector innovation capacity increased with a focus on innovative SMEs working on the implementation of the upcoming S3;
- Administrative capacity and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation increased.

The achievement of the results envisaged by the action will be measured by the following **indicators**:

Result 1

- Number of SMEs receiving non-financial support;
- Number of approved grants for female entrepreneurs;
- Number of approved grants for young entrepreneurs;
- Number of persons trained within responsible institutions (such as the Ministry of Economy) for providing advisory services for SMEs.

Result 2

- Number of SMEs receiving S3 grants;
- Number of institutions staff trained within responsible institutions (research institutions, SMEs and national coordinating body);
- Number of SMEs receiving non- financial support for implementation of S3 Strategy;
- Number of researches involved in the grant scheme

Result 3

- Number of institutions involved in competitiveness and innovation policies equipped;
- Number of staff trained to implement competitiveness and innovation policy.

(2) Assumptions and conditions

Montenegro will also undertake to ensure that the following conditions underlying the action are fully met throughout its implementation, as well as after its completion:

- Effective cooperation among the Ministries and beneficiary institutions responsible for various aspects of Competitiveness, innovation, agriculture and rural development;
- Implementation of the assistance under IPA 2014 and IPA 2016 initiated and the results used in the inception of the activities under this Action Programme;
- Adoption of rights-based policy documents related to this sector (Strategy, Action plan, Feasibility study, Strategic (business) Plan) which are based on reliable data, duly costed and consulted with the relevant internal and external stakeholders;
- Successful continuation and realisation of planned activities and commitment of all parties involved (Ministry and other stakeholders) to actively participate in the project;
- Montenegro remains committed to undertake horizontal public administration reforms;
- Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities:

(3)(a) Indirect management

This action will be implemented under indirect management by Montenegro, which shall be responsible for carrying out all the tasks relating to the implementation of the action.

The Operating Structure responsible for the execution of the actions is:

Directorate for Finance and Contracting of the EU Assistance Funds (CFCU).

The Ministry of Economy will play an important technical role during the implementation of this Action.

In particular, the beneficiary country shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

(3)(b) Direct management (project approach)

Procurement:

The procurement envisaged will contribute to the achievement of

- ***Activity A.1 Advanced business development services for improving the capacities of SMEs*** under the Result 1 - Private sector development and industry competitiveness increased with a focus on SMEs and support for female and young entrepreneurs.
- ***Activity A.2 Provision of horizontal assistance for increasing the capacity of relevant institutions for harmonisation and implementation of acquis in the area of***

Competitiveness and Innovation under Result 3 - Administrative capacity and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation increased.

The global budgetary envelope reserved for procurement: EUR 1 997 500.

(4) Scope of geographical eligibility for procurement and grants

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

Without prejudice to the above, the Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

SECTOR	<i>Education, Employment and Social Policies</i>	<i>EUR 13 565 975</i>
Action 5	<i>EU for Smart and Inclusive Growth – employment and social inclusion 2020</i>	<i>EUR 6 700 000</i>

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

- Description of the action and objectives

This Action will contribute to smart and inclusive economic growth and gender equality in Montenegro by improving decent work opportunities for all citizens and improving social integration of groups living in vulnerable situations, paying particular focus on women and girls of those groups. These outcomes will be achieved through enhanced inclusion and employability of the long-term unemployed, with the focus on social welfare beneficiaries, women, youth and persons with disabilities, by supporting life in the community and through local initiatives for employment.

In the process of accession relevant institutions need to strengthen their capacities to implement sector wide approach and assume obligations deriving from the EU accession process in the Education, Employment and Social Policies sector (EESP) in line with the Chapter 2 (Freedom of movement for workers), Chapter 19 (Social policy and employment), Chapter 22 (Regional policy and coordination of structural instruments) .

The *objectives* of this Action are:

- Improved employment opportunities for all citizens, with a particular focus on the long-term unemployed and women;
 - Improved social integration of marginalised and vulnerable groups.
- Expected results and key performance indicators

The *expected results* of this Action are:

- Enhanced employability and inclusion of the long-term unemployed in the labour market and local community, with the focus on social welfare beneficiaries, women, youth, low-skilled unemployed and persons with disabilities, by supporting life in the community and through local partnerships initiatives for employment as well as progress on social entrepreneurship;
- Strengthened capacities to implement sector wide approach and assume obligations deriving from the EU accession process in ESP sector (in line with Chapter 2 (Freedom of movement for workers), Chapter 19 (Social policy and employment), Chapter 22 (Regional policy and coordination of structural instruments))
- The achievement of the results envisaged by the action will be measured by the following *indicators*:
- Participation rate of vulnerable groups in active labour market measures (sex disaggregated);
- Average number of social welfare services implemented in the local self-governments per year;
- Number of innovative social service users (sex disaggregated);
- Implementation of Performance Assessment Framework;
- Number of developed individual organisational development strategies for all key organisations involved in the management/implementation of future ESF funds;

(2) Assumptions and conditions

In order to ensure an effective and timely implementation of the action, the following conditions should be met:

- Government of Montenegro continuous support to European Integration process and implementation of the EU accession negotiations advancing;
- Continuous commitment and cooperation between national and local institutions in planning and implementation of the activities and their commitments towards improving quality and range of local social services;
- Adequate capacities of local stakeholders (public bodies, civil society organisations, non-governmental organisations, private companies, individuals and other service providers as envisaged by legal framework) to participate and implement the measures;
- Adequate capacities in relevant institutions to support and coordinate policy making and implementation process in ESP sector and low fluctuation in staff working in the beneficiary institutions;
- Continuous support for social inclusion policy ;
- Adequate concrete measures are put in place to ensure social economy can grow. These include first mitigating then removing legal and institutional obstacles as well

as implementing financial and knowledge support measures before the end of the implementation period.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities:

(3)(a) Indirect management

This action will be implemented under indirect management by Montenegro, which shall be responsible for carrying out all the tasks relating to the implementation of the action.

The Operating Structure responsible for the execution of the actions is:

Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)

In the context of the institutional framework for ESP sector, the following institutions have been responsible for programming, and will have an important role during the implementation, monitoring and evaluation of the interventions foreseen under this Action:

The Ministry of Labour and Social Welfare, Ministry of Science, as well as NIPAC Office within the European Integration Office together with implementing agencies.

The Ministry of Labour and Social Welfare (MLSW) is Sector Lead Institution (SLI).

In particular, the beneficiary country shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

(3)(b) Direct management (project approach)

Procurement:

The procurement foreseen in this Action will contribute to achieving all the objectives mentioned in Section 1, and specifically:

- ***Activity 2.1 Improved evidence-based policymaking, implementation practices and coordination in the ESP sector and strengthened capacities to participate in ESF*** under Result 2 - Strengthened capacities to implement sector wide approach and assume obligations deriving from the EU accession process in EESP sector, in line with Chapter 2 (Freedom of movement for workers), Chapter 19 (Social policy and employment), Chapter 22 (Regional policy and coordination of structural instruments)

The global budgetary envelope reserved for procurement: EUR 850 000.

(4) Scope of geographical eligibility for procurement and grants

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

Without prejudice to the above, the Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

Action 6	Support to COVID-19 crisis response in Montenegro	EUR 6 865 975
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(1) Description of the Action, objectives, expected results and key performance indicators

- The Action consists of a new budget support contract (Resilience Contract).³
- The **objective** of the action is to mitigate the impact of the COVID-19 crisis in Montenegro
- The **specific objectives** are three-folds: to reduce the negative effects of the crisis on the economy; to preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services; to increase access of vulnerable business to economic relief.

- Expected results and key performance indicators

The **expected results** of this action are:

- R1: *The negative effects of the crisis on the economy are reduced*
- R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
- R3: *Access of vulnerable business to economic relief is increased*

The achievement of the results envisaged by the action will be measured by the following **indicators**:

For R1:

- Number of subsidised wages
- Number of beneficiaries of the Government response measures

For R2:

- Number of Social Card beneficiaries *
- Number of cases entered in the Case Management System

³ NB: This action concerns, in addition to the AAP 2016, also AAPs 2019 and 2020. Funds are drawn from three different decisions: AAP 2016 (Decision C/2016/8226): EUR 5 334 025; AAP 2019 (Decision C/2019/8343): EUR 28 300 000; AAP 2020 (Decision C/2020/447): EUR 6 865 975. Total amount for the action is EUR 40 500 000(EU contribution).

- Amount of social allowances as % of the state budget
- Number of unemployed people*

For R3:

- Number of beneficiaries of grant schemes*
- Number of enterprises who can accede to credit instruments*
- Number of enterprises who can accede to non-financial services*

(* Indicator will be disaggregated by gender and ethnicity, whenever possible)

(2) Assumptions and conditions

Assumptions for this action are:

- The country remains politically stable
- The promised IMF and World Bank interventions and the EU Macro-financial support will materialise before the end of 2020.
- The national authorities have the capacities to conceive and quickly implement a grant scheme in favour of micro and small enterprises.
- Notwithstanding possible situations of *force majeure*, the circumstances should allow technical assistance to continue and help finalise the actions launched in 2019.
- Montenegrin authorities will use the funds provided through this budget support programme to increase the country resilience to external shocks and to preserve the access of population to basic services

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities:

(3)(a) Direct management (project approach)

Procurement:

- **Support the Ministry of Economy in the swift implementation of a grant scheme for micro and small enterprises**

Description: The project aims to increase the capacities of the Ministry of Economy in the provision and timely implementation of a grant scheme for small and medium enterprises.

Value: EUR 200 000

The global budgetary envelope reserved for procurement: EUR 200 000.

(3)(c) Direct management through Budget Support

a) Eligibility for budget support

- Satisfactory progress in the implementation of the government response measures to COVID-19 and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards reducing imbalances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

Summary of the eligibility criteria:

- Public policy

Following the outbreak of COVID-19 pandemic, the Government reacted to the health emergency with a “Country Preparedness and Response plan”, which was presented on 27 March, with an overall cost of EUR 59 million for the first three months of implementation. The plan, prepared in collaboration with the World Health Organisation, covered immediate health priorities, with some focus on the social implications of the crisis. The plan outlined the necessary sanitary and health measures, including actions to enhance the core capacities under International Health Regulations and to reinforce the early detection and monitoring capacities of the public health services and of other partners.

The national authorities adopted two fiscal stimulus packages, with the aim to mitigate the crisis’ substantial disruptive effects on growth and employment. On 19 March, the government adopted a first package of measures with an estimated cost of ca. 2.1% of GDP. The measures mainly focused on improving supplies and health sector capacity by cutting daily budget spending, the deferral of tax and social security payment obligations for 90 days. It included delayed payments for the lease of state-owned property, a moratorium on loan repayments of up to 90 days and giving companies access to subsidised credit through the Investment Development Fund to improve their liquidity.

A second package of measures was adopted on 24 April and its estimated budget cost is around EUR 75 million (or ca. 1.5% of GDP). It provided for two-months wage subsidies of up to 100 % of the minimum wage for companies in lockdown sectors, 70% of wage subsidies for employees on paid leave, quarantine or isolation, 50% of the minimum wage for companies in the affected (vulnerable) sectors, six-month wage subsidies of 70% of the minimum wage for newly reported employment, and proportional exemption of taxes and contributions to those wage subsidies. It also included support to agriculture and fisheries sector, and one-off assistance for pensioners, registered unemployed and vulnerable groups. Along with the second package of measures, the government cut wages of the highest public officials for two months with the aim to free resources for crisis response measures.

A third complementary package of measures has been announced for mid-June 2020, following adoption of 2020 budget rebalance. The new package of measures is planned to focus on investments and financial support for the real economy, in particular the tourism sector. Given informal economy's large scale, estimated between 25% and 30% of GDP, new support measures should include employees and companies from this segment of the economy in order to ensure their formalisation and social inclusiveness.

- Macroeconomic policy

Already before the COVID-19 crisis outbreak, economic activity has started to slow as investment growth declined markedly. After strong real GDP growth in 2017 and 2018, the rate of economic expansion decelerated to 3.6% y-o-y in 2019. The deceleration reflects a slowdown in investment as large infrastructure projects were completed. Meanwhile, private

consumption has become the main driver of growth, boosted by a strong tourism performance, growing employment and increasing household loans. Strong domestic demand and a high import-dependence continued to fuel a very large current account deficit. In 2019, the current account deficit totalled 15.2% of GDP, a substantial increase compared to a 10.1% of GDP gap recorded in 2015. Despite the faster increase of merchandise exports, the trade deficit expanded by 2 percentage points over the last five years, to 42.1% of GDP, reflecting a highly import-dependent economy and the impact of the investment cycle. Inflation decelerated in 2019 and early 2020. Economic growth, reform of social benefit schemes for mothers and support for young unemployed helped improve labour market conditions. However, the halt of economic activity introduced in March to contain the COVID-19 had a negative impact on the labour market. The unemployment rate rose to 17.4% in April, up from 15.3% in March and 16.4% a year earlier.

Significant underspending in public investment and recovery of tax arrears reduced the budget deficit. The budget balance improved considerably in the last two years owing to fiscal measures introduced since 2017. The budget deficit narrowed to 2% of GDP in 2019, down from 3.9% a year earlier owing to improved tax revenue collection. The 2020 budget, adopted on 27 December 2019, introduced a series of ad-hoc expenditure increases totalling 2% of GDP, including a 9% increase in public health and education salaries, extra funds for the purchase of medicines, writing-off debts owed by the national air carrier and the carryover of underspent funds for the highway construction. Overall, the 2020 budget targeted a deficit of 1% of GDP, well below the fiscal rule ceiling of 3%, but a noticeable deviation from the 0.2% surplus planned in the 2019 Economic Reform Programme (ERP). However, the COVID-19 derailed budget plans, confronting public finances with a triple shock: the collapse of tax revenue due to the interruption of economic activity, a sudden surge of healthcare expenditure, and the need to finance support measures to preserve the economy. The public debt ratio continued to increase from an already high level, partly due to liability management operations, which reduced refinancing risks. Following the adoption of the new medium-term debt management strategy in April 2018, the government has more actively managed its public debt portfolio.

Overall, the COVID-19 pandemic is expected to push Montenegro into a deeper recession than the global financial crisis in 2009. Travel and tourism, as critical driver of country's growth accounting for some 25% of Montenegro's GDP in total, will be particularly affected. Public debt growth would be partially limited in 2020 owing to the use of government reserves that were built-up to pay maturing debt in 2020 and 2021. According to 2020 budget rebalance, the estimated shortfall in the government coffers will amount to EUR 877.5 million, including funds needed for the repayment of maturing obligations in 2021. Out of that amount, around EUR 500 million will be provided through arrangements with financial institutions, and EUR 250 million World Bank-guaranteed syndicated loan has been already secured.

The planned EU support in the amount of EUR 100 million (EUR 40 million budget support and EUR 60 million Macro-Financial Assistance) will be therefore crucial to support the balance of payments and further close the financing gap.

The response to the crisis is assessed as relevant and credible to restore key macroeconomic balances. Close monitoring of the situation will be performed in coordination with the IMF and other partners like the World Bank and UNDP.

- Public financial management

Montenegro adopted a multiannual Public Finance Management Reform Programme (2016-2020) in December 2015 which addresses several key weaknesses of the budget system. The

objectives of the strategy are twofold: a) strengthen the capacities to identify, prevent and manage fiscal risks, excessive fiscal deficits and harmful macroeconomic imbalances b) Ensure that public spending is structured in a way that maximises the development impact on the national economy and ensures better quality of life for the citizens.

Montenegro underwent a new PEFA assessment in 2019, covering the PFM system performance in fiscal years 2016, 2017 and 2018, conducted by the World Bank, using the most recent PEFA methodology. Compared to PEFA 2009 and 2013, PEFA 2019 results show an overall tendency of improvement. Main performance progress is observed in (i) budget reliability (ii) extent of unreported government operations (iii) taxpayer registration and tax assessment (iv) procedures for contracting and reporting debt and issuing guarantees (v) improved procurement management (vi) effective internal controls (vii) strengthened internal audit, external audit and parliamentary scrutiny. Monitoring of fiscal risks arising from local governments by the central government has deteriorated.

Main weaknesses are related with medium-term budgetary planning, poor link with strategic planning and lack of monitoring and reporting of potential fiscal risks. Budget execution suffers from weak commitment and cash management, limited management of public assets and capital investments. The PFM Reform Programme 2016-2020 has shown a moderate rate of implementation during the first years, however it continues to address some of the key weaknesses of the PFM system and remains therefore relevant, as confirmed by the results of the ongoing PEFA exercise. Main achievements since 2019 are reported in the following areas: increased capacity for public internal financial control, external audit and debt management; the macroeconomic model was improved; tax administration and revenue collection operations became more efficient. Montenegrin authorities continue working on some crucial reform activities, strongly supported by existing external assistance, and there is reasonable evidence that this budget support and the parallel macro-financial support operation may further encourage them to continue on the reform path.

- Budget transparency and oversight of the budget

The entry point for Budget Transparency continues to be met, as the Government of Montenegro published 5 basic budgetary documents available to the public in due time:

1. The annual budget proposal for 2020 was submitted by the Government to the Parliament on 15.11.2019 and complete documentation was published on the website of the Parliament on that day.
2. The Budget Law for 2020 was adopted on 27.12.2019 and published on 30.12.2019 in the Official Gazette of Montenegro no 7/4/2019.
3. In-year budget execution reports are made available to the public with nearly two months delay (last one published in late April 2020)
4. The annual budget execution report for 2019 was published on the Ministry of Finance website in March 2020.
5. The audit report for the final accounts for the 2018 budget was published on State Audit Institution website on 14.10.2019.

In addition to the above, Government of Montenegro also issues other relevant documents, such as: pre-budget statements, other external audit reports (SAI reports) and summary of budget proposals.

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

Montenegro scored 44.43 out of possible 100 in the Open Budget Index being classified as a country with limited budget openness and overall belonging to the group of countries with insufficient budget transparency. Yet, the scores are over the average recorded in the region. In November 2018 Montenegro regained its active status in the Open Government Partnership (OGP) Initiative.

The COVID-19 crisis and the upcoming election in September 2020 may cause delays in the budget approval process. Exceptional procedures or derogations used by the authorities during the COVID-19 crisis should be closely monitored and the necessary safeguards/oversight measures applied in accordance with the regulatory framework. Expenditures have to be properly recorded, as they will most likely lead to payment arrears. The same applies to revenue, as a result of tax relief granted to businesses. Transparency on exceptional measures should be ensured and oversight/anticorruption/fraud bodies should be involved in monitoring and reporting on their implementation.

b) Objectives

The *overall objective* of the action is to mitigate the impact of the COVID-19 crisis in Montenegro.

The *specific objectives* are three-folds:

- To mitigate the negative effects of the crises on the economy;
- To preserve vulnerable social groups from the disruptive effects of the crises and guarantee their continued access to basic social services;
- To support the recovery and development of SMEs of vulnerable business, in particular owned by women.

c) Expected results

The *expected results* of this action are:

- R1: *The negative effects of the crisis on the economy are reduced*
- R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
- R3: *Access of vulnerable business to economic relief is increased*

d) Main budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

e) Complementary actions

Under the total amount of mobilised funds for this budget support action, a total of EUR 500 000 are foreseen to be spent for complementary actions as well as for horizontal

activities, e.g communication/visibility action and evaluations. Within **this Annual Action Programme**, a total of EUR 200 000 should be covered as explained in chapter (3)(a) above.

The total amount allocated for the budget support, including complementary and horizontal actions, is EUR 40.5 million. Within **this Annual Action Programme**, a total of **EUR 6,665,975** is foreseen for covering a part of the variable tranche of the budget support action.

(4) Scope of geographical eligibility for procurement and grants

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

- a) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

3 BUDGET

3.1 INDICATIVE BUDGET TABLE - ANNUAL ACTION PROGRAMME FOR MONTENEGRO

		Indirect management		Direct management	Total EU contribution (EUR)	IPA-II beneficiary or other third party contribution (EUR)	Total (EUR)
		with IPA-II beneficiary	with entrusted entity				
		EU contribution (EUR)	EU contribution (EUR)	EU contribution (EUR)			
Objective 1	01 - Democracy and Governance	1,000,000	0	984,025	1,984,025	1,000,000	2,984,025
	Action 1 - Support to Participation in Union Programmes	1,000,000	0	0	1,000,000	1,000,000	2,000,000
	Action 2 - EU Integration Facility	0	0	984,025	984,025	0	984,025
	02 Rule of Law	0	0	2,500,000	2,500,000	0	2,500,000
	Action 3 - EU for Rule of Law III	0	0	2,500,000	2,500,000	0	2,500,000
	TOTAL - Objective 1	1,000,000	0	3,484,025	4,484,025	1,000,000	5,484,025
Objective 2	05 - Competitiveness and Innovation	2,002,500	0	1,997,500	4,000,000	353,382	4,353,382
	Action 4 - EU for Strengthening the competitiveness and innovation capacity of the private sector of Montenegro	2,002,500*	0	1,997,500	4,000,000	353,382	4,353,382
	07 - Education, Employment and Social Policies	5,850,000	0	7,715,975	13,565,975	1,032,352.94	14,598,327.94
	Action 5 - EU for Smart and Inclusive Growth -	5,850,000*	0	850,000	6,700,000	1,032,352.94**	7,732,352.94

	employment and social inclusion 2020						
	Action 6 -Support to COVID-19 crisis response in Montenegro	0	0	6,865,975	6,865,975	0	6,865,975
	TOTAL - Objective 2	7,852,500	0	9,713,475	17,565,975	1,385,734.94	18,951,709.94
	TOTAL	8,852,500	0	13,197,500	22,050,000	2,385,734.94	24,435,734.94

* Includes EUR 50 000 for evaluation

** Includes EUR 8 823.32 for evaluation

4 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.

In the specific context of indirect management by IPA II beneficiaries, National IPA Coordinators (NIPACs) 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) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by the European Commission (DG NEAR) and the IPA II Beneficiaries, 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.

Gender-sensitive evaluation and monitoring, assessment of gender equality results and implementation of rights-based approach in terms of implementation of the project and project outcomes will be promoted.

5 EVALUATION

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components through a joint mission via an implementing partner.

It will be carried out for problem solving, learning purposes, in particular with respect to future programming and the possibility to finance new actions under the sectors evaluated.

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