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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**  
**ANNEX 2**

of the Commission Implementing Decision on the annual action plan in favour of Montenegro for 2022

**Action Document – EU for Public Administration Reform**

**ANNUAL ACTION PLAN**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>Title</b>	EU for Public Administration Reform Annual action plan in favour of Montenegro for 2022
<b>OPSYS</b>	ACT-60844/JAD.1003560
<b>Basic Act</b>	Financed under the Instrument for Pre-accession Assistance (IPA III)
<b>Team Europe Initiative</b>	No
<b>Zone benefiting from the action</b>	The action shall be carried out in Montenegro
<b>Programming document</b>	IPA III Programming Framework
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>Window and thematic priority</b>	Window 2: Good governance, EU acquis alignment, good neighbourly relations and strategic communication Thematic Priority 1: Good governance
<b>Sustainable Development Goals (SDGs)</b>	Main SDG (1 only): 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels Other significant SDGs (up to 9) and where appropriate, targets: 5. Achieve gender equality and empower all women and girls 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
<b>DAC code(s) <sup>1</sup></b>	150 – Government and Civil Society 15110 – Public sector policy and administrative management (50%)

<sup>1</sup> DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab ‘purpose codes’ in the following document: <http://www.oecd.org/dac/financing-sustainable-development/development-financestandards/dacandcrscodelists.htm>

	15111 - Public finance management (PFM) (50%)			
<b>Main Delivery Channel @</b>	Recipient Government - 12001			
<b>Markers <sup>2</sup> (from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	X	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	X	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition <sup>3</sup>	X	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>Internal markers<sup>4</sup></b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Connectivity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Digitalisation	<input type="checkbox"/>	<input type="checkbox"/>	X
	Migration <sup>5</sup>	X	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>Amounts concerned</b>	Budget line: 15.020101.01			

<sup>2</sup> For guidance, see <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/> Go to "Data collection and resources for reporters", select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive. If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).

<sup>3</sup> Please check the [Handbook on the OECD-DAC Nutrition Policy Marker](#)

<sup>4</sup> These markers have a different scope/rationale than the DAC codes. They are drawn from the level of budget allocation and emphasis given to the action in terms main objective(s) selected. The definition of objectives, results, activities in description of the action should be in line with this section.

<sup>5</sup> For detailed information on programming migration and forced displacement, please have a look at the [thematic guidance note](#) on migration and forced displacement; for information on the migration marker please look at annex 2 of the thematic guidance note.

	Total estimated cost: EUR 14 000 000 Total amount of EU budget contribution EUR 14 000 000, of which: EUR 10 500 000 for budget support EUR 3 500 000 for complementary support
<b>MANAGEMENT AND IMPLEMENTATION</b>	
<b>Implementation modalities (type of financing and management mode)</b>	Budget Support <b>Direct Management</b> through: - Budget Support (Sector Reform Performance Contract) - Procurement (complementary assistance) <b>Indirect Management</b> with the Centre of Excellence in Finance (CEF) (complementary assistance)
<b>Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans</b>	Governance, Rule of Law, PAR Digital Transition Human Capital Development
<b>Final Date for conclusion of Financing Agreement</b>	At the latest by 31 December 2023
<b>Final date for concluding contribution / delegation agreements, procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
<b>Indicative operational implementation period</b>	72 months following the conclusion of the Financing Agreement
<b>Final date for implementing the Financing Agreement</b>	12 years following the conclusion of the Financing Agreement

## 1.2. Summary of the Action

Public administration reform (PAR) is considered as one of the three fundamentals of the **Enlargement Strategy 2015**<sup>6</sup>, alongside rule of law and economic reforms. As such, Public Administration Reform continues to be a priority of the Government of Montenegro (GoM). An accountable, transparent and well-functioning public administration is not only a democratic right of citizens but also a precondition for quality services and a key driver of economic growth and competitiveness. It is integrally linked to rule of law, especially in terms of prevention of corruption, as it enhances the transparency, predictability and accountability of public institutions. It is also key in the promotion of gender equality and women's empowerment. Furthermore, Public Finance Management (PFM) represents an integral part of PAR, focusing

<sup>6</sup> 52014DC0700 -Enlargement Strategy and Main Challenges 2014-15.

on fiscal sustainability and sound management of public resources for the achievement of government objectives.

The **general objective** of the Action “*Support to the modernization and professionalization of public administration in Montenegro*” is to improve citizens’ quality of life and economic growth by creating a well-functioning, digital and accessible public administration.

This objective will be achieved through the implementation of the Public Administration Reform Strategy 2022-2026 (PAR Strategy) and the Public Finance Management Reform Programme 2022-2026 (PFM Programme).

The **specific objectives** are directly linked to the priorities of the PAR Strategy and the PFM Programme, focusing on those topics that are common to both strategic documents and therefore imply a coordinated approach (as part of the country’s priorities) for their implementation: credible and sustainable public policies, efficient service delivery based on the needs of citizens and business, increased accountability and transparency of the work of public institutions, including transparent public financing, better mechanisms for human resource management (HRM) in public administration and more efficient public investment management system.

The specific objectives of this Action are closely interlinked, thus promoting a **sectoral approach**, and are focused on overcoming identified challenges in the area of PAR and PFM through intense policy dialogue in the context of the EU accession process.

The purpose of this Action is aligned with the priorities of **IPA III Programming Framework, Window 2**, where the overall objective of the EU’s assistance is to promote good governance, increase the compliance with Union’s values and their alignment with the Union’s rules, standards and practices in the relevant areas. Window 2, in particular, aims to address public administration reform, including digital transformation and public financial management at all levels of government, as well as legislative and institutional alignment with the EU *acquis*.

Resourceful management of public affairs may bring many benefits: lower administrative costs, better formulation and implementation of public policies together with more effective service delivery for citizens, as well as an improved environment for the private sector. These crucial aspects are directly interlinked with the **DAC marker “Participation development/good governance”**, which refers to participatory development, democratisation and good governance and which is focused on improving transparency of public management – this links explicitly to this action document.

By supporting the implementation of the PAR and PFM strategies, this Action will also indirectly contribute to *Gender equality and women’s and girl’s empowerment*. This will be achieved through supporting gender equality and gender mainstreaming in the public administration and in the management of public financial resources.

The Action will be implemented through a Sector Reform Performance Contract (SRPC) with complementary activities.

## 2. RATIONALE

### 2.1. Context

Resilient democratic institutions that operate by means of an efficient, well-structured and transparent public administration, implementing credible policies and competently managing human resources directly underpin the process of democratic and economic reforms. The capacity of the state administration, both at central and local level, to provide uniform application of legal and strategic framework and to ensure good governance standards in both PAR and PFM areas directly affects the provision of public services and, ultimately, the quality of life of citizen and competitiveness of businesses.

Next to rule of law and economic governance, PAR belongs to the priority list, according to the Commission’s “fundamentals first” approach to the enlargement policy. Similarly, IPA III Programming Framework reaffirms PAR as one of the three vital pillars of the enlargement process and defines it as a cornerstone for the effective implementation of EU policies and EU *acquis*.

Aligned with specific priorities of **IPA III Programming Framework**, Thematic Priority 1 for Window 2, the PAR strategy and the PFM programme are focusing on the following objectives: improving the organisation of administration and its functional set up; digitalization of citizens-oriented public services and public finance system; increased transparency of public institutions and public finance (open data and transparency of the state budget); better mechanisms for human resource management and for improving policy development and coordination; enhanced managerial accountability and delegation of authority; strategic policy planning linked to Medium Term Budgetary Framework and further development of programme-based budgeting.

The **Western Balkans Strategy**<sup>7</sup> lays down the priorities and specific challenges for the Western Balkans on their path to the EU accession. This Action focuses on good governance and well-functioning public administration that are recognised as of fundamental importance for successful political and economic reforms and for implementing EU rules and standards in the WB Strategy.

The **Commission's Economic and Investment Plan for the Western Balkans**<sup>8</sup> aims to support a long-term economic recovery backed by a green and digital transition. This will ultimately have a positive impact on economic growth, EU accession reforms and the Western Balkans' approximation to the EU Single Market. This Action is in line with the national strategic framework (in particular the PAR Strategy and the draft PFM Reform Programme but also the Economic Reform Programme, the Strategy on Trade Facilitation and the Public Procurement Strategy), including the Economic and Investment Plan, highlighting the importance of strengthening the Western Balkans' economic convergence to the EU by fostering the digitalisation of governments, public services and businesses.

The Economic and Investment Plan for the Western Balkans is closely linked to the **Digital Agenda for Europe**<sup>9</sup> and Digital Single Market Strategy for Europe<sup>10</sup>, the standards of which were integrated in Montenegro's Strategy for the Information Society Development 2020. Similarly, the new PAR Strategic document 2022-2026 identifies digital transformation of the government as one of the Government's top priorities in the coming period.

The **Annual Action Programme for Montenegro for the year 2017 Part 2** contributed to the achievement of the objectives identified in the Indicative Strategy Paper for Montenegro for the period 2014-2020, strengthening and complementing the existing EU support to the Democracy and Governance sector by focusing on the area of Public Administration Reform. The Programme included a PAR Sector Budget Support (SBS) with the general objective to contribute to sustainable growth and to improve competitiveness through the creation of a more transparent, efficient and service-oriented public administration.

The **PAR Strategy 2022-2026** was conceived on the basis of the results achieved by the previous PAR strategy. It was developed through an open and inclusive process and was adopted in December 2021. The vision of the PAR Strategy 2022-2026 is a professional public administration that provides quality services to end users and has adequate capacity to join the European Union. Joint building of responsible, efficient, transparent public administration, focused on the needs of citizens and the economy will be reached through 5 strategic objectives:

- ~ Organization and work of public administration in function of citizens' needs
- ~ Citizens and the economy use quality services of public administration
- ~ Professional public administration
- ~ Transparent and open public administration
- ~ Policy planning with citizens and for citizens

The PAR Strategy recognized the importance of the PFM reform for further development of all sectors of the economy and better quality of life for all citizens.

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<sup>7</sup> COM(2018) 65 - A credible enlargement perspective for and enhanced EU engagement with the Western Balkans.

<sup>8</sup> COM(2020)641 - An Economic and Investment Plan for the Western Balkans.

<sup>9</sup> COM(2010)245 final - A Digital Agenda for Europe

<sup>10</sup> COM(2015) 192 final - A Digital Single Market Strategy for Europe

The **PFM Reform Programme 2022 – 2026**, in line with the Government’s commitment to the EU integration process, follows the obligations arising from the negotiation process. It will build on the results achieved by the previous strategy, aiming at: strengthened fiscal framework and budget planning, including strengthening capacities for improved macroeconomic forecasting and identification and monitoring of fiscal risks; improved medium-term budgetary planning and programme-based budgeting; improved public investment management and public debt management; more efficient budget execution, including revenue collection, public procurement, state aid and payroll system; transition to accrual accounting; better management of non-financial state assets and cadastre; enhanced monitoring, financial reporting and financial control, including Public Internal Financial Control (PIFC); improved external audit; upgraded Anti-Fraud Coordination Service (AFCOS); more efficient Audit Authority and operationalization of the budget inspection function. (Lessons learned are outlined below in section 3.4.)

#### *Coordination with EU and other donors/partners*

In order to further contribute to the achievement of the objectives identified in the EU strategic and enlargement documents, a **Special Group on PAR** was formed in 2014, as a forum for formal policy dialogue between the Government of Montenegro (GoM) and the European Commission, monitoring the developments of the country in the sector. Findings and joint conclusions from the meetings are used as inputs for strategic planning in the area of PAR and PFM and for the development of the actions proposed in the framework of IPA III programming exercise, within Window 2. Separately, a **PFM policy dialogue** was organized in the past two years, with the aim to follow up the government’s progress in the PFM area and to support the design of future PFM reform projects, in line with Commission recommendations. The conclusions of the PFM dialogue are included in the PAR Special Group conclusions.

In the past years, **SIGMA/OECD** has been working with the General Secretariat of the Government on implementing medium-term work programmes of ministries and on establishing a functional strategic planning system. SIGMA has also supported the Agency for Personal Data Protection and Free Access to Information with the aim to improve the legislative framework on access to information. Additional areas of cooperation include co-ordinating and monitoring the implementation of the PAR Strategy, enhancing the quality of public consultations and improving the capacities for monitoring the quality of service delivery (Ministry of Public Administration), as well as improving staff planning and professionalism in the management of human resources in civil service (Human Resources Management Authority - HRMA). Additionally, SIGMA assisted the Ministry of Finance on the enhancement of the templates and guidance for regulatory impact assessment, on strengthening managerial accountability and building capacities in the area of internal audit. Further support in these areas is likely to continue during this Budget Support programme.

Within IPA III and the annual action plan for Montenegro for 2021 there is the specially created **Reform Facility**. The overall objective of this action is for Montenegro to have advanced and implemented a number of key reforms in the economic governance context. It is moreover intended that sustained reform in economic governance will improve the country’s attractiveness for investment and for improved public sector financial management. This facility will aim to support this move and focus on reform of State Owned Enterprises, on improvement management of the national capital investment portfolio – with an emphasis on Economic Investment Plan participation and finally focusing on bringing about an increased share of innovative SMEs in the economy. The issues of public administration reform and also public financial management reform shall be keenly relevant for this new Facility which should start working by the end of 2022.

**TAIEX** continuously supports Montenegrin public administration with regard to the approximation, application and enforcement of EU legislation, as well as facilitating the sharing of EU best practices. Past initiatives in PAR and PFM areas focused on capacity building activities in the field of public finance reform, fight against corruption and external audits.

In promoting sustainable human development, **UNDP** Montenegro supports the country’s European Union accession priorities, building on its global development network, access to innovative solutions, knowledge, experience and resources. Currently UNDP supports initiatives focused mainly on digitalization of public services and on digital management.

**UNOPS** is about to start the implementation of the project “Strengthening capacities for the acceleration of EU accession of Montenegro II”. The overall project objective is to strengthen capacities of OEI<sup>11</sup> to coordinate and lead the process of the country’s accession to the EU, as well as to ensure better coherence between number of parallel processes relevant for EU integration, including governance and strategic planning.

In response to a request from the Ministry of Finance and Social Welfare, staff from the **IMF’s** Fiscal Affairs Department undertook a remote Public Investment Management Assessment (PIMA) in July 2021. A comprehensive PIMA Report was adopted, together with recommendations for strengthening performance in this area and an action plan, which represents a good basis for further actions in the domain of public investment management.

The **World Bank** is currently assessing needs for possible, future interventions in the areas of PAR and PFM. According to preliminary data, these may concern optimization of public administration (functional reviews) and digitalization.

The **Regional School of Public Administration (ReSPA)** is a joint initiative of the Western Balkan countries and the European Commission. It offers a unique framework for networking and peer-to-peer learning and for mutual exchange of experiences and practices in the area of PAR and PFM. With its work, ReSPA complements and contribute to the successful implementation of PAR and PFM strategies through activities organized at regional and country level. Currently ReSPA is implementing project BACID III focused on enhancing Quality Management Agenda in the Western Balkans public administration institutions, including implementation of Common Assessment Framework (CAF) and CAF External Feedback Evaluation Procedure (PEF ) procedure, organization of the CAF ToT training for CAF facilitators, together with Certified PEF training, and other.

## 2.2. Problem Analysis

### *Short problem analysis*

Public administration reform is vital to strengthening governance at all levels. This includes improving policy integrity and accountability of administration, increasing professionalism and a more transparent management of public affairs, in particular public finances, as well as better services for citizens and business. Montenegro has shown some progress in these areas, although challenges persist.

The EU Montenegro report for 2021 concluded that the country is moderately prepared for the reform of its public administration, with limited overall progress in the reporting period. In the previous period, public administration in Montenegro had some progress in areas such as medium-term policy planning, electronic government and public finance management, as well as budget transparency. In particular, substantial progress was made in the areas of legality and expediency of work, interoperability of registers and availability of data from registers to users, as well as towards a more comprehensive and rational system of planning, coordination and monitoring implementation of Government policies. Good progress was made on the adoption of programme-based and gender sensitive budgeting, including the first elements of performance budgeting, together with the gradual introduction of a mid-term budgetary framework. In addition, the state budget electronic system was substantially improved through the establishment of a modern Budget Management Information System (BMIS) and a centralised system for the calculation of earnings, as well as new systems for e-procurement, electronic excises and e-fiscalisation.

Montenegro, as a candidate country, is at a critical point in its European integration process. Credible and relevant PAR and PFM Strategies, fully linked to the budgetary process are key elements for moving forward on Montenegro’s European path.

Following challenges have been identified as main blockers of further progress:

- ❖ **Low quality of service delivery**

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<sup>11</sup> Office for European Integration

The most challenging aspects of service delivery in Montenegro's public administration includes unstandardized processes and excessively bureaucratic and expensive procedures for acquiring public services. In addition, lengthy procedures and multiple visits to public institutions lead to dissatisfaction of citizens and businesses. There is no centralized registry/catalogue of all administrative services (both in-person and digital services) and service providers, which hampers further modernization and prioritization of services based on key life events.

The Ministry of Public Administration monitors the implementation of the Law on Administrative Procedures. Although the existing legal framework promotes high standards, the efficiency of resolving administrative cases by public authorities is showing a downward trend. Mechanisms for improving the work of under-performing institutions in terms of length of process, increased number of complaints and legality of adopted acts are not established. Furthermore, the Report on implementation of the PAR Strategy 2016-2020 shows insufficient exchange of data between the public authorities ex-officio.

On the e-government portal ([www.euprava.me](http://www.euprava.me)), majority of services are provided only at the level of information and only in limited cases the full cycle of service delivery may be completed electronically. Insufficient number of electronic services at a higher level of sophistication (level 4 or 5)<sup>12</sup> is the primary deficiency of the process of digitization in Montenegro. Furthermore, despite the fact that electronic data exchange (interoperability) has been established for 7 main registries, full integration through the e-Government Portal is still under implementation. There is a lack of electronic authentication and electronic payment systems, resulting in the inability for public service to be provided in the most cost- and time-efficient way. Based on focus group reports, and according to conducted surveys, there is a relatively low level of citizens' awareness on the use of e-services, as well as limited electronic communication between state bodies and service users.

There is no standardized measurement of satisfaction with public services and user-experience on the service delivery is still not part of improving the overall system of efficient delivery of public services. Additional challenges are the lack of quality management methods in public administration, which hampers improvement of service provision and optimization of work processes in state bodies, and the lack of central monitoring of service delivery performance.

#### ❖ **Public policies are not entirely credible and sustainable**

Montenegro has established a legal framework for policy planning and coordination, supported by relevant methodological guidelines for strategic planning. The Commission's Montenegro report for 2019 and 2020, indicated significant improvements in the system of strategic policy planning.

Despite the evident positive trend, there is no complete harmonization of public policies with the prescribed methodological criteria of Secretariat-General of the Government (SGG). Additional challenge contributing to lower policy coherence is that public policies are not sufficiently based on publicly available and credible data.. Reports on the implementation of public policies are publicly available and contain information on the implementation of individual activities but often they do not have outcome-level data on the achievement of objectives (this issue is linked to strategies developed prior to the adoption of SGG Methodology).

The lack of a medium-term budgetary framework (MTBF) with spending limits that are linked to the cost of public policies and the lack of a clear connection between sectoral policies and budgetary process could result in inconsistency of public policies. Although the sectoral strategies and related action plans include clearly defined objectives, their cost (when available) is not integrally assigned to dedicated budget programmes. Moreover, outcomes and results of strategies are not regularly monitored and measured.

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<sup>12</sup> **Level 1** - data on services exist in electronic form (so-called informative level)

**Level 2** - one-way communication is enabled, i.e. forms can be downloaded from the internet, filled in manually and submitted

**Level 3** - two-way communication is enabled, i.e., forms can be filled in and submitted online and the public service will provide the service to an authorised user

**Level 4** - a transaction can be realised, i.e., services can be provided entirely on the Internet, by submitting completed forms or data for processing electronically; decisions of state authorities are also delivered electronically

**Level 5** - personalised service has been developed, which means that the entire service can be performed online, automatically and proactively.

Budgetary documents provide no explanations on deviations when compared to the previous year's medium-term documentation and projections.

Programme budgeting was introduced through an Amendment to the Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units in October 2020. The 2021 Budget, adopted in June 2021, was prepared including the programme activity level (under the sub-programme level), thus covering all four levels of Programme Budget structure and providing performance information at the level of programs, sub-programs and activities. However, a number of challenges remains: reports on performance results for outputs and outcomes are yet to be produced, since the past periodic budget execution reports did not include performance indicators or objectives, also internal performance evaluations for service delivery units have not yet been conducted. Obstacles preventing performance monitoring include the lack of an interface between the IT system for budget planning (BMIS) and the system for budget execution and accounting (SAP) for budget execution, with limitations of the BMIS system in tracking performance information. There are significant capacity limitations in the spending units, which need to be overcome by training, before meaningful programme structures and performance information can be defined. Recent staff turnover has aggravated the situation. The issue is even more problematic when it comes to the local level and their future programme budget implementation.

#### ❖ **Delegation of authority not implemented at all levels**

Managerial accountability is the basis for better quality of public administration services and for meaningful assessment of management's performance. More in general, it allows improvements in the performance of state administrative bodies, with managers focusing on strategic objectives and internal control. This requires a clearly defined system of delegation of authority, appropriate reporting lines in place and clear objectives, as well as clear performance indicators.

In Montenegro, the legal and regulatory framework for the development of managerial accountability is provided by the Law on Governance and Internal Control in the public sector adopted in 2018 and by the Decree on the delegation of authority and tasks of financial management and internal controls in the public sector adopted in July 2020. Additionally, methodology for the application of managerial responsibility was published in October 2020. Delegation of responsibilities is currently allowed but not mandatory.

Nevertheless, implementation of the concept remains a challenge. According to the Final Report on the implementation of the PAR Strategy 2016 - 2020, only 8.3% (for 2020) of all ministries are formally delegating authorities and responsibilities to line managers. The managerial culture within public institutions continues to be highly centralised and there is resistance to delegating budget responsibilities and decision-making powers to middle management. At the same time, internal and external audit continues to be focused principally on compliance, while management audits and performance audits were only recently introduced in pilot institutions.

The reasons behind the lack of application of this concept is spending units' lack of awareness and understanding of the benefit of delegation of authority, which can provide managers with reasonable assurance concerning delegated powers. On one hand, result-oriented policy planning and reporting, as a tool for achieving the goals set by the government, have not yet been fully implemented. On the other, programme budgeting does not have, in general terms, clear activities, objectives and budget at the level of organizational units. According to the last PAR report, only 5% of state administration authorities have a budget programme structure that is coherent with their management structure, which makes difficult delegating financial responsibilities.

Being closely linked to the programme and results-oriented budgeting, managerial accountability provides an opportunity to expand the authority of heads of spending units and (subordinate) programme managers. At the same time, it increases their accountability for achieving objectives within the adopted budget. However, this is not addressed in the legal framework yet, nor at the level of standard/methodologies. The key challenge for the application of managerial accountability is to link strategic planning of activities, budgeting and reporting on measurable objectives and indicators, with delegation of financial authority to achieve the set objectives. In parallel, reporting and auditing should gradually shift from activities to performance.

#### ❖ **Limited transparency of government data and financial information of public bodies**

The right to access public information is well established in the legal framework but the system is not fully functional. Amendments to the Law on Free Access to information have been developed but have not been adopted yet.

Balkan Barometer analysis indicates a decline in the positive perception of citizens and the business sector in the field of availability of information provided by public administration<sup>13</sup>. Previously identified challenge in PAR Strategy 2016-2020 - high share of successful appeals against the decisions of public authorities, often due to administrative silence - remains. A significant number of requests for information and the subsequent appeals are due to inconsistent proactive publication of data by public administration bodies. Insufficient capacities of the Agency for Personal Data Protection and Free Access to Information to implement efficiently the Law on Free Access to Information is an additional challenge, leading to a large number of court proceedings. It is to be noted that the existing legislative framework does not allow appeals on free access to information to be merged, which leads to abuses when several requests for information on the same topic are submitted at once.

In practice, authorities do not show enough proactivity when it comes to publishing relevant data and documents, which leads to frequent cases of “administrative silence”. Published data are often selective and partial, with no uniformity in the structure and layout of government bodies and municipalities' websites.

With regards to budget transparency, certain progress was achieved through the adoption of a new programme budget classification for the 2021 State Budget and with the introduction of first elements of performance budgeting. However, there is no integrated financial management information system in place, meaning that budget execution, monitoring and reporting is not fully implemented yet, due to the lack of interoperability between the budget preparation IT system (BMIS) and the system for budget execution and accounting (SAP). The Commission’s Montenegro report for 2021 states that “*New templates for in-year and annual budget execution reports remain to be adopted and implemented.*” A citizens’ budget remains to be published.

Montenegro’s national legislative framework in the area of open data policy is not fully aligned with the Council of Europe Convention on Access to Official Documents (ratified by Montenegro), which entered into force in 2020, nor with the Directive (EU) 2019/1024 on open data and re-use of information.

The new Open Data Directive provides recommendations for the publication of high value data sets. Despite specific actions implemented to raise quality and quantity of data, this did not lead to the publication of a larger number of data sets, so not contributing to the full potential of open data. Improvements in this area are important to strengthen further the transparency and legitimacy of public authorities.

#### ❖ **HR management system in public bodies is still not mature**

Competent and motivated employees are the basis of professional public administration.

An efficient and comprehensive HR planning system is not fully developed yet. In 2019, 92% of public bodies at central level had developed Personnel plans, while at local level only 64% municipalities did. Personnel plans do not provide full information on new employment posts based on need assessment of public bodies, including their long-term impact on the budget. There is no horizontal mechanism for evaluation of the overall personnel plan feasibility (need of new human resources, standardization of their qualification, and linkage to the act of systematization, elaboration on fiscal impact in mid-term and long-term aspects, etc.). Personnel plans are not prepared in parallel with the budgetary process. An IT system for management of HRM policies is developed. Still, personnel plans are not developed exclusively through the new module of HR planning.

There is a limited effect of Personnel plans on actual employment. According to the latest data, the implementation rate of personnel plans at central level for 2021 was 68%. According to the trend, the percentage may be lower at local level.

The average number of applicants to the public institution’s advertisements is still low, or almost non-existent for some specialised posts (in the area of architecture, civil and hydraulic engineering, geodesy,

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<sup>13</sup> In 2019, 61% citizens believed that public administration responds to requests for free access to information in a timely manner, 63% in 2020, but only 46% in 2021. In 2019 65% believed that the information provided by the authorities is relevant and complete, 63% in 2020, and 50% in 2021. 61% of citizens believed that the information was provided at a reasonable cost in 2019, 65% in 2020, and 50% in 2021

medicine and similar). In 2020, the average number of candidates applying for internal vacancies was 1.1, public advertisements 4.8 and public competitions 2.14. The low number of interested candidates to work in public bodies is in direct link with salary coefficients that are not attractive for graduates in specialized fields, since these are more profitable outside the public sector.

Employment procedures are long, bureaucratic and ineffective. Electronic application of candidates for advertisements and competitions does not exist. However, it would allow candidates easier access to the application and submission of the necessary documentation. Article 46 of the Law on Civil Servants and State Employees proposes testing of knowledge, skills and competencies for all categories of civil servants. In practice, competencies (as part of the overall testing of candidates) are currently applicable only for senior management and heads of bodies, but not for other categories of civil servants, since the competency framework is developed only for this level of positions in the public administration.

According to public opinion polls<sup>14</sup>, Montenegrin citizens do not have favourable perceptions about the integrity of employment in public administration. The largest share of Montenegrin citizens consider political factors to be a key in employment procedures in public administration (43%), one in four citizens believe friendship is a key enabler, while 24% states that education, ability and experience of candidates are the most important elements.

#### ❖ **Limited quality of public investment management**

International indicators of the quality of public investment management in Montenegro show that, despite recent improvements, there is still room for further progress in the process of preparation, selection, implementation, monitoring, as well as reporting and accounting on public investments. A comprehensive reform approach is needed for the capital budgeting system, including regulatory framework and IT support. The public investment management framework is currently ruled by the *Law on Budget and Fiscal Responsibility* and by the *Decision on developing capital budget and determining and evaluating the criteria for selection of capital projects*. The latter includes a methodology for the selection of new capital projects, recently updated. The capital budget is formulated as part of the budget preparation procedure. However, the capital budgeting process runs in parallel to the current budget preparation process, based on a separate budget circular. Planning and presentation of multiannual commitments in the budget was introduced in the budget circular for the preparation of the 2021 budget, stipulating that capital projects have to be budgeted for the three-year MTBF period, including data on contracted value, implementation time frame and financial sources. Since 2021, capital projects are recorded in the IT system for budget planning (BMIS), representing the first step for the establishment of a public register of capital projects.

Important shortcomings, however, remain in the economic analysis of investment projects and in the selection of most relevant projects. Value-for-money evaluation is not conducted. In terms of costing, the Budget Law contains only the aggregate planned capital costs for these projects, with no reference to the capital or recurrent (maintenance) costs to be incurred in the forthcoming years. The absence of comprehensive costing limits the scope for investment project monitoring, especially concerning cost overruns and implementation delays, leading to under-budgeting for ongoing projects.

The Directorate for investment and development projects has recently prepared a draft new regulation on capital projects management, with the aims to improve public investment management system and eliminate existing shortcomings in the current planning, implementation and reporting of capital projects. At the same time, the new regulation aims to ensure realistic assumptions for the public investments register and economic analyses when selecting capital projects.

Better management of investment, including improved factoring into the budget process of the recurrent cost implications of investments, and more stringent economic analysis in order to generate the best return would provide a better perspective on the fiscal space available for strategic priorities/new capital projects (PEFA 2019). More in general, improved public investment management would increase allocation of resources and budget transparency, with an impact on service delivery.

#### *Stakeholder analysis*

<sup>14</sup> IPSOS Strategic Marketing, “Percepcija javne uprave 2019”, September 2019

The preparation of the new Public Administration Reform and Public Finance Management strategies was inclusive and participatory, involving all relevant stakeholders: state institutions, non-state actors, local self-governing units, Non-Governmental Organizations (NGOs)<sup>15</sup>, academia, business sector and international actors.

Main institutions involved in the reforming process are the Government of Montenegro, the Ministry of Public Administration, the Ministry of Finance, the Ministry of Economic Development and Tourism, the Administrative Court, the Administrative Inspection, the State Audit Institution, the Revenue and Customs Authority, local Municipalities, the Union of Municipalities of Montenegro and others. At the same time, these institutions are also the ones reporting on some of the main indicators. Analysis shows that there is a need for strengthening coordination within these institutions and for further capacity building, especially due to recent staff changes in the administration after the 2021 elections.

Overall, it is necessary to strengthen cooperation and dialogue with trade unions, civil society organizations and citizens, in order to focus better on the needs of citizens and business. Dialogue should cover both the specific policy elements supported by the budget support operation and the wider sector context, including political economy factors. According to plans, this will take place both in formal settings (PAR Council, Coordination teams etc.) and in informal dialogue instances (meetings, workshops, etc).

Cooperation with media outlets needs also to be improved, in order to inform better citizens on objectives, results and achievements of the PAR and PFM reforms programmes.

International organizations (EU, SIGMA/OECD, UN, WB, IMF, etc.) are very much involved in the reform efforts of the country. However, their coordination still represents a challenge. Discussions are ongoing on how to improve it, namely through the work of the PAR Council Secretariat.

#### *Institutional set-up*

After the parliamentary elections in August 2020 and the Government changes in April 2022, the state administration was reorganized.

Within this framework, the **Ministry of Public Administration** (Directorate for Strategic Planning in Public Administration, international cooperation and IPA projects) continues to be responsible for designing public policies and regulating public administration system in Montenegro. In particular, the Ministry is responsible for development, monitoring, and reporting on the implementation of the PAR reform, while primary responsibility on reaching strategic outcomes is within the lead public bodies identified in the Strategy. The Ministry is also accountable for the implementation of the digital transformation reform that should provide quality in-person and digital services to the citizens and businesses. The mission of the Ministry is a public administration based on the principles of inclusion, equality and accessibility, which means that citizens actively participate in creating public policies.

The PAR Council was re-established in June 2021, with an amended concept and composition compared to the previous one. The role of the PAR Council is to provide political support to the implementation of the PAR and PFM strategies. The Council is chaired by the Prime Minister of Montenegro. Besides the representatives of the public institutions in charge of PAR reform, the Council members are the representatives of non-governmental organizations, academic community and the Data Protection and Free Access to Information Agency.

**The Ministry of Finance** is responsible for planning, drafting and executing the state budget, including monitoring, reporting and accounting. The Ministry of Finance is in charge for coordination of the public finance management reform process in Montenegro. It coordinates the work of high level and operational level coordination working groups that include the representatives of the key PFM Reform Programme implementing partners: relevant Ministry of Finance Directorates, the State Audit Institution, the Revenue and Customs Administration, the Audit Authority, the Agency for Protection of Competition, among others. In addition, a representative of the parliamentary service supporting the Committee for

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<sup>15</sup> The participation of citizens and non-governmental organisations in the decision-making process and in drafting strategies is regulated by the Decree on the Election of NGO Representatives to the Working Bodies of the State Administration Bodies and Conducting Consultation in Preparation of Laws and Strategies (Official Gazette of Montenegro, no. 41/18)

Economy, Budget and Finance is a member of the high-level coordination group. A new coordination structure will be established following the adoption of the new PFM reform programme.

## 2.3. Additional Areas of Assessment

### 2.3.1. Public Policy

The **Public Administration Reform (PAR) Strategy 2022-2026** was adopted by the Government of Montenegro on 29 December 2021 on proposal of the Ministry of Public Administration, Digital Society and Media<sup>16</sup>, following public consultation and the approval of the General Secretariat of the Government and the PAR Council.

The strategic document takes into account the results and findings of the Final Report on the Implementation of the 2016-2020 Public Administration Reform Strategy (PAR) for 2020, the Mid-term evaluation of the Public Administration Reform Strategy 2016-2020 and the SIGMA 2021 Assessment Report.

The elaboration of the Strategy was supported by an extensive consultations process encompassing eight focus groups, six stakeholders' meetings, three workshops, as well as one online survey, which took place from April to November 2021. This participatory process involved civil society organizations, small businesses, academia, business community and trade unions, public administration employees, students, and citizens.

The **main goal** of the new PAR Strategy 2022-2026 is an accountable, efficient and transparent public administration, focused on the needs of citizens and businesses.

The activities are organized around **five main strategic objectives**:

1. Organization and work of public administration in function of the needs of citizens
2. Citizens and businesses use quality public services
3. Professional public administration
4. Transparent and open public administration
5. Policy planning with citizens and for citizens

The Strategy also recognises two **horizontal issues** essential for further modernization of public administration:

1. Public administration based on equality, inclusion, anti-discrimination, and equal opportunities for all
2. Use of data in the process of creating public policies and services (databases, registers, data management) and digitalization of public administration

Compared to the previous Strategy 2016-2020, **the new PAR Strategy clearly defines the perimeter of its action** and sets clear baselines in terms of number of civil servants and state employees involved in the reform. A list with the involved institutions is attached to the Strategy, which specifies the type of institution (at central level: state administration authorities, legal entities exercising public powers – funds, agencies, etc. – and public institutions) and the applicable law (Law on civil servants, Labour Law). At local level, self-government units and related services are listed in an aggregate manner, while public institutions are mentioned separately.

The Strategy has a **detailed action plan** for the first three years of implementation (2022-2024), which includes indicators for all **operational objectives**, with baselines and targets for 2024 and 2026 (with the exception of the indicator which relies on the findings of the functional analyses).

The Ministry of Public Administration (Directorate for Strategic Planning in Public Administration, International Cooperation, and IPA Projects) is responsible for **monitoring and reporting** on the implementation of the Strategy, while the primary responsibility for the achievement of the objectives will stay with the identified lead entities.

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<sup>16</sup> Ministry of Public Administration (MPA) after the establishment of a new Government in April 2022.

The **Council for Public Administration Reform** (hereafter: PAR Council) is in charge of the **coordination** of the reform. It is chaired by the Prime Minister of Montenegro and involves the heads of key implementing institutions of the public administration reform, as well as representatives of two NGOs (Centre for Democratic Transition and Institute Alternative). As an advisory body to the Government, the PAR Council will monitor the implementation of both the PAR Strategy and the PFM Reform Programme. The Ministry of Finance will submit the implementation reports on the PFM Reform Programme to the PAR Council prior to their adoption by the Government.

In accordance with the Government's methodology on strategic planning, reporting on implementation of the action plans for the PAR Strategy is made **on a yearly basis**, while a final report on implementation of the strategic document is prepared **at the end** of the implementation period. All reports are considered and approved by the General Secretariat of the Government, the PAR Council, and the Government of Montenegro, and are subsequently published on the website of the Ministry of Public Administration.

The Strategy foresees a **mid-term evaluation** that will take place after the implementation of the first Action Plan (2022-2024), followed by a **final evaluation**, which will be implemented after the implementation period of the entire Strategy. The evaluation will be performed by an independent expert and the Ministry of Public Administration, as PAR lead institution. Other relevant stakeholders and development partners will also be involved.

**The PAR Strategy 2022-2026 is relevant to the objectives of good governance, efficiency and accountability of public administration.** Moreover, the Strategy is in line with the objectives of the EU Enlargement Policy, the Economic and Investment Plan for the Western Balkans and the Western Balkan Strategy "*A credible enlargement perspective for and enhanced EU engagement with the Western Balkans*".

The objectives are consistent with the priorities of the Montenegro Economic and Reform Programme (ERP 2021-2023), with the Joint conclusions of the Economic and Financial Dialogue of October 2021 with the European Commission and with the recommendations of the IMF 2021 Article IV mission.

The PAR Strategy is costed and linked to the budgetary process. The cost for implementation is **EUR 23.750.000 over 5 years**, out of which **EUR 11.967.330** are planned for the implementation of activities within the first Action Plan 2022-2024. The 2022 State Budget has a specific budget programme dedicated to the implementation of PAR Strategy activities.

**Institutional capacities to steer the PAR Strategy are improving.** The MPA created a new Directorate for Strategic Planning in Public Administration, International Cooperation and IPA Projects, tasked with both preparation and reporting on key strategic documents, as well as managing IPA funds, thus fostering creation of a hub of civil servants with a high level of specialisation and expertise in this thematic area.

The implementation of public administration, however, will require additional training for the Ministry of Public Administration and other key implementing institutions like the Human Resources Management Authority (HRMA) and the Administrative Inspection (AI). When it comes to human resources management in the institutions applying Labour Law, capacity building of the Ministry of Economy and Tourism, the Employment Agency and the Administration for Inspection Affairs should be also taken into account, in addition to all other relevant line ministries and local self-governments.

**Montenegrin authorities are aware that public administration reform is a key step towards EU accession.** Political will and efforts in the implementation of the reform are therefore likely to continue in the next years. The new strategy covers key areas of reform, which are in line with the OECD principle of public administration and on which there is a consensus inside and outside the public administration. The participatory process that accompanied the elaboration of the Strategy, the inclusion of its costs in the state budget and the existence of a strong monitoring and reporting system, as well as the establishment of the PAR Council chaired by the Prime Minister of Montenegro let assume that **the policy is credible and sufficiently owned by national institutions**. Therefore, it is likely that its implementation continues to represent a priority of the Government for the next years.

PFM is also part of public policy but is covered under another eligibility criterion.

### **General Conclusions on eligibility:**

**In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.**

### 2.3.2. Macroeconomic Policy

**Montenegro's economy recorded very strong growth in 2021, though it did not fully recover to its pre-pandemic level.** The strong rebound of the economy, recording a preliminary growth rate of 12.4 %, was driven by a robust revival of tourism, exports and private consumption. Tourism revenues reached 70 % of their 2019 level, surging from just 13% in 2020. Exports added another 25.5 percentage points to growth. The increase in the number of visitors boosted private consumption that added 4.2 percentage points to growth. Contribution of the government consumption to growth was 0.3 percentage points. Investment activity remained weak due to the delays in public investments, higher costs of materials, and continued supply-chain disruptions. Consequently, this slowed gross fixed capital investments, which dragged growth by 4.8 percentage points, also adversely affecting the pace of imports. Industrial production strengthened by 4.9 %, driven by increases in both manufacturing and energy production, despite decline in the mining sector. Meanwhile, construction declined by 5%, as did number of issued construction permits, signalling a continued decline in the construction sector. The strong rebound of the economy in 2021 was reflected in a robust increase in retail and wholesale trade, that expanded by 16.6% and 24% y-o-y, respectively.

Montenegro's economy was projected to fully recover to its pre-COVID-19 crisis level in this year, after strong rebound of economic activity in 2021. However, the fallout of the Russian war of aggression against Ukraine, will most likely disrupt projected growth. DG ECFIN published Spring forecast on 16 May where country's GDP growth projections for 2022 have been revised downwards to 3.8% from an estimated 6.4% before the start of the war. The main direct transmission channel of the war to Montenegro's economy is tourism.

**The economic rebound led to a partial recovery on the labour market, albeit all structural deficiencies persist.** The COVID-19 pandemic exacerbated the structural deficiencies in the labour market, including high and increasing long-term unemployment and continued regional disparities. After expiry of favourable effects from the seasonal employment associated with the tourism industry, the unemployment rate (15-64) started to increase again reaching 15.7% at the end of 2021. It was still significantly lower than a year before, when the unemployment rate reached 21.5%. Benefiting from low base effects in 2020, employment rate recorded robust growth of 15.2% in the last quarter of 2021. However, the survey confirmed that youth unemployment remains a serious problem in the country, with 37.4% of the population aged 15-24 being jobless. Long-term unemployment is yet another lingering problem, given that 53% of all jobless have been looking for a job for more than two years. There are huge labour market differences across regions, with the unemployment rate being at low 6.1% in the tourism-heavy coastal region, 12.2% in the central region and 31.2% in the poor northern region.

**Financial sector remained robust with quite dynamic credit activity during 2021.** At the end of 2021, banks' lending and deposits were 9.8% and 20.9% higher, respectively, as compared to December 2019. Banks' lending and deposits continued to grow in the first months of 2022. Average capital adequacy ratio in December 2021 was at 18.5%, well above the regulatory minimum. Montenegro's NLB Banka Podgorica, the local unit of Slovenia's largest bank Nova Ljubljanska Bank (NLB), completed the merger with Komercijalna Banka Podgorica in November 2021. After finalisation of the second merger within a year, the new bank became the second largest out of a local banking market of 11 banks. Although trending down, lending interest rates are still high presenting one of the major obstacles for the small businesses in the country. In order to provide easier and increased access to finance for businesses that have limited access to finances, the Government earmarked funds for the establishment of the Credit Guarantee Fund and proposed relevant legislation that awaits Parliament approval. In February 2022, NPLs rose to 6.7% of total loans, compared to 5.9% a year before.

**Global inflationary pressures are accelerating domestic inflation, given the unilateral euroization.** After falling by 0.8% in 2020, consumer prices have accelerated since April 2021, to reach an average of

2.5% in 2021. Inflationary pressures also continued in 2022 rising to 9.7% y-o-y in March 2022, a 10-year high. The increase in inflation was led by rising food, beverage, and transportation prices. Real disposable income was, nevertheless, largely preserved through the increase in disposable incomes due to the 'Europe Now' reform, which resulted in the 80% increase in the minimum wage and 22.7% increase of the average monthly wage from January 2022. On the other hand, wage increase also risks nourishing inflationary pressures as well as increasing external and fiscal imbalances.

**Strong recovery of the tourism sector resulted in a significant reduction of external imbalances.** This resulted in narrowing of the current account gap to 9.2% of GDP in 2021, as compared to 26.1% of GDP a year before. Surplus in the service account that reached 19.5% of GDP in 2021, as compared to only 4.2% of GDP in 2020, drove this improvement. Net primary and secondary incomes have further reduced the current account deficit, primarily due to the improving expatriate remittances that saw 35% increase. The current account deficit was entirely financed by net foreign direct investment (FDI) which amounted to 11.2% of GDP in 2021.

Improved domestic demand and higher global commodity prices pushed for the fast growth in imports that saw 19% annual increase. Even the rapid increase in exports (28.7% y-o-y) did not suffice to compensate the impact of strong import growth. Consequently, the merchandise trade deficit expanded by 16.6% y-o-y in nominal terms, totalling 39.0% of GDP in 2021.

**The improvement of the economic and sanitary situation reinforced significantly Montenegro's fiscal performance.** The rebound in economic activity combined with a significant underspending of the capital budget resulted in a sharp reduction of the budget deficit in 2021. The general government budget deficit fell from 11.1% in 2020 to 1.9% of GDP in 2021. Central government revenues surged by 16.6 %, driven by the VAT and excises, while central government expenditures declined by 2.6 %, primarily due to lower capital spending by 9 %, but also lower spending on goods and services, which declined by 16%.

The 2022 budget is articulated around the landmark reform program 'Europe Now', a major fiscal reform initiative designed to support post-pandemic recovery. The programme abolished healthcare contributions and introduced personal income allowance for wages up to EUR 700, progressive personal and corporate income taxation, and an increase in the net monthly minimum wage. The Parliament, however, rejected several measures of the program to offset the loss in revenues from the abolished health contributions. These include increases in excises on tobacco, alcohol, and sugary beverages, and introduction of excises on sugary products and single-use plastic. The Parliament also maintained the reduced VAT rate of 7 % for the hospitality industry, introduced as a crisis mitigation measure. On the other hand, Parliament widened social transfers by introducing benefits for all children until age 18, reintroduced mothers' benefits for former beneficiaries, increased minimum pensions, and adopted ambitious public investment programme. Failure to adopt compensating revenue measures is likely to result in a wider-than-planned fiscal deficit of 5.1% of GDP in 2022.

**At end-2021, the public debt ratio declined to 83.3% of GDP**, down from 105.3% of GDP in 2020. Net debt in 2021 was reduced by over EUR 330 million, including a repayment of EUR 227 in Eurobonds in March 2021. The central government fiscal balance was positive in four months over the last year, which further supported the build-up of government deposits, amounting to 9.4% of GDP in 2021, which will be financing a significant share of financing needs in 2022.

**Overall, the economy strongly rebounded in 2021 driven by a quicker than expected resumption of tourism that boosted a surge of private consumption.** The fiscal framework still remains subject to sizeable risks and uncertainties, in particular in the current geopolitical context. Fiscal stability and sustainability should be strengthened by reintroducing the initially planned revenue measures of the 2022 budget. The activities should be undertaken to develop a new medium-term fiscal strategy along with the 2023 budget that will encompass concrete consolidation measures and continued public debt reduction over the medium-term. Noted that economic issues related to the Russian war of aggression against Ukraine may have an impact in the near future in Montenegro and the region.

#### **General Conclusions on eligibility:**

**As a conclusion, based on the analysis, the authorities have continued to pursue a stability-oriented macroeconomic policy.**

### 2.3.3. Public Financial Management

The **Public Finance Management (PFM) Reform Programme 2016-2020 (and its Transitional Action Plan for 2021)** has addressed some of the key weaknesses of the PFM system and has been therefore highly relevant, as confirmed by the results of the 2019 PEFA exercise. Additionally, it has addressed issues outside the PEFA assessment but equally important, like the update of the legal and regulatory framework in accordance with the EU legislation and the upgrade of the existing IT system for the management of the whole budget cycle. Certain reform areas remained excluded: the alignment with European system of Account (ESA) 2010 and Government Finance Statistics (GFS) system, more transparent reporting on budget execution and commitment management, as well as cash flow planning and arrears management. Weaknesses in the payroll system and in local government finance management have been addressed both in the Public Administration Reform and in the Public Finance Management Programmes.

Compared to PEFA 2013, the PEFA 2019 results showed 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.

Since then, the pace of implementation of the reform has been uneven, benefitting on one hand from the support provided by several IPA technical assistance project and suffering on the other from the effect of the COVID-19 pandemic, the unstable political situation and the high staff turnover in the Ministry of Finance. In July 2021, the PFM Reform Programme was extended for one year (until end-2021) through a Transitional 2021 Action Plan, containing the activities that could not be completed by end-2020. In the meantime, a new PFM Reform Programme 2022-2026 has been drafted and due to be adopted by the third quarter of 2022.

**All in all, good progress** can be reported in the area of annual budgeting, reform of salary system in the public sector, public procurement and customs administration. **Some progress** is reported in medium-term budget framework, capital budgeting, tax administration and state aid. **Limited progress** is shown in debt management and transition from the cash-based to the accrual accounting. Implementation of the following subsystems is **largely completed**: update of the macro-economic projections model, public procurement, public internal financial control, external audit and audit authority

However, despite efforts, some key weaknesses remain, especially for capital budgeting, state aid reform, commitment, cash and assets management, as well as in terms of interoperability of the different IT systems in place.

The **key challenges** relate to the following:

- The continued delay of concrete steps for upgrading the SAP Treasury system with regard to accrual accounting
- Delays in the implementation of medium term budgetary framework and budget preparation, in particular with regard to the amendment of the Law on Budget and Fiscal Responsibility, capital budgeting as a whole and live operation of the IT tool for calculation and control of salaries (including its connection with the Human Resources Management System)
- The serious delays in implementing the World Bank funded Revenue Administration Reform Project in the Tax Administration

- The unmotivated suspension of the operationalization the Asset Management IT System, coupled with the lack of communication on this matter between the Accounting Department in the Treasury and the Cadastre and State Property Administration.

In terms of **domestic revenue mobilization**, the overall trend of improvement showed by the 2019 PEFA assessment continues, in particular in the field of budget reliability, registration and tax assessment and effective internal controls. After a decline during the COVID-19 crises, the collection of public revenues is expected to recover in the coming medium-term period, as a result of projected growth in economic activity and several actions undertaken by the Government (suppression of informal economy, taxation of undeclared property, increasing excise taxes, among others).

**A new PFM Reform Programme 2022-2026** is close to be adopted, after the conclusion of the public consultation launched in April 2022. The Reform Programme is highly relevant in addressing all identified weaknesses in a comprehensive and structured way. It is based on an extensive consultation process, it is supported by strong ownership and commitment of government stakeholders and accompanied by a costed Action Plan for 2022-2023. While in the previous cycle the focus was on budget planning and on procurement, priorities of the new reform programme will be public investment management, accounting and reporting. At the same time, efforts will be directed to the conclusion of previous (partially pending) reforms, like programme/performance budgeting and mid-term budgetary framework, including interconnected IT systems.

A clear set of **objectives, activities and indicators have been identified** at output, outcome and impact level. A robust monitoring framework, however, despite significant improvements over the years, remains to be established. An indicators passport would be also necessary to clarify the scope and measurement of the indicators.

Differently from the previous one, **the new Reform Programme 2022-2026 is costed** and should be reflected in the annual and multiannual state budget. The Action Plan 2022-2023 has prioritized certain actions, by ensuring an appropriate sequencing of reforms. However, the way to address some critical horizontal issues, like the interconnection of IT systems, local governments and human resources for public finance management, still needs to be clearly defined.

The Government approach seems to take into consideration structural shortcomings and looks for **continuity with the previous reform programme**, by confirming the credibility of the reform process. Considering that reforms in the PFM area usually need a long time to materialize, this will ensure the necessary stability and coherence to maximize the reform impact in the next few years. For this to happen, the process will have to be supported by significant strengthening of the PFM capacities in terms of human resources and coordination within the Ministry of Finance and with other stakeholders involved in the reform actions, and the Revenue and Customs Administration.

**General Conclusions on eligibility:**

**As a conclusion, based on the analysis, the public finance management reform strategy remains sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.**

**2.3.4. Transparency and Oversight of the Budget**

The Government of Montenegro continues to publish systematically the budget proposal, the adopted budget and budget execution reports. The following budgetary documents were published in 2021:

1. The annual budget Law for 2022 was adopted on 29.12.2021<sup>17</sup>. It is organized by economic, organizational, functional and program classification.
2. The annual budget execution report for 2021 was published on the Ministry of Finance website on 02.02.2022<sup>18</sup>. The report contains a narrative part providing main fiscal aggregates and a table with budgetary data broken down by economic classifications. The year-end accounts are submitted to external audit within 6 months after the end of the fiscal year.
3. In-year budget execution reports are made available to the public with nearly one month delay and prepared by budget spending units, state funds, local Self-Government units and other legal entities. They include a brief narrative on current revenues and expenditures and detailed table with budget execution breakdown organized by economic classifications. Budget execution report for January-and February 2022 was published on 01.04.2022<sup>19</sup>.
4. The audit report for the final accounts for the 2020 budget was published on State Audit Institution website on 13.10.2021.

**The entry point for Budget Transparency continues, therefore, to be met.**

The PEFA 2019 show an overall tendency of improvement compared to PEFA 2013. According to the results of the PEFA exercise, Montenegro has scored the following:

PEFA Assessment (2016 indicators)	Match with PEFA 2011	Year 2013	Year 2019	Monitoring of Progress
PI-5 Budget documentation	PI-6	A	B	↓
PI-6 Central government operations outside financial reports	PI-7 & some new subsections	D+	A	↑
PI-9 Public access to fiscal information	PI-10	A	A	≈
PI-28 In-year budget reports	PI-24	D+	D+	≈
PI-29 Annual financial reports	PI-25	D+	D+	≈
PI-30 External audit	PI-26	C+	B+	↑
PI-31 Legislative scrutiny of audit reports	PI-28	C+	B+	↑
	Year	Year	Year	Year
Open Budget Index <sup>20</sup>	N/A	N/A	N/A	N/A

Overall, PEFA 2019 assessed that fundamentals of the PFM system are in place with the performance of main functions measured with high-ranking scores. This refers to the budget preparation and reliability, transparency of budget and fiscal information, revenue mobilization and budget execution<sup>21</sup>, internal control and internal audit, external audit and parliamentary scrutiny. Nevertheless, more advanced components of PFM demonstrate needs for further improvement and constant reinforcement. Mitigating measures should be proposed to address the weaknesses in PFM reporting.

In terms of budget transparency, worst performance is related to **PI-28 Indicator** and to **PI-29 Indicator**.

Main deficiencies of the **in-year budget reports** lay in the lack of comparison with the original budget (but only with the latest revised budget), in the aggregates presentation of data and in a structure organized only by economic classification, with significant gaps in reporting for public enterprises and financing of municipalities. Variations between original profile of revenue and expenditure and actual revenue and expenditure are not

<sup>17</sup> <https://www.gov.me/clanak/zakon-o-budzetu-crne-gore-za-2021-godinu>

<sup>18</sup> <https://www.gov.me/clanak/ostvareni-rekordni-prihodi-deficit-za-421-manji-od-plana>

<sup>19</sup> <https://www.gov.me/clanak/prihodi-veci-za-194-nego-u-istom-periodu-2021-godine>

<sup>20</sup> Montenegro is still not part of Open Budget Index

<sup>21</sup> However, according to the EUD analysis and on the basis of the PEFA scores, some core functions mainly related to procurement planning, commitment management, cash and arrears management would deserve further attention

explained. Completeness of financial reports is an issue, since they are prepared on cash basis and do not present information on assets and liabilities. More structured information on commitments and liabilities/arrears, on capital expenditures and on internally generated funds would increase comprehensiveness and transparency.<sup>22</sup>

As to the **Annual Financial Reports**, the information about the financial and non-financial assets and liabilities is not complete and there is no reference to the accounting standards. All budget documents are accessible by citizens (at government's website) but reports are not published together at one single web link.

More recently, improvements in budget transparency are materializing with the implementation of a new programme budget classification, with programme goals and performance indicators, and gradual introduction of a mid-term budgetary framework.

### **General Conclusions on eligibility:**

**As a conclusion, based on the analysis**, the entry point is met as the relevant budget documentation (the Executive's Proposal and the Enacted Budget within the past budget cycle) has been published respectively on 21.03.2021 and on 02.02.2021 on the following websites: <https://www.gov.me/clanak/zakon-o-budzetu-crne-gore-za-2021-godinu> <https://www.gov.me/clanak/ostvareni-rekordni-prihodi-deficit-za-421-manji-od-plana>

**Therefore, the eligibility criterion is met.**

### **3. DESCRIPTION OF THE ACTION**

The general objective of this Action is to ensure better quality of life for citizens by creating a well-functioning and accessible public administration with the public administration strengthened in accordance with the EU-SIGMA Principles of Public Administration

The Action focuses on some of the most challenging objectives of the PAR Strategy and PFM Reform Programme, notably on those objectives that interlink public administration and public finance management. Their achievement is likely to have a long-lasting impact on Montenegrin citizens and economy and is of key importance in the enlargement perspective.

The specific objectives of this Sector Budget Support programme correspond to the following priorities of the PAR and PFM Strategy 2022-2026:

#### **Objective 1. Efficient service delivery based on the need of citizens and economy**

Based on the identified problems in the area of service delivery in Montenegro, the focus is on creating public services based on citizens' and businesses' needs, simplifying procedures and digitalizing the existing services in order to improve their availability and quality, thus reducing delivery costs and time and ensure ease of doing business.

The priority of PAR Strategy 2022-2026, but also of this action, is to create an environment for simpler, faster and more efficient communication between citizens and the administration, primarily through improving the efficiency of bodies in resolving administrative cases and full implementation of the legal obligation of bodies to exchange data from ex-officio.

In order to optimize the process in the bodies and improve the quality of service provided to end users, a roadmap for the introduction of quality management of institutions and processes will be developed. Furthermore, improved quality of reporting on administrative procedures and mapping work processes will, in the long-run, lead to simplification of internal work processes and optimized service delivery. Harmonization of legal acts with the Law on Administration procedure will continue.

With the development of a public services catalogue and a book of administrative procedures, more transparent service delivery processes to all users will be provided, of both in-person and digital services, while safeguarding the accessibility of services to people with disabilities. Establishment of systematic measurement of public

<sup>22</sup> SIGMA Monitoring Report, November 2017

service users' satisfaction will enable all public bodies to improve and create services that best-fit to the needs of citizens and businesses, while obtaining feedback from users.

While enabling a full electronic data exchange between registries using once-only principle (including at the local level) and delivery of data and documents ex officio, service users will no longer be buried with visits to public institutions or additional documentation.

Moreover, this work will focus on a higher level of alignment of existing strategies with the existing methodological guidelines, especially in terms of strategic planning, budgeting and performance reporting. Overall, this will lead to the creation of an integrated and interlinked strategic planning system, aligned with the annual and medium-term budgetary framework, annual work programs of the Government and ministries, as well as with the European integration process. This will imply further strengthening of costing of strategies and their clear link with annual and multi-annual budgeting. At the same time, this integrated planning system will be reflected in a performance-oriented monitoring, reporting and evaluation system.

Indeed, according to the new PFM Reform Programme 2026-2026, the budget programme classification will be further improved, with the development of sub-programmes, aligned activities and performance indicators for all public bodies. Procedures for monitoring and reporting on budget programmes and projects will be developed. BMIS<sup>23</sup> will be upgraded and improved in order to reflect performance information. Development of procedures and a manual for performance evaluation of programmes and projects has been envisaged, aiming at improvement of evaluation of the programme performance.

The strategic and medium-term planning system will be supported by appropriate IT systems that will be connected with the budget planning system for exchange of data and for reporting purposes. It will also require improved coordination within PAR and between PAR and PFM systems, including the establishment of a planning function in all major public bodies.

This will be achieved through a further improvement of the legal framework for delegation of authority, intensifying capacity building for high level managers and line-managers and by raising awareness on the principle of accountability, in particular managerial accountability and delegation of authority.

Activities will include: further fine tuning the programme budget structure, in order to increase the correspondence with the organizational structure; improved link between strategic planning, costing and budgeting process, especially at the level of spending units; better organization of reporting and control, in line with programme budget structure; increased used of performance monitoring and reporting; gradual increase of (internal) management and performance audit.

The achievement of this objective is closely linked to the results planned under objectives 2 and 3.

## **Objective 2. Improved transparency of public administration and public finances**

A key priority in this area will be decreasing the number of requests for free access to information by increasing the quantity and quality of information published by public authorities and through better implementation of the new legal framework awaiting adoption. In addition to training and raising the awareness of all public institutions on the need to provide complete, trustworthy and understandable information on the work of all public bodies, a network of officers for proactive disclosure of information will be established and their capacities improved.

Increasing proactive disclosure of information will include data on budgets and spending practices of public institutions. Improvement in reporting on state budget execution, including producing and publishing transparent annual and in-year budget execution reports, as well as budget performance reports will significantly contribute to the improvement of budget transparency.

Quality management model in the field of free access to information will be established, thus promoting self-assessment of the public bodies in this field. In other words, the focus will be on improving the quality and legality of the work of first instance bodies in decision-making procedures on requests for free access to information.

Modern data management model implies standardized, well-described, accessible and reliable data in real time, with a focus on openness and format, contributing to the development of all segments of society. With the introduction of high-value data sets and dynamic data sets (i.e. real-time), and capacity-building of employees in charge of publishing open data on the portal, increased transparency of authorities will be achieved. Together with

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<sup>23</sup> Budget Management Information System

improving quality in reactive transparency (authorities publishing information based on request), these actions will lead to increasing the citizens' trust in the work of public administration.

### **Objective 3. Public administration based on talented, competent and skilled employees**

An efficient human resources planning system based on identified needs, improvements in the human resources recruitment process and further digitalization in the field of the civil service system will be in the focus of actions in this area. Monitoring the work of civil servant, their progress and results but also their needs for further development are identified as key priorities.

Firstly, improved identification of human resources needs and increased alignment of personnel planning and budgetary process will make personnel planning and recruitment in public administration more efficient. Guidelines for personnel planning will be improved, while implementation will be followed up by an ad hoc external monitoring system. Personnel plans will be developed electronically, through the module of the Human Resources Management Information System (HRMIS)<sup>24</sup>, thus allowing for the systemic reporting on the level of its implementation. Since HRMIS is to be developed also at the local level, HRMA will be able to directly access information for public officials and state employees at the central and local level, enabling various data analytics for all employees regulated by the Law on civil servants and state employees. Among others, people who benefitted of severance payments will be easily identifiable, by making possible the respect of legal restrictions on future employments in public administration,

Secondly, the improvement of procedures for application and selection of candidates through the introduction of electronic application systems will lead to less time-consuming processes for candidates and will decrease interlinked costs. Improved quality of acts on systematization and organization will lead to clearer and more precise descriptions of jobs, clear responsibilities for all systemized posts, as well as to identified competencies as the basis for selection and testing of candidates.

Professionalization of public administration through the adoption of a Competence Framework for all categories of civil servants and its application in their recruitment and evaluation will contribute to the alignment of knowledge, skills and abilities of employees with job requirements. In addition, it is necessary to improve the strategic planning of training for employees, based on training need assessments, thus prioritising areas and target groups of employees for further capacity building. This will be linked with the annual evaluation of employees, where effects of training will become measurable.

The 'internal labour market', divided into central and local levels, should be integrated into the labour market of public administration. This institute needs to be remodelled in order to become a system or a body that will enable easier mobility and recruitment not only for employees who lost their jobs after the reorganization of the body but also for officials who are interested in changing their jobs, enabling even the distribution of labour.

Awareness raising campaign towards all citizens on the transparent process of employment, overall work of the HRMA and attractiveness of public bodies as employers, thus attracting skilled, talented and competent individuals will be implemented.

In addition, key priorities in this area will be improvements in capital budget planning and in public investment management, monitoring and reporting. Actions will focus on further strengthening the institutional, legal and regulatory framework for public investment management, as well as the capacity to identify and prioritize capital projects. Guidelines for conducting cost-benefit analyses of investment projects and an updated manual for capital budgeting (determining the fiscal space) will be developed, with the aim to ensure value for money. Implementation, monitoring and reporting of capital projects will be improved through the establishment of a public capital project database through the upgrade of the current IT systems for budget planning and budget execution and the adoption of specific procedures for the evaluation of capital spending efficiency. These activities will contribute to increased fiscal sustainability and consistency of public investment plans in the long term, to strategic allocation of resources and to more efficient service delivery.

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<sup>24</sup> Further digitalization of the human resources planning system will be reached with the development of additional modules for e-Employment, e-Learning, e-Evaluation, etc.

### 3.1. Intervention Logic

The underlying intervention logic for this action is that Montenegro speeds-up the reform of public administration and public finance management, while meeting the EU accession criteria in the field of good governance. Based on the identified issues above, this Action prioritizes the objectives to be reached, thus contributing to the expected outcomes:

- ❖ Efficient service delivery based on the need of citizens and economy implemented
- ❖ Credible strategic policy planning system in place
- ❖ Delegation of Authority principle widely used in public bodies
- ❖ Improved transparency of public administration and public finances
- ❖ Public administration based on talented, competent and skilled employees
- ❖ Improved public investment management system

The intervention logic is fully aligned with the objectives of the PAR Strategy and PFM Reform Programme for 2022-2026. The key induced outputs of the programme are directly related to the outputs of the new strategies, while the above-mentioned outcomes will be reached through the successful implementation of the activities presented in the following section.

Improved strategic planning, with clearly identified objectives and indicators, as well as a credible strategy costing linked to the budgetary process, will create conditions for further improvements in programme budgeting. In turn, well-identified programmes in the state budget, linked to specific activities, costs and relevant performance indicators (possibly the same than at the level of strategies) will create conditions for delegation of responsibility and increased managerial accountability.

Better management of investment, including improved factoring into the budget process of the recurrent cost implications of investment, and more stringent economic analysis in order to generate the best return will provide a better perspective on the fiscal space available for strategic priorities.

The existence of performance indicators and of clear accountability lines will improve performance monitoring and reporting at the level of spending units and, more in general, of operational units. This will contribute to shifting the focus of internal control and external audit from compliance to performance.

Improved monitoring and reporting will facilitate a more effective evaluation of results and impact of budget programmes, which is a prerequisite for further strengthening of service delivery.

More in general, transparency of policy implementation and budget execution will improve, with an increase of stakeholders' perspectives on the effectiveness of public spending.

### 3.2. Indicative Activities

#### **Activities related to Objective 1 - Efficient service delivery based on the needs of citizens and economy**

- 1) Mapping internal business processes with the purpose of optimizing service delivery, while continuing with the harmonization of relevant acts with the Law on Administrative Procedure
- 2) Developing roadmap for introduction of quality management system
- 3) Developing the Catalogue of services (on-line and off-line) with administrative procedures for their implementation
- 4) Improving user-centric and integrated approach by establishing service standards
- 5) Ensuring full interoperability of information systems (connected to the GSB - Government Service Bus) thus reducing the volume of data currently required from users (citizens and business) and using the principle of ex officio data exchange
- 6) Increasing the number of developed digital services based on life events, at a high level of sophistication, with integrated systems of e-identification, e-authentication and e-payment
- 7) Increasing digital skills of public administration employees, and raising awareness of the general public on modernisation of public services
- 8) Improving the methodology for strategic planning and organising capacity building programmes for strategic developers in public bodies
- 9) Improving link between strategic planning and budgeting

- 10) Analysing and creating mechanisms for cooperation with researchers and other possible statistical institutes, for the use of wide trustworthy data during the policy development process
- 11) Establishing IT systems for strategic planning, monitoring and reporting (with mid-term programme budgeting and programme reporting)
- 12) Establishing planning function in all major spending units; development of procedures for the costing of strategies and institutional arrangements for coordination
- 13) Linking the MTBF to the strategic planning system and to the medium term work programme of the government
- 14) Further development of sub-programmes, activities and performance measures in all spending units, procedures for monitoring and reporting of programmes and projects; and implementation of upgrades of the budget planning IT system with the new programme budget structure and improved performance information
- 15) Improving the legal framework for the application of managerial accountability
- 16) Organising a capacity building programme for civil servants and managers on managerial accountability, delegation of authority and related reporting
- 17) Raising awareness campaigns on principle of accountability in public administration
- 18) Better organization of reporting and control, in line with programme budget structure
- 19) Increase the use of performance monitoring and reporting
- 20) Gradual increase of (internal) management and performance audit

### **Activities related to Objective 2 - Improved transparency of public administration and public finances**

- 1) Improving the functioning of the information system of the Agency for Personal Data Protection and Free Access to Information and publishing data with the purpose of decreasing administrative silence cases
- 2) Strengthening the capacities of the Agency for implementing the Law on Free Access to Information
- 3) Developing guidelines for the application of the provisions of the Law on free access to information
- 4) Full harmonization of the Law on free access to information with European standards and the EU Open Data Directive
- 5) Enhancing the work of the Council for free access to information
- 6) Improving the quality of work of Agency
- 7) Organising capacity building for relevant authorities on proactive disclosure of information
- 8) Awareness raising on the importance of free access to information and transparent work of the public bodies
- 9) Improving portal [www.data.gov.me](http://www.data.gov.me) and increasing publication of high value data sets
- 10) Upgrade of BMIS to improve annual and quarterly budget execution reports
- 11) Increasing transparency through a visual representation of budget execution
- 12) Produce mid-year and annual budget performance reports through BMIS

### **Activities related to Objective 3 - Public administration is an attractive employer**

- 1) Improve current instructions on Personnel Plan development for more a comprehensive system of personnel planning
- 2) Increasing the % of developed personnel plans through HRMIS system and further use of data for policy formulation, monitoring and enhancement of HRM practices
- 3) Increasing the implementation of personnel plans at both central and local level, linked to the full budgetary process, both annual budget and medium-term expenditure framework
- 4) Promotional campaign in order to encourage employment in public administration
- 5) Improving the quality and implementation of Acts on systematization and organization, as well as monitoring and evaluation in the civil service, and creating mechanisms for comprehensive evaluation of Acts of systematization
- 6) Creating more transparent and effective employment procedures
- 7) Modifying the legal framework regulating the system of salaries in the public sector
- 8) Further developing the competency framework for all employees in public bodies, including competency-based assessment tools

- 9) Promoting public administration based on the principles of diversity, equality and non-discriminatory policies
- 10) Strengthening the legal and regulatory framework for PIM (Identification, Project appraisal and preparation)
- 11) Strengthening the institutional framework and coordination for capital budgeting
- 12) Training of the members of the Commission for Determining Capital Investment Priority List
- 13) Develop methodology for PIM: Guidelines for conducting economic (cost-benefit) analyses of investment projects to ensure value for money; and an updated Manual for capital budgeting (determining the fiscal space)
- 14) Training on costing of capital projects
- 15) Develop legislation/regulations for allowing carryover arrangements
- 16) Promote the use of Public-private partnership
- 17) Establishing a (public) capital projects database
- 18) Upgrade current IT systems (BMIS and SAP) to support to the PIM processes
- 19) Develop procedures for monitoring and reporting of capital projects implementation
- 20) Evaluation of the efficiency of capital spending
- 21) Preparing a long-term investment document (master plan of infrastructure projects)

### **3.3. Mainstreaming**

The Constitution of Montenegro, the highest legal act in the country, along with the Law on Gender Equality and the Law on Prohibition of Discrimination, represent the legal framework on the basis of which issues related to gender equality, diversity and inclusion are defined. In the past years, progress has been made in these areas, strengthening the position of minority and marginalized groups - Roma and Egyptians and people with disabilities - in particular. However, there is considerable room for improvement.

The PAR Strategy 2022-2026 has recognized gender mainstreaming, anti-discriminatory policies and inclusion as horizontal topics throughout all strategic goals. Consequently, a number of activities were identified in order to contribute to the application and promotion of high standards in these areas: awareness raising on the need of public administration based on diversity, non-discriminatory policies and equal opportunities; training on inclusive public administration based on the principle of human rights; development of programmes for the development of leadership competencies; capacity building on the concept of e-accessibility and much more.

The PFM Reform Programme 2022-2026 and related side-strategies have included gender, green and social protection mainstreaming in their activities. One of the operational objectives of the new Strategy for the Development of the Public Procurement System in Montenegro 2021-2025, for example, relates to encouraging the implementation of green and sustainable procurement, as well as the promotion of SME participation in the public procurement procedures, with special emphasis on women-led businesses. The goal of the green procurement policy is to encourage contracting authorities to apply life cycle costing in public procurement in order to provide more environmentally friendly and energy efficient goods, in accordance with current trends and standards (green procurement, socially responsible procurement, innovative procurement, electronic procurement, etc.). In order to raise awareness and promote green and sustainable procurement, the Strategy envisages trainings for participants on green public procurement procedures (managers and civil servants), as well as the production and distribution of the specialized publications on this topic.

Demographic change (increased mobility, population aging and migration), changing market conditions and globalization factors contribute to the growing diversity of the workforce within organizations and in the labour market. There is a high probability that employees will be exposed to different needs, values, motivation, different contributions and ways of building relationships.

The PAR and the PFM strategies have the ambition to contribute to a culture of diversity and equal opportunities. The PAR Strategy, in particular, advocates that civil servants represent citizens who serve, regardless of gender, age, religion, gender identity, sexual orientation, political or any other affiliation, any type of disability or other factors that are not based on merit and achievement. During the design phase, all

stakeholders were consulted independently of their sex, origin, race and religion. Equal opportunities will continue to be guaranteed to all participants and experts during the implementation phase of this Action.

Being based on PAR and PFM strategies 2022-2026, this Action will address diversity, non-discrimination and equal opportunities as horizontal themes that are applicable to all identified objectives. The focus will be on the creation of a coherent diversity policy that will add to an inclusive environment and give all employees equal opportunity to feel included, respected and valued. This means that human resource management policy will be focused on recognising and respecting the skills of the individual, rather than on the characteristics of the individual that may be the basis for discrimination.

Citizen engagement and public participation (inclusion) in all segments of public administration is becoming more important than ever. Through this Action, the principle of inclusiveness is applied through all objectives and includes the involvement of all stakeholders in all steps of policy making, especially when defining services for the needs of citizens.

In addition, in order to achieve the goals of greater openness and make governance more efficient, the Government of Montenegro has joined the Open Government Partnership (OGP). By participating in this initiative, Montenegro is focused on five key commitments: improving public services, citizen participation, access to information - openness of public administration bodies, more efficient management of public resources and increasing public integrity. The process of drafting the new two-years National Action Plan for implementation of OGP Initiative is ongoing, with consultations conducted in accordance with the standards set by the OGP Secretariat. Finalisation of the new Action plan is planned for the end of the year 2022.

### **Environmental Protection, Climate Change and Biodiversity**

The Ministry of Ecology, Spatial Planning and Urbanism is in charge of management and protection of natural resources, biodiversity and space of Montenegro. Environmental protection, care for clean air, water, land and climate change, as well as the preservation of Montenegrin spatial heritage - are priorities of the Ministry.

Both the Ministry and the Environmental Agency were consulted during the preparation of the PAR Strategy and the PFM Reform Programme and their recommendations are incorporated in both documents.

Since a Strategic Environmental Assessment (SEA), an Environmental Impact Assessment (EIA) or a Climate Risk Assessment (CRA) were not required for any purpose during the development of the PAR Strategy and of the PFM Reform Programme, no further actions were implemented.

### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1<sup>25</sup>.

This Action will contribute to the Objective 4 of the EU gender equality strategy 2020-2025: *Gender mainstreaming and an intersectional perspective in EU policies, putting equal opportunities between men and women as an integral part of its design, implementation, monitoring and evaluation.*

Montenegrin Law on Gender Equality stipulates equal participation of men and women in all spheres of public and private life, as well as the obligation of public bodies to assess and evaluate the impact of all decisions and activities upon the position of women and men. For the first time, the Law on the Election of Councillors and Deputies, with the amendments from 2011, defines quotas for the under-represented sex. A National Gender Equality Strategy 2021-2025, together with an Action Plan for Gender Equality (APAGE) 2021-2022, is under implementation. Within this framework, the Ministry for Human and Minority Rights, with support of the OSCE Mission, has prepared a manual to assess the level of gender-mainstreaming in strategic documents (assessed 26 strategies in total), which is a significant initial step towards policy development in this field at the central and local level. Gender equality principles are also addressed in the Law on Civil Servants and State Employees.

In 2021, Montenegro adopted for the first time a gender-responsive state budget by defining gender sensitive performance indications and activities. The new PFM Reform Programme also addresses gender issues and

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<sup>25</sup> Principal objective / significant objective/ not targeted

includes gender indicators. The introduction of gender-responsive local policies, including gender-responsive impact assessment of legislation and gender-responsive budgeting, is also worth noting.

A number of measures identified within the PAR Strategy and the PFM Reform Programme are focused on promoting gender equality: development of a methodology for drafting Gender Equality Plans in all ministries, implementation of a Gender Equality Plan in (at least) 3 pilot ministries, organization of gender equality trainings for public administration employees, among others.

Responsibility for implementing gender mainstreaming will be system-wide and will stay at the highest levels within the different stakeholders involved in the implementation of this Action. Adequate accountability mechanisms for monitoring (such as specific predefined indicators) have been put in place and initial identification of gender differences and disparities across all areas of activity will be supported.

### Other considerations

PAR and PFM strategies are indirectly linked to the UN 2030 Agenda for Sustainable Development by improving transparency, accountability and efficiency of Montenegrin public administration with regard to citizens and business at both national and local level. Together, they contribute to the achievement of Sustainable Development Goals 8, 5 and 16.

The MPA manages and monitor policies that affect the work and activities of non-governmental organizations. A new Strategy for improving cooperation between State Administration and NGOs 2022-2026 was adopted in 2022. The overall purpose is to ensure long-term, reliable and quality partnership between the state and non-governmental organizations, thus creating quality public policies and improved services to citizens. The new strategic document has 2 objectives: a) Improving the existing normative and strategic framework for long-term partnership with non-governmental organizations in preparing public policies and providing services to citizens, and b) strengthening the NGO sector as one of the state partners.

The participation of CSOs in decision-making processes is regulated by two government decrees that introduces a legal obligation for the ministries to include NGOs and other representatives of civil society in working groups for policy development. In addition, CSO consultation has become a legal obligation for most public decision-making processes, despite shortcomings in its implementation. From this point of view, the Strategy for Cooperation between State Administration and NGOs 2022-2026 is complementary to the new PAR Strategy, by contributing to the achievement of three key objectives: 1) Efficient delivery of services based on the citizens' needs 2) Strengthening of the data-based planning system leading to the creation of sustainable policies and 3) Improvement of institutional coordination for more powerful policies.

### 3.4. Risks and Lessons Learned

Category	Risks	Likelihood	Impact	Mitigating measures
Political	Risk 1: Lack of (human) resources for the implementation of the PAR & PFM strategies	Medium	High	<ul style="list-style-type: none"> <li>- Complementary assistance focusing on 1) improving and making faster recruitment procedures, including internal market 2) retention policies</li> <li>- Policy dialogue focusing on merit-based recruitment (need to reform recruitment committees, recruitment made on the basis of well-defined competence frameworks at all levels, link with academia and traineeship programs)</li> </ul>
Political	Risk 2: Lack of sufficient knowledge of budget support as an instrument and of administrative capacities to follow up the programme in line ministries and at NAO (National Authorising Officer) level.	Medium	High	<ul style="list-style-type: none"> <li>- Capacity building for direct and indirect beneficiaries of budget support</li> <li>- Complementary assistance focusing on coordination and monitoring the implementation of the PAR and PFM strategies</li> <li>- Establishment of a Budget Support Steering committee. If relevant, this will be done in coordination with other ongoing budget supports, in order to optimize efforts in the common eligibility areas (PFM and budget transparency)</li> </ul>

## **Lessons Learned:**

The implementation of the previous PAR Sector Budget Support programme put in evidence some important lessons learnt:

1. A Sector Budget Support programme can be a useful tool when used correctly and efficiently. The modality has clear advantages over the project approach, although being a complex tool. When the budget support modality is not applied as intended, however, some of the key benefits might not be obtained.
2. Designing and implementing a Sector Reform Performance Contract is a learning experience. While the overall performance of previous PAR budget support was satisfactory, it is clear that it is still a relatively new modality of implementation in Montenegro and it is likely to take several programmes to fine-tune its formulation and implementation.
3. In the previous PAR sector Budget Support, much weight was given to the Complementary Support. While this was of clear benefit for the beneficiaries, on the other hand the high number of contracts caused the use of additional efforts and burden which was placed on the management structures and the beneficiaries to manage all such projects at once.
4. Some elements of the Budget Support modus operandi should apply and be better respected, especially concerning the role of the Ministry of Finance and the channelling of EU funds into the national budget.
5. When designing a budget support operation, it is important to ensure that all the indicators chosen in relation to variable tranches disbursement are achievable, realistic and within the competence of the government entity tasked with the action. Key Performance Indicators should relate to policy formulation and implementation, avoiding indicators that may be conditioned by political processes. When the institution leading the Budget Support programme is not in complete control or does not have substantial influence over the implementing entities, it can easily result in under-performance and non-disbursement of funds. This noted the project logic which outlines the need within the boundaries of a sector. Therefore, if relevant, all triggers linked to legislation are rightly taken into consideration, as well as outcomes and even impact.
6. Incentives to support and implement reforms are important, both from the EU to partner countries and within the Government. Entities that do not benefit from Budget Supports inputs (either through state budget funds or complementary support) will tend to disconnect or not participate in fulfilling Budget Support objectives and related activities, even if these bodies are supposed to play an important role.
7. Consequences of government and institutional changes (and instability) can be disruptive in terms of the operation of budget support programmes. Institutional stability is key for any programme or project but budget support is more sensitive to changes in the heart of the entities and change can negatively affect policy processes and key policy targets.
8. When an implementing entity is new to budget support, external support in monitoring and reporting on performance can be useful. Specific knowledge of EU Budget Support guidelines and experience with other programmes in the sector can complement and reinforce the tasks of public officials. It would be helpful to use technical assistance to work with the beneficiary and advise and guide them on preparing for the variable tranche disbursements.

### **3.5. Indicative Logical Framework Matrix**

Results	Results chain	Indicators	Baselines	Targets by the end of the budget support contract 2026	Sources of data
<b>Indicative Impact of the policy</b>	To maximize Montenegro's development impact on the national economy and ensure better quality of life for the citizens by creating a well-functioning, digital and accessible public administration efficiently serving the needs of its citizens and the economy	Global competitiveness index 4.0	60.8/100 (2019)	62.2	Global Competitiveness Report
<b>Expected Outcomes of the policy</b>	The general objective is to ensure better quality of life for citizens by creating a well-functioning and accessible public administration – with the the public administration strengthened in accordance with the EU-SIGMA Principles of Public Administration	<ul style="list-style-type: none"> <li>- Strategic Framework of PAR</li> <li>- Policy development and co-ordination</li> <li>- Public service and human resource management</li> <li>- Accountability</li> <li>- Service delivery</li> <li>- Public financial management</li> </ul>	<ul style="list-style-type: none"> <li>- .0.5 (2021)<sup>26</sup></li> <li>- 2.7 (2021)</li> <li>- 3.1 (2021)</li> <li>- 3.4 (2021)</li> <li>- 2.25 (2021)</li> <li>- 2.7 (2021)</li> </ul>	<ul style="list-style-type: none"> <li>- 2.0</li> <li>- 3.3</li> <li>- 3.8</li> <li>- 3.8</li> <li>- 2.8</li> <li>- 3.0</li> </ul>	SIGMA monitoring reports
<b>Induced Outputs</b>	Efficient service delivery based on the need of citizens and economy implemented	Number of institutions with introduced quality management system	0 (2021)	5 by 2024 15 by 2026	PAR annual monitoring report External evaluation report on PAR Strategy SIGMA monitoring report Budget execution report Reports from international community NGOs Reports
	Credible strategic policy planning system in place	% of strategic documents linked to the annual/programme budgets	0 (2021)	50% by 2024 <sup>27</sup> 100% by 2026 <sup>28</sup>	
	Delegation of Authority principle widely used in public bodies	% of ministries delegating financial management and internal control to senior management in accordance with the relevant Decree	8,3% (2021)	50% by 2024 80% by 2026	
	Improved transparency of public finances	Qualitative indicator	None	<ul style="list-style-type: none"> <li>- Mid-year and annual budget performance report produced, including gender indicators (by 2024)</li> <li>- Macro-fiscal guidelines (MTBF) include medium-term (programme-based) policy information, non-</li> </ul>	

<sup>26</sup> Average score of SIGMA indicators per sector, as per SIGMA Monitoring report 2019 for Montenegro

<sup>27</sup> Data will report how many of the strategic documents are gender-mainstreamed

<sup>28</sup> Data will report how many of the strategic documents are gender-mainstreamed

				financial performance information and expenditure plans	
	Public administration based on talented, competent and skilled employees	Average no. of candidates per public advertisement Average no. of candidates for competition	4.8 (2020) 2.14 (2020)	7 (2024), 9 (2026) <sup>29</sup> 4 (2024), 6 (2026) <sup>30</sup>	
	Improved public investment management system	Share of projects for which a cost-benefit analysis is done according to the new methodology	0 (2021)	At least 50% compared to the baseline (2024) At least 90% compared to the baseline (2026)	
<b>Direct Outputs</b>	<ul style="list-style-type: none"> <li>- Financial allocation of national resources for the PAR Strategy and PFM Reform Programme implementation</li> <li>- Mentoring and reporting of the two strategic documents linked and strengthened</li> <li>- Technical specifications for the Complementary support actions developed</li> <li>- External evaluations conducted</li> </ul>	<p>Financial amount distributed through the SBS (fixed and variable tranches)</p> <p>Mechanisms and track record on the level of implementation of PAR Strategy and PFM Reform</p> <p>Number of tenders for complementary actions successfully developed and number of contracts signed</p> <p>Number of external evaluations conducted</p>	<p>0</p> <p>MPA and MoF have established a mechanism for track records on the implementation of strategic documents</p> <p>0</p> <p>0</p>	<p>30 mil EUR</p> <p>Continued good tracks record on the implementation of the two strategic documents</p> <p>At least 2 TAs prepared</p> <p>at least 2 external evaluations conducted</p>	<p>Commission report</p> <p>Disbursement note on the SBS</p> <p>National monitoring reports on PAR and PFM</p> <p>External evaluation report</p>

<sup>29</sup> Data will be gender-disaggregated

<sup>30</sup> Data will be gender-disaggregated

## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

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

### **4.2. Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### **4.3. Implementation of the Budget Support Component**

#### **4.3.1. Rationale for the Amounts Allocated to Budget Support**

The amount allocated for the budget support component is EUR 10 500 000, and for complementary support is EUR 3 500 000. These amounts are based on the estimated cost of the PAR Strategy 2022-2026 and PFM Reform 2022-2026, which is in total EUR 52 250 000 (EUR 23 750 000 for PAR and EUR 28 500 000 for PFM). The amounts are proportional to the budgetary allocations for the first three years of implementation (EUR 11 967 330 for the PAR Strategy)<sup>31</sup>.

The policy planning process was aligned with the budget planning process. Specifically, the Action Plans for the implementation of the PAR Strategy and the PFM Reform Programme 2022-2024 are reflected in the state budget for 2022 and for the following two years, according to a mid-term perspective.

Complementary support will be implemented via direct and indirect management based on technical assistance projects, allowing for better control on timing and coordination of the assistance. It will aim to strengthen assumptions and mitigate risks in the implementation of both strategies, so to facilitate the achievement of the results/indicators under the budget support component.

#### **4.3.2. Criteria for Disbursement of Budget Support**

##### **a) Conditions**

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the PAR Strategy and PFM Reform and continued credibility and relevance thereof or of the subsequent policy;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- 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.

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<sup>31</sup> The estimated cost for the first three years of implementation of the PFM Reform Programme is under definition.

b) Specific conditions for the disbursement of the fixed tranche (year N).

Where feasible the counter signature of the Financing Agreement will be considered as the request to disburse the fixed tranche in year N.

c) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities:

- ~ Efficient service delivery based on the need of citizens and economy implemented
- ~ Credible strategic policy planning system in place
- ~ Delegation of Authority principle widely used in public bodies
- ~ Improved transparency of public administration and public finances
- ~ Public administration based on talented, competent and skilled employees
- ~ Improved public investment management system

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

d) Modifications

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the end of the first quarter of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

e) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### **4.3.3. Budget Support Details**

Budget support is provided as direct untargeted budget support to the national treasury.

#### **4.4. Methods of implementation**

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>32</sup>.

##### **4.4.1. Direct Management (Procurement)**

One Procurement Contract will contribute to achieving the objective and the results specified under Objective 2. *Credible strategic policy planning system in place*, Objective 3. *Delegation of Authority principle widely used in public bodies* and Objective 4 - *Improved transparency of public administration and public finances*.

A second Procurement Contract will contribute to achieving the objectives and the results specified under Objective 1. *Efficient service delivery based on the need of citizens and economy* and under Objective 5. *Public administration based on talented, competent and skilled employees*.

If the procurement contracts as mentioned above cannot be implemented due to circumstance outside of the Commission's control, these parts of the Action can be implemented in indirect management with an International Organization or with a Member State Organization.

##### **4.4.2 Indirect Management with an international organisation**

A part of this Action may be implemented in indirect management with the Centre of Excellence in Finance (CEF, Ljubljana). This implementation entails support to monitoring and coordination of the PAR and PFM Strategy at all levels; advice and assist for the resolution of main bottlenecks in the implementation of the strategies, especially where enhanced coordination among different institution is necessary; support donors' coordination in PAR and PFM areas; increase internal and external visibility and communication of the reforms.

The envisaged entity has been selected using the following criteria:

- Technical experience in all main PFM and PAR areas;
- Recognized capacity to assist, coach and advise national authorities in the coordination and implementation of structural reforms in the PFM and PAR sectors at all levels;
- Capacity to coordinate with similar activities at regional level;
- Capacity to interface and coordinate with different donors;
- Capacity to ensure the ownership and political buy-in of national authorities involved in the implemented reforms;
- Transparency and absence of conflict of interest

These activities will provide horizontal support for the achievement of all objectives of this Action and, more in general, of the PAR and PFM strategies. Moreover, it will contribute to mitigate one of the main risks identified for the implementation of the strategies, namely capacities constraints for monitoring and coordination.

In case the envisaged entity would need to be replaced, the Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

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<sup>32</sup> [www.sanctionsmap.eu](http://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.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented with another entity under indirect management with international organisation or in direct management in accordance with the implementation modalities identified in section 4.4.1.

#### **4.4.3 Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances (one alternative second option)**

If the procurement contracts as mentioned under section 4.4.1 above cannot be implemented due to circumstance outside of the Commission's control, these parts of the Action can be implemented in indirect management with an International Organization or with a Member State Organization.

If the Indirect Management with an international organization as explained under section 4.4.2 above cannot be implemented due to circumstances outside of the Commission's control, this part of the Action can be implemented in direct management via a procurement contract.

#### **4.5. 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.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### **4.6. Indicative Budget**

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>
<b>Budget support</b> – cf. section 4.3	<b>10 500 000</b>
Methods of implementation – cf. section 4.4	
Outcome 1 composed of:	
<b>Complementary assistance</b> – cf. section 4.4:	<b>3 500 000</b>
<b>Indirect management with an international organization</b> – cf. section 4.4.4	<i>700 000</i>
<b>Procurement</b> – total envelope under section 4.4.3	<i>2 800 000</i>
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	will be covered by another Decision
<b>Communication and visibility</b> – cf. section 6	included in complementary assistance
<b>Contingencies</b>	N.A.
<b>Total</b>	<b>14 000 000</b>

## **4.7. Organisational Set-up and Responsibilities**

Lead institutions in this Action will be the Ministry of Public Administration and the Ministry of Finance. The relevant ministries will do coordination of institutions respectively involved in the Action.

The coordination of the SBS support action will be embedded in the already existing teams for the coordination of the PAR Strategy and the PFM Reform. Members of this structure are also representatives of the main institutions responsible for the implementation of the PAR Strategy and the PFM Reform programme.

A budget support steering committee will be established, so to allow stakeholders' discussions and follow up of specific technical issues related to this Action, especially the achievement of indicators. This will help early identification of bottlenecks and determination of possible corrective actions. Meetings will take place quarterly or twice per year, upon decision of the steering committee members. Coordination with other any other ongoing budget support programmes will be taken in due consideration.

The PAR Council, chaired by the Prime Minister of Montenegro, will provide support at the highest policy and political level, by providing additional impetus for the implementation of activities related to the reform of public administration and public finance. The Council will also report on the implementation of this Sector Reform Performance Contract and, if necessary, it will discuss the mitigation of identified risks. Besides the representatives of the competent national institutions, the Council members are the representatives of non-governmental organizations, academic community and the Agency for Data Protection and Free Access to Information, allowing additional inputs and suggestions for better implementation of this Budget Support action.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## **5. PERFORMANCE MEASUREMENT**

### **5.1. Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the log-frame matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support). The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

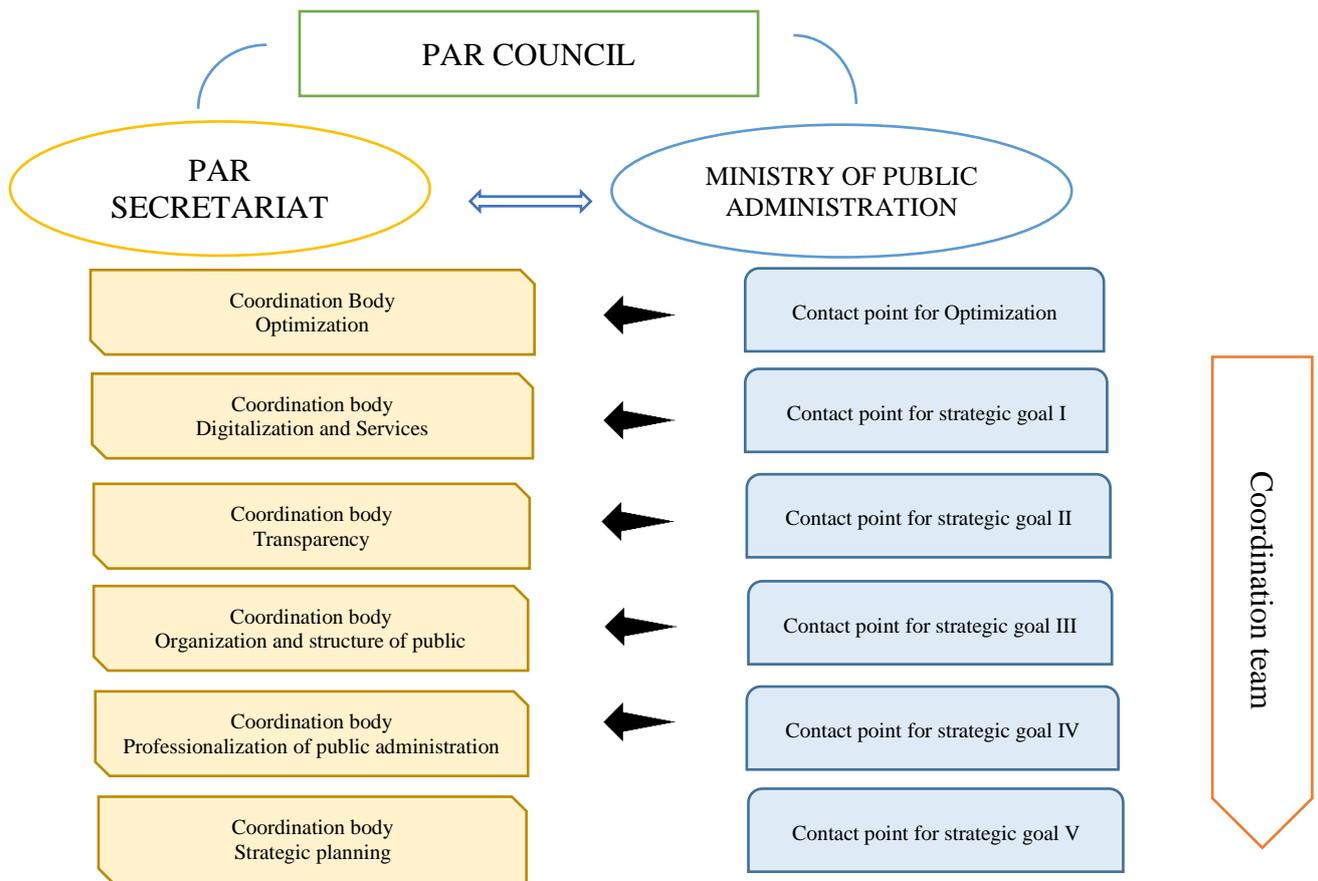
Managing PAR process implies effective coordination in its implementation and monitoring, as well as an efficient way of reporting on the results achieved in the implementation period. When it comes to monitoring the process at the political level, the Public Administration Reform Council (PAR Council) will provide support to both PAR and PFM reform processes at the highest level. At operational/technical level, a Coordination team within the MPA (Directorate for Strategic Planning, International Cooperation and IPA projects) was established, with the main purpose of monitoring the process of implementation of the PAR Strategy and the relevant Action Plan. This coordination team consists of technical representatives from all institutions implementing reform activities. In addition, contact persons for each strategic goal are identified, including for the area of optimization. Contact persons are responsible for providing data on the level of implementation of indicators, and monitoring the implementation of the

strategic objectives. These will also provide all necessary inputs (data statistics, reports, analysis, etc.) to Coordination bodies.

Based on the previous experience and lessons learnt, at policy level separate Coordination bodies (with high officials, managers and selected experts in different areas as members) are established for each relevant strategic thematic area, with the purpose to give impetus to the implementation of the strategy and to support a more efficient reporting process. In addition, for exceptional issues of importance within the Strategy, ad hoc experts' groups will be created, which would consist of experts from national institutions, international organisations and/or prominent experts in relevant fields.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

Proposed strategy coordination and monitoring structure:



NB this will also include the Ministry of Finance for the PFM focused activities.

The need to establish a PAR Secretariat stems from the experience of the previous PAR Strategy and from the analysis of the work of the PAR Council so far. The Secretariat will improve the work of the Council by contributing to the coordination and dialogue among all stakeholders involved in the public administration reform process and by providing additional expertise and technical support for the improvement of public administration work.

Monitoring will ensure regular collection and analysis of data on the achievement of goals and results during the implementation of activities. The annual monitoring report, in accordance with the national “Methodology for Policy Development, Development and Monitoring of the Implementation of Strategic Documents”, will contain the following elements:

- Brief introductory summary with general assessment of the implementation of the strategic document;
- Specific values and fulfilment of result indicators (and performance indicators if available);
- Information on spent financial resources, in relation to the planned ones, with sources of financing;
- Identified challenges and recommendations for more efficient realization of goals;
- Changes, if any, in the deadlines for achieving the goals;
- Gantt chart or other tabular presentation of achieved goals;

Various data sources will be used to create an objective report: data provided by relevant institutions, government materials, reports on the implementation of the work program of institutions, interviews with contact persons, focus groups with relevant parties, NGO materials, research and reports of international organizations. The Monitoring report will be presented to the PAR Council and to the Government of Montenegro for adoption.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

Responsibilities for data collection, analysis and monitoring are on partner institutions when preparing the Requests for tranches, while European Commission will conduct independent evaluation of the request itself.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: despite the Ministry of Public Administration and, to less extend, the Ministry of Finance have established robust monitoring and reporting systems, existing capacity constraints in terms of human resources requires mitigating measures aimed at supporting monitoring and coordination of the strategies. This is due to the horizontal nature of the PAR and PFM strategies and the involvement of a high number of institutions at central and local level. Mitigating measures will take the form of complementary support to this Action.

## **5.2. Evaluation**

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or areas of support via independent consultants contracted by the Commission. It will be carried out for problem solving and learning purposes, in particular with respect to the continuous relevance of indicators and ongoing complementary assistance.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 2 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination<sup>33</sup>. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the action.

## **5.3. Audit and Verifications**

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

## **6. COMMUNICATION AND VISIBILITY**

Visibility of EU funding and communication about objectives and impact of actions are a legal obligation for all projects funded by the EU, as set out in the EU communication and visibility requirements in force. In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

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

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<sup>33</sup> See best [practice of evaluation dissemination](#)

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

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

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

## **7. SUSTAINABILITY**

This Action is based on the reform goals, specific objectives and activities of the national PAR and PFM strategies 2022-2026. As one of three key pillars for the EU accession process, progress in good governance is supported by Montenegro's clear political determination towards the EU integration and by strong policy dialogue at all levels.

Secondly, a well-structured national policy-level coordination will focus not only on the effective implementation of PAR and PFM policies but also on the allocation of sufficient funding in the annual and multi-annual national budgets, so to ensure that policy gains are not only credible but also sustainable in the mid-term.

Moreover, a number of actions implemented under the PAR and PFM reform will contribute to the sustainability of reform results, namely an improved capacity of policy making and implementation, a progressive transition towards programme-based budgeting and a performance-based monitoring and evaluation system.