1. Basic information

1.1 CRIS Number: 2011/023-173

1.2 Title: Strengthening State Aid Management

1.3 ELARG Statistical code: 3.8

1.4 Location: Montenegro

Implementing arrangements:

1.5 Contracting Authority: Delegation of the European Union to Montenegro

1.6 Implementing Agency: GIZ

1.7 Beneficiary (including details of SPO):

Ministry of Finance
SPO: Antonio Krcalovic, Head of Department for European Integration
Address: Stanka Dragojevica no. 2
81000 Podgorica, Montenegro
Mobile 069 515 900
e-mail: antonio.krcalovic@mif.gov.me

Ministry of Finance
Sefika Kurtagic, State Aid unit
Address: Novaka Miloseva 6
81 000 Podgorica, Montenegro
Mobile 063 262 770
E mail: sefika.kurtagic@mif.gov.me

The key target institutions are:
   - State Aid Control Commission
   - State Aid Unit of the Ministry of Finance

Financing:

1.8 Overall cost: 625,000

1.9 EU contribution: 500 000 €
1.10 Final date for contracting: Three years from the date of the conclusion of the Financing Agreement

1.11 Final date for execution of contracts: Two years from the final date of contracting

1.12 Final date for disbursements: One year from the final date for execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall Objective:

To strengthen institutional capacity of Montenegrin state aid authorities to manage and enforce the EU State Aid policies.

2.2 Project purpose:

To establish and enforce fully harmonised legal system for State Aid in Montenegro in line with EU legislation.

2.3 Link with AP/NPAA/EP/ SAA

The European Partnership (EP) document stresses the need to continue strengthening the relevant Internal Market authorities, aligning fully domestic legislation with the acquis and SAA requirements and its enforcement by all relevant authorities.

As for the link with the SAA, relevant pieces of legislation have been either adopted or prepared, within the meaning of “gradual harmonisation” commitment enshrined in Article 72 of SAA. Special concerns are the priority areas, which means “fundamental elements of the Internal Market acquis“, referred to in Art. 73 – 79, which includes provisions for the regulation and mechanisms for the monitoring of State Aid. The need for strengthening administrative capacity in these priority areas from the acquis was further emphasised in the 2010 EC’s Opinion document on Montenegro’s application for EU Membership.

It should also be noted that the National Plan for Integration (NPI), adopted in 2008, is the key document which - according to the Article 72 of SAA – guides toward the gradual implementation of compatible legislation of Montenegro with the EU acquis, for the period 2008 – 2012, thus in accordance with SAA, focus on fundamental elements of the here elaborated Internal Market acquis (p. 124-127; 190-198; 198-202; 474-477).
2.4 Link with MIPD

The project is a high priority as agreed in the MIPD (2011-2013). The MIPD states that "EU considers that financial assistance is needed to address the shortfalls mentioned in the Opinion, not only from IPA, but also from other donors as well as from Government. The following priorities for IPA support over the period covered by this MIPD have been grouped in three areas: (1) support to the key priorities of the Opinion; (2) the opening of three new components; (3) support to the acquis."

Thus, specifically, IPA support is focussed in the MIPD as per the outcomes of the Opinion highlighting that Montenegro should, (i) in the medium term, have the capacity to "comply with the requirements of the acquis in the following fields": taxation; enterprise and industrial policy; science and research; education and culture; customs union; financial and budgetary provisions; (ii) develop "additional efforts" in the following fields: freedom of movement for workers; right of establishment and freedom to provide services; free movement of capital; public procurement; company law; competition policy; financial services; information society and media (incl. electronic communications); intellectual property rights; transport policy; energy; economic and monetary policy; trans-European networks; consumer and health protection (incl. actions in public health);2

This Project will directly contribute to strengthening capacities related to the acquis chapter on Competition

2.5 Link with National Development Plan (where applicable)
N/A

2.6 Link with national/ sectoral investment plans(where applicable)

Under the umbrella of the NPI there are a number of sector-specific strategic documents, including a Strategy for Competition Protection and an Action Plan for the State Aid Control Commission, both of which directly link to this project.

3. Description of project

3.1 Background and justification:

The strategic goal of Montenegro is to become a member of the EU. Under Article 72 of the SAA (initialled in April 2007), the country committed itself to harmonise its laws with those of the European Union. A key element of any pre-accession strategy is preparing the state to adopt and apply the acquis. The funds, required to support this process, since 2007, have been provided by the Instrument for Pre-Accession Assistance (IPA), which is the financial tool replacing the previously existed CARDS programme.

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1 Multi Annual Planning Document 2011 – 2013, page 7
The Government is undertaking concrete steps to put in place the required legislative mechanisms and create the institutional infrastructure that is necessary to allow the country to participate in the internal market upon the country's accession to EU.

The overall legal framework for the control of State Aid is now in place, including the new Law on Control of State Aid adopted by Parliament and entered into force on the 9th of November 2009, and the various Decrees issued just last year (2010):

- Decree on more detailed criteria, conditions and manner for granting State Aid
- Decree on the manner and procedure for submission of State Aid notification
- Decree on the manner of keeping records on State Aid
- Rulebook on contents of the annual report on granted State Aid

However, as the EC’s 2010 Analytical Report comments, “Certain legislative provisions need, however, to be aligned more closely with EU rules, e.g. the rights of third parties to file complaints.”

With regard to the administrative arrangements, the 2007 legislation provided for the establishment of the Commission for the Control of State Aid (State Aid Control Commission - SACC) as an operationally independent body, and of a separate State Aid Unit (State Aid Unit - SAU) within the Ministry of Finance. Thus, in the area of state aid an effective and comprehensive system for ex-ante control is being slowly created. The State Aid Control Commission, comprising of 9 members, is authorised to approve the granting of State aid, to order recovery of unlawful State aid and to carry out ex-post supervision. In June 2010, the State Aid Control Commission adopted an annual report on State aid control. Despite these first positive developments, the State Aid control system needs to be further strengthened and the capacity of the State Aid Unit and State Aid Control Commission upgraded.

The 2010 Analytical Report emphasises that “efforts will be needed to strengthen the institutional capacity and independence of the State Aid Control Commission. Its enforcement record and the quality of its decisions need to be closely monitored in the future. This will include in particular the compatibility of the restructuring aid being granted to the metal industry with the obligations undertaken by Montenegro in the SAA”.

The current project is conceived as a tool to address the issues outlined in the EC Progress and Analytical reports. It addresses both needs of improving the legislative mechanisms and of ensuring the required administrative and institutional capacities to sustain the reforms. The Project builds upon some of the results of IPA 2009 project „Accession to the Internal Market”. However, the Internal Market project has a number of expected results, with only one of them related directly to State Aid. Thus, given the outstanding legislative and administrative gaps and the current adverse economic climate, there is an urgent need for an intervention to ensure that appropriate regulations, systems, and institutional arrangements are in place to manage State Aid in accordance with the acquis expectations.
3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

The project invests in gradual preparation of the Montenegrin regulatory systems of competition and state aid for the challenges of joining the internal market. It combines activities related to improvement of both the legislative systems and the administrative capacity in both horizontal and vertical perspective. A focus is put also on raising the public awareness on key issues related to the normal functioning of the market economy. This integral approach will ensure the progress in enforcing the internal market-related policies of Montenegro. Thus, the project will impact positively the national economy by enlarging the space for competition and restricting unfair business and administrative practices. Stronger competition will ensure innovation, benefits for consumers, economic growth for the country.

The project will have also a positive impact on the capacity of both the public administration and stakeholders from outside government to sustain long-term reforms. By creating a pool of Montenegrin officials, judges, and representatives from business associations well acquainted with the key issues related to the internal market – the core of the EU integration - the project will enlarge the resources of the country, thus allowing smooth cooperation and coordination with the respective EU bodies.

The catalytic effect of the project is reflected on speeding up of the reforms in all areas related to the internal market. The adoption of new legislative instruments in the sectors of state aid will enhance the need for further legal harmonization to ensure the free movement of goods, services, people and capitals and favourable business environment. In the end, the catalytic effect of the enforced internal market fundamental policies will be illustrated through increased competitiveness of the Montenegrin industry, better level playing field for foreign (e.g. regional) investors, and better and efficient trade regimes with the EU, CEFTA, and WTO.

The sustainability of the project results will be addressed through the adoption of legislative texts and strengthened administrative capacity, which create the framework needed for successful further progress in introducing the EU internal market principles. Tools for achieving sustainability are training of the officials and other stakeholders, strong awareness-raising measures at all levels (public and private partners and general public), established links between Montenegrin and EU institutions. An important contribution to the sustainability of these arrangements is the production and updating of Manuals on the control and monitoring of State Aid, as well as the appropriate documentation of case studies and database maintenance, and the creation of mechanisms to facilitate better access to information on State Aid. (For example, through the web pages of the State Aid Unit and the networks associated with the various stakeholders involved in the State Aid working group.)

More efficient and transparent Internal Market institutions operating in compliance with the EU standards (in the case of this project, the State Aid Control Commission and State Aid Unit)) will also ensure stable investment environment, which in its turn will attract investors and will enhance the country's economic development.

The internal market legislative and institutional enforcement will foster regional integration processes of Montenegro as well.
3.3 Results and measurable indicators:

Result 1: Legislation on State Aid area reviewed, amended and adopted, and the accompanying, implementing rules, including their practical application at central, regional and local level, adopted

The achievement of this result will be measured by the following indicators:

- Legislative texts – laws and by laws on state aid control adopted by Parliament and Government;
- Increase in the number of reports by 50% from State Aid granting bodies received annually by the State Aid Unit.
- Increase in the number of formal applications by 50% from all levels (national, regional, and local) for advice from State Aid Unit on State Aid granting issues

Result 2: Strengthened institutional and administrative capacity of the State Aid Unit (State Aid Unit) and Commission for Control of State Aid for effective implementation and efficient enforcement of State Aid legislation, including state aid related legislation on SGEI/PSO.

The achievement of this result will be measured by the following indicators:

- Average time for dealing with cases reduced by 40%
- An increase in the percentage of pro-active investigations (by at least 50%) as compared with investigations initiated as a reaction to complaints from 3rd parties;
- Approved Decision on the monitoring and control system for State Aid;
- Increase in 50% of the number of State Aid granting bodies reporting to the State Aid authority;
- At least 3 members of State Aid Unit trained in institutions of EU or in Member States;
- At least 8 persons from State Aid Unit and State Aid Control Commission benefitting from regular training on State Aid issues.

Result 3: Improved understanding on state aid policy among Governmental and local self government authorities, private sector as well as judiciary

The achievement of this result will be measured by the following indicators:

- At least 70 people working in governmental and local governmental institutions trained;
- At least 5 relevant judges and 50 people working in private sector trained;
- Representatives from both central and local government, the judiciary, and representative groups of the private sector regularly participate in events to discuss State Aid issues (at least 8 workshops/seminars in total up to 16 training days conducted);
- Decisions and annual report are publicly available;
- State Aid Control Commission web page developed;
- No of website visits (State Aid Unit / State Aid Control Commission);
- A variety of information channels in use concerning State Aid control issues.
- No of publications in media (regarding State Aid)
- No of info events organized;

3.4 Activities:

Component 1: Legal frame on State Aid completed and adopted

1.1. Review of the national state aid legislation (law and bylaws) with EU acquis and assessment of the gaps of the State Aid law and bylaws with view to the EU sectoral acquis

1.2. Establishment of a working group including all key stakeholders to discuss State Aid legal acts/cases and find efficient solutions

1.3. Transposition of the EU legislation in line with assessment by drafting of the needed amendments and legislative texts

1.4. Organisation of meetings, round tables and workshops at national/local level with key stakeholders to discuss the proposed legislative changes and gain public support;

1.5. Update of the existing procedures and Manual on the granting and monitoring of State Aid in line with any legislative amendments.

Component 2: Capacity building for implementation and enforcement of State Aid legislation

2.1. Mentoring and on-the-job coaching to staff of State Aid Unit and State Aid Control Commission in enforcement of state aid legislation and monitoring, including SGEI/PSO state aid related legislation, and the documentation of cases, inventory maintenance, and annual reporting;

2.2. Conducting at least 40 training days (through workshops and seminars) for SACC and SAU.

2.3. Organisation of at least 1 study tour and/or internships for SAU and SACC in EU institutions/ Member States.

Component 3: Awareness raising

3.1. Organisation of at least 3 seminars/workshops on State Aid issues for:

- government and local self government authorities,
- private sector representative groups,
-judges;

3.2. Establishment/update of State Aid Unit / State Aid Control Commission internet page, including training on management and operation;

3.3 Translation of selected EC Regulations and other interpretative documents of the EU and make them public through the State Aid Unit web site and other means

3.4. Organisation of one international conference in Montenegro on state aid.

3.5 Conditionality and sequencing:

The successful implementation of this project will make a clear contribution to good governance in Montenegro, and to the functioning of its democracy. Nevertheless, further political support and commitment at central governmental and parliamentary level is needed. This support is indicated by ensuring the required financial, human and material resources for the smooth operation.

The project will be implemented through a delegated agreement with GIZ, who are also in the process of implementing the related IPA 2009 project on ‘Accession to Internal Market’. As there is only one Agreement (contract) there is no ‘sequencing’ issue.

Important conditions that may reflect on achievement of the project objectives include:

- Willingness of key institutions to cooperate;
- Readiness of the Government and other state institutions to continue to harmonize national legislation with EU legislation;
- Good and continuous interaction between State Aid Unit / State Aid Control Commission and other stakeholders relevant for the enforcement of state aid rules;
- Staff retained and sufficient resources (financial, human and technical) allocated for monitoring state aid (five staff of State Aid Unit, and nine members of SA Commission)
- Enough absorption capacity at the governmental and local self government level for the planned TA activities;
- Private sector/judges interested in State Aid policy;

3.6 Linked activities

Some of the projects and external technical assistance which directly link to this project are:

‘Accession to Internal Market’ (AIM) project (IPA 2009) with the Ministry of Economy as the primary Beneficiary, and including the Ministry of Finance as a secondary Beneficiary, began implementation in mid-2010. The Delegation Agreement between the EU Delegation and the GIZ for the execution of this Action was signed on March, 18th, 2010, and entered into force on June 1st, 2010. This Action is positioned within Montenegrin overall EU accession process,
namely SAP reflected through signed and ratified SAA, which from May 1st 2010 entered into force.

Meeting SAA challenges is a step towards utilizing the Instrument for Pre-Accession (IPA) in the best possible manner to support this particular segment of EU integration process. Crucial to the success of utilizing this IPA 2009 assistance is an understanding of where the Montenegrin Internal Market sector is today, where and how to focus best in enhancing this sector in both regulatory and administrative capacity terms, all resulting in securing sustainability, so that directing funding support makes the greatest impact. Thus, this project has activities to achieve a‘strengthened capacity for protection of consumers and efficient market surveillance’ and some actions to contribute towards a ‘strengthened capacity for conducting effective competition and state aid control policy’. Coordination between this 2009 project and the proposed 2011 project is assured, with efficiencies being maximised through the related implementation arrangements.

UNDP, Capacity Development Program, that is still running has provided assistance for a Capacity Development Programme for supporting the coordination role of the MFAEI (former MoEI), and strengthening institutional capacities related to SAA implementation. It has also been active in past years in supporting the work of the Parliament and strengthening the capacity of both administrative staff and parliamentarians.

3.7 Lessons learned

There are a number of generic lessons learnt through previous assistance to Institution Building in Montenegro which need to be incorporated into the implementation of this State Aid project. These include:

- **Conditionality:** Often project implementation is hampered by both insufficient staff or/and high turnover of staff, and resources allocated to (newly established) institutions is sometimes inadequate to them to properly exercise their mandate. The availability of the needed human resources has to be considered as a pre-condition for the project start.

- **Coordination within the** key stakeholders Further improvements in the regulatory systems are dependant on the stronger government leadership and the inter-institutional coordination, and on finding working operational mechanisms for coordination and harmonisation of policy in the area of competition and state aids. The project will create a body that will facilitate the coordination amongst stakeholders.

- **Project methodology:** The most effective style of work requires a pragmatic and participatory approach. The public administration is relatively small and under considerable workload pressure. Coaching and provision of practical examples as well as exchange of experience is more successful when based on small group discussions on particular issues of current concern to the involved officials. Cross-disciplinary and cross ministerial discussions could be constructive where the subject requires inter-institutional co-ordination and high-decision makers' involvement.

- **Awareness:** the introduction of new legislation requires substantial efforts to be accepted and respected. Involving social partners (private sector representative organisations) could play important role for dissemination of the project results and respect of the newly adopted legal frame
It can also be noted that in specific reference to this State Aid project, the expected results are attempting collectively to build institutional capacity for upholding certain principles of the EU. In this respect the project has been designed to take on board the lessons implied in the 2010 Analytical Report, whereby capacity to ensure government at both central and local level adheres to Public Service Obligations (PSO) is not just a technical issue, but a systematic one which needs to be enshrined in the working practices of both public officials and other stakeholders.

4. Indicative Budget (amounts in €)

<table>
<thead>
<tr>
<th>Activities</th>
<th>TOTAL PUBLIC COST</th>
<th>EU CONTRIBUTION</th>
<th>NATIONAL PUBLIC CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% *</td>
<td>IB</td>
</tr>
<tr>
<td>All activities are covered by</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract 1 (IPA)</td>
<td>625000</td>
<td>500,000</td>
<td>80</td>
</tr>
<tr>
<td>TOTAL</td>
<td>625,000</td>
<td>500,000</td>
<td>80</td>
</tr>
</tbody>
</table>

Co-funding of 125,000 EUR will be provided by GIZ (Joint cofinancing)

** compulsory for INV (minimum of 25 % of total EU + national public contribution) : Joint cofinancing (J) as the rule, parallel co financing (P) per exception
* expressed in % of the Total Public Cost

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3 Subject to approval by German Federal Ministry for Economic Co-operation and Development (BMZ).
5. Indicative Implementation Schedule (periods broken down per quarter)

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1(IPA + NC)</td>
<td>NA</td>
<td>Q1 2012</td>
<td>Q1 2014</td>
</tr>
</tbody>
</table>

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity

There is extensive equal opportunity legislation in Montenegro. The proposed project will ensure that the internal policies, structure or operating procedures of the beneficiary institutions conform with and promote equal opportunity. In supporting legislative harmonisation, gender needs will be taken into consideration and provisions that enhance equal opportunities will be introduced. All project activities will respect the principles of equal treatment and opportunities for women, especially trainings and awareness events.

6.2 Environment

Environment protection legislation in Montenegro is comprehensive and is going through a process of harmonisation with the EU acquis. The proposed project will give due cognisance to environmental issues. Generally, introducing effective policies for consumer protection and market surveillance, industrial and intellectual property rights, and competition, has impact on nature protection as the increased awareness and demand on behalf of the consumers and the legislative requirements force business to invest into environmentally-friendly technologies. More specifically, education and training activities will also address the growing presence of environmental challenges to the internal market.

6.3 Minorities

The project will assist beneficiaries in implementing mechanisms to ensure that in the legislative process, the internal policies, structure or operating procedures of the beneficiary institutions the principle of equitable representation of ethnic minorities and the protection of minority rights is taken into consideration.
ANNEXES

1- Log frame in Standard Format

2- Amounts contracted and Disbursed per Quarter over the full duration of Programme

3 - Reference to laws, regulations and strategic documents:
   - Reference list of relevant laws and regulations
   - Reference to AP /NPAA / EP / SAA
   - Reference to MIPD
   - Reference to National Development Plan
   - Reference to national / sector investment plans

Institutional Arrangements

4 - Details per EU funded contract
### ANNEX 1: Logical framework matrix in standard format

<table>
<thead>
<tr>
<th>LOGFRAME</th>
<th>Programme name and number: Strengthening State Aid Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contracting period expires</td>
</tr>
<tr>
<td></td>
<td>Three years after conclusion of the Financial Agreement.</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires</td>
</tr>
<tr>
<td></td>
<td>One year after the final date for the execution of contracts</td>
</tr>
<tr>
<td></td>
<td><strong>Total budget:</strong> 625,000</td>
</tr>
<tr>
<td></td>
<td><strong>IPA budget:</strong> 500,000</td>
</tr>
<tr>
<td><strong>Overall objective</strong></td>
<td><strong>Objectively verifiable indicators</strong></td>
</tr>
<tr>
<td>Strengthen institutional capacity of Montenegrin state aid authorities to manage and enforce the EU state aid policies.</td>
<td>• Enforcement record of relevant state aid legal framework in line with Internal Market practise.</td>
</tr>
<tr>
<td></td>
<td>• Institutions capable to manage the acquis and to implement the state aid policy</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Project purpose</strong></td>
<td><strong>Objectively verifiable indicators</strong></td>
</tr>
<tr>
<td>Established and enforced fully harmonised legal system of State Aid in Montenegro in line with EU legislation</td>
<td>• Legislation compatible with EU aquis</td>
</tr>
<tr>
<td></td>
<td>• Significant progress reported externally on Montenegro’s Internal Market readiness for EU Membership</td>
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<tr>
<td></td>
<td>• 50% increase in the number of assessments of notified State Aid cases by the end of the project.</td>
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<tr>
<td></td>
<td>• Decrease in the annual incidence of the non notified State Aid cases</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td><strong>Objectively verifiable indicators</strong></td>
</tr>
<tr>
<td>Result 1: Legislation on State Aid area reviewed, amended and adopted, and the accompanying implementing rules., including their practical application at central, regional and local level, adopted</td>
<td>- Legislative texts – laws and by laws on state aid control adopted by Parliament and Government;</td>
</tr>
<tr>
<td></td>
<td>- Increase in the number of reports by 50% from State Aid granting bodies received annually by the State Aid Unit.</td>
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<tr>
<td></td>
<td>- Increase in the number of formal applications by 50% from all levels (national, regional, and local) for advice from State Aid Unit on State Aid granting issues</td>
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</tbody>
</table>
Result 2: Strengthened institutional and administrative capacity of the State Aid Unit and State Aid Control Commission for effective implementation and efficient enforcement of State Aid legislation, including state aid related legislation on SGEI/PSO

- Increase in the quality of the management of ‘cases’ investigated by State Aid Unit, as measured by the timeliness of the investigation (average time for dealing with cases reduced by 40%) and an increase in the percentage of pro-active investigations (by at least 50%) as compared with investigations initiated as a reaction to complaints from 3rd parties
- Approved Decision on the monitoring and control system for State Aid;
- Increase in 50 % of the number of State Aid granting bodies reporting to the State Aid authority;
- At least 3 members of State Aid Unit trained in institutions of EU or it Member States;
- At least 8 persons from State Aid Unit and State Aid Control Commission benefitting from regular training on State Aid issues.
- At least 70 people working in governmental and local governmental institutions trained;
- At least 5 relevant judges judges and 50 people working in private sector trained;
- Representatives from both central and local government, the judiciary, and representative groups of the private sector regularly participate in events to discuss State Aid issues (at least 8 workshops/seminars in total up to 16 training days conducted);
- Decisions and annual report are publicly available;
- State Aid Control Commission web page developed;
- No of website visits (State Aid Unit / State Aid Control Commission);
- A variety of information channels in use concerning State Aid control issues.
- No of publications in media (regarding State Aid)
- No of info events organized

Result 3: Improved awareness on state aid policy among Governmental and local self-government authorities, private sector as well as judiciary

- Training & learning materials;
- State Aid Control Commission web page;
- Project reports;
- Annual report;
- State Aid database Internet statistics

Activities | Means | Costs | Assumptions
--- | --- | --- | ---
Result 1: Legislation on State Aid | Delegated Agreement with GIZ | EU co-financing 500.000 € (125.000 €) | Collaboration and commitment

- Willingness of key institutions to cooperate.
- Administrative staff turnover low.

- Enough absorption capacity at governmental and local self-government level for the planned activities;
- Private sector/judges interested in State Aid policy
- New legislation adopted by the Parliament in due time.
1.1 To review national state aid legislation (law and bylaws) with EU acquis;  
1.2 To make a gap assessment/Draft law and bylaws;  
1.3 To transpose EU to national legislation in line with assessment  
1.4 To assist in adoption of law and bylaws through organizing meetings, round tables, at national/local level with key stakeholders; - with preparation of bylaws...- secondary legislation  
1.5 To update existing procedures and Manual on the granting and monitoring of State Aid in line with any legislative amendments.

Result 2: Capacity building for implementation and enforcement of State Aid legislation

2.1. To provide mentoring and on-the-job coaching to staff of State Aid Unit and State Aid Control Commission in enforcement of state aid legislation and monitoring, including SGEI/PSO state aid related legislation, and the documentation of cases, inventory maintenance, and annual reporting;  
2.2. To build capacity of State Aid Unit and State Aid Control Commission staff by workshops, seminars, internships and study trips [internships for State Aid Unit staff and study trips for State Aid Control Commission staff in EU institutions/ Member States];  

additional contribution by the German Federal Ministry for Economic Co-operation and Development (BMZ))  

and relevant institutions in the State Aid area;
2.3. To set up a working group including all key stakeholders and facilitate regular meetings to discuss State Aid legal acts/cases and find efficient solutions

Result 3: Awareness raising
3.1. To support awareness increase through seminars/workshops on State Aid issues for:
   - government and local self-government authorities,
   - private sector representative groups,
   - judges;

3.2. To support the establishment/update of State Aid Unit / State Aid Control Commission internet page, including training on management and operation;

3.3. To translate selected EC Regulations and other interpretative documents of the EU and make them public through the State Aid Unit web site and other means
3.4. To support State Aid Unit / State Aid Control Commission holding of one international conference in Montenegro.
ANNEX 2: amounts (in €) Contracted and disbursed by quarter for the project

<table>
<thead>
<tr>
<th>Contracted</th>
<th>Q1 2012</th>
<th>Q2 2012</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
<th>Q1 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1</td>
<td>500,000</td>
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<tr>
<td>Cumulated</td>
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</table>

Disbursed

| Contract 1 | 225,000 |         | 225,000 |         |         |         |         |         | 50,000  |
| Cumulated  | 225,000 |         | 450,000 |         |         |         |         |         | 500,000 |
ANNEX 3: Relevant laws, regulations and Institutional Arrangements

Laws

- Law on State Aid Control
- Decree on more detailed criteria, conditions and manner for granting State Aid
- Decree on the manner and procedure for submission of State Aid notification
- Decree on the manner of keeping records on State Aid
- Rulebook on contents of the annual report on granted State Aid
- Budget Law

Institutional Framework

The State Aid Unit will have five people employed, according to the Rulebook on internal organization and systematization of the Ministry of Finance (December 2009 version). Currently there are four civil servants working for the State Aid Unit. Please find bellow the organizational chart of the Ministry Finance.

The Commission for Control of State Aid is a body appointed by the Government, which consists of a President and eight representatives from various ministries and other bodies - authorised to supervise and control the granting and utilisation procedures, as well as the possible return of state aid in case of irregularities. It is also empowered with the evaluation of the state aid programmes and individual state aids as well as with the initiation of proceedings necessary for the recovery of state aid which was illegally approved. According to Article 11 paragraph 1 of the Law on State Aid control, the Commission consists of a chairman and eight members.
ANNEX 4: Details per EU funded contract

Contract: indirect centralised management (delegation agreement to GIZ)

The selection of the method of implementation and the delegatee body is based on:

1. Exclusive experience of GIZ in Montenegro in introducing the EU internal market policies in Montenegro and in contributing to the approximation of the legislation in the key project fields (competition and state aid, from 2005 to 2011). Currently GIZ is implementing the AIM Project to the full satisfaction of the beneficiaries. Harmonizing activities of the IPA-program and Montenegrin-German bilateral cooperation by combining funding and project implementation will allow using synergies and ensuring effective assistance to the beneficiaries.

2. The need to sustain the reforms in the targeted sector (state aid) without a delay and using the momentum gained through the AIM project. This requires a very quick launch of the current project after the signing of the Financing Agreement.

3. Considering the capacity of the EU Delegation as a contracting authority, the number of projects funded under IPA (2008, 2009, & 2010) as well as the fact that the introduction of DIS in managing the EU funds will not be achieved until 2012.

The Contract will be managed by a project manager, whose tasks include:

- Overall project supervision and coordination to ensure high quality outputs and results;
- Mobilising short- and medium term experts and approval of their performance;
- Executing administrative tasks (i.e. preparation of reports, side letters etc.)
- Communication with the beneficiaries and the Contracting authority;
- Participation in the regular Steering Committee meetings.

The human resources to be ensured for the implementation of this contract include at least the following senior experts: a legal harmonization expert, a capacity building expert, a training expert, and awareness raising expert. Junior experts will be appointed upon the discretion of the contractor. The input from the Project manager and the senior experts will be provided in the beneficiary country and in the place of residence ensuring however expertise on site. Junior experts are expected to work mostly in the beneficiary country.

The Ministry of Finance will assign one person as a National Project Coordinator, who will interact with the Contractor and the EU Delegation. The work of the national project coordinator will be supported by the State Aid Unit.

Additionally, the Ministry of Finance will have to:

- Ensure the participation of the appropriate people in all project events and activities;
- Actively cooperate in making available information relevant to the project;
- On own initiative and upon request by the Contractor, establish contacts with people and organisations that are considered instrumental in achieving the project objectives;
- Provide all possible assistance to solve unforeseen difficulties related to implementation;
- Provide technical and organisational support for the organization of the international conference.

A Steering committee (SC) will be established to review the project progress. It will comprise of representatives of beneficiary institutions and the EUD. The SC may invite other organisations to attend meetings where this will bring added value to discussion, direction and outcomes of the Project. Representatives of the other key stakeholders may also be invited at the meetings of the SC. The Contractor will provide the SC with expert and secretarial support.

The main functions of the SC are to:
- assess Project progress and guide it strategically;
- jointly discuss any critical points or bottlenecks for further project implementation;
- propose and discuss remedy actions to be taken in order to tackle problems;
- issue recommendations on timing or project contents, and
- comment and discuss the project reports.

The SC will meet at least every six months.