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ANNEX 1

to Commission Implementing Decision
adopting an Annual Action Programme for Montenegro for the year 2017 part 1

1 IDENTIFICATION

Beneficiary	<i>Montenegro</i>
CRIS/ABAC Commitment references	IPA/2017/040-216 EUR 3 868 853 (22.020101) IPA/2017/039-816 EUR 9 642 250 (22.020102)
Total cost	IPA/2017/040-216 EUR 4 812 705
EU Contribution	EUR 3 868 853 IPA/2017/039-816 EUR 11 343 824 EUR 9 642 250
Budget line	22.020101 and 22.020102
Management Mode/ Entrusted entities	<p>Indirect management by the entrusted entities listed below:</p> <ul style="list-style-type: none">– <i>Central Finance and Contracting Unit / Directorate for the Financing and Contracting of EU Assistance Funds (CFCU), Ministry of Finance, For Action 1</i>– <i>In case of action “Participation in Union Programmes”, implementation will consist in the payment of the IPA part of the financial contribution to the programmes by the National Fund.</i>– <i>Directorate of Public Works, Ministry of Sustainable Development and Tourism for Action 3</i> <p>The following lead institutions will be responsible for the execution of the Actions:</p> <ul style="list-style-type: none">– <i>Ministry of European Affairs for Action 1 and 2</i>– <i>Ministry of Transport and Maritime Affairs for Action 3</i>

Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary	At the latest by 31 December 2018
Final date for concluding <u>procurement and grant contracts</u>	3 years following the date of conclusion of the Financing Agreements, with the exception of the cases listed under Article 189(2) Financial Regulation
Final date for operational implementation	6 years following the date of conclusion of the Financing Agreements.
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreements.
Programming Unit	DG NEAR Unit D.1 Montenegro
Implementing EU Delegation	Delegation of the European Union to Montenegro

2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

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

The Annual Action Programme (AAP) for Montenegro for the year 2014 contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro¹ through formulating actions covering six of the eight priorities defined in the ISP. The first sectors covered by IPA II funds included *Democracy and governance*, the *Rule of law and fundamental rights*, *Environment and Climate Action*, *Transport*, *Competitiveness and Innovation*, and the *Agriculture and rural development* sector. Following the sector approach the *Annual Action Programme for Montenegro for the year 2015* covered *Democracy and governance* and the *Rule of law and fundamental rights* sectors. It also included the first sector budget support programme aimed at supporting the implementation of the Integrated Border Management Strategy.

Formulation of the *Action Programme for the year 2016* also followed the principle of sector approach. In 2015 Montenegro developed a *Regional Development Operational Programme 2016-2020 (RDOP)* to provide a multiannual framework for IPA programming in *Environment*, *Competitiveness and Transport* sectors. The RDOP also defined the sequencing of the activities; the actions planned for 2016-2017 focus mainly on technical assistance, capacity building and project preparation, while from 2018 onwards competitiveness schemes will be introduced and physical infrastructure developments can be launched. Three actions have been prepared in parallel, each covering one of the three sectors identified in the RDOP. All of them also complement the previous IPA II support programmes implemented in the sectors. The *Action Programme for the year 2016* included the actions focusing on economic development and growth by providing assistance to the *Environment and Climate Action* and *Competitiveness and Innovation* sectors. The third action aiming at the improvement and development of the **Transport sector** with a total EU contribution of **EUR 9 642 250** is the main intervention in the present Annual Action Programme for Montenegro for the year 2017 – 2017 AAP(Action 3).

In addition to the assistance provided to the Transport sector, the IPA allocation of 2017 funds also targets the **Democracy and Governance** sector through setting up an EU Integration Facility with **EUR 2 898 000** EU contribution (Action 1) and supporting the participation of Montenegro in Union Programmes with a total EU contribution of **EUR 970 853**. The EU Integration Facility (EUIF) focuses mainly on technical support and capacity building related to the EU accession process. By ensuring the effectiveness and impact of actions financed through IPA II, the EUIF will also help the preparation for future cohesion and structural funds. Action 2 ensures Montenegro's participation in European Programmes by co-financing the participation fees or entry tickets.

The three actions are in line with the strategic objectives of the 2014 – 2020 Indicative Strategy Paper for Montenegro. With a **total EU contribution** of **EUR 13 511 103**, the 2017 AAP will bring added value to Montenegro, as well as to the European Union by supporting the integration process and the economic development of Montenegro. The 2017 allocation will help the country to modernise its transport infrastructure and to build the necessary

¹ C(2014)5771 of 18.08.2014 – Commission Implementing Decision adopting an Indicative Strategy Paper for Montenegro for the period 2014-2020"

capacities within the national institutions to support the negotiation process and the alignment of the national legislation with the EU Acquis.

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

In the **Democracy and Governance** sector, previous IPA actions provided support to set up an EU Integration Facility with a total EU contribution of EUR 4.6 million in 2014 and EUR 2.45 million in 2015. Regarding the Participation in Union Programmes, the 2014 and 2015 Annual Action Programmes for Montenegro support of EUR 0.86 million and EUR 1.68 million respectively covered the costs of participation fees for 2014-2015 and 2016-2017. Other previous Actions in the sector addressed the reform of the civil service and its legal framework. The 2014 programme included a number of actions linked to Public Financial Management.

Regarding the activity of other development partners and EU Member States, no "lead donor" was identified for the sector. Most donors have phased out their assistance from Montenegro. As a result, the European Union remains by far the principal donor in several areas. The United Nations Development Programme and the Organisation for Economic Cooperation and Development through the EU-funded Support for Improvement in Governance and Management (SIGMA) programme, have been key partners on enhancing good governance and participatory democracy. The Council of Europe Horizontal Facility (another EU funded initiative) also provides technical assistance and expertise to Montenegro in the areas of ensuring justice; fighting corruption, economic crime and money laundering; promoting freedom of expression and information; and promoting anti-discrimination and protection of the rights of vulnerable groups.

In the **Transport** sector, under the financial perspective 2007-2013, IPA assistance supported projects in the transport sector with more than EUR 23.4 million, mainly focusing on approximation with transport acquis, capacity building actions and infrastructure development, predominantly in the area of railways and maritime transport. Previous IPA actions targeted the development of the Bar-Belgrade corridor offering combined maritime-railway transport. In the area of road transport, IPA funded improvements to regional traffic flow conditions. Under IPA 2014 an EU contribution of EUR 5.18 million was provided to two actions aiming at the development of a road network database and safety assessment program (EUR 1.04 million) and the rehabilitation of the railway section Kos-Trebesica (EUR 4.14 million).

Additionally, through the Western Balkans Investment Framework blending facility, the participating institutions and countries also delivered important funding for strategic investment projects in the sector in the form of project preparation (five projects are under preparation or are already completed including projects for road improvement, construction of priority bypass and safety improvements on the railway line) or technical assistance (in total 12 grant projects including 5 completed).

Besides the EU, the Transport sector has also attracted several bilateral donors such as Czech Republic, Germany, France and Italy, as well as International Financial Institutions (IFIs) such as the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) among others. International donors are playing an active role in providing assistance to finance both road and railway infrastructure projects. Recent EIB loans will support road rehabilitation and city bypass constructions (EUR 30 million). Previously, EIB loans financed the rehabilitation of roads and bridges and the development of the railway infrastructure. EBRD also financed urgent road and rail rehabilitation projects and supported the modernisation of airport infrastructures.

Moreover, an agreement between Montenegro and China will support the construction of the Smokovac-Matasevo segment of the Bar-Boljare highway.

Experiences gained during the previous programming periods and implementation of previous projects shows some important **lessons learned** which need to be taken into account for future IPA assistance, in order to avoid possible overlaps and also to ensure that issues identified during the programming and/or implementation of previous projects will be addressed:

Strategic planning and programming:

In the context of preparation of IPA national programmes, it has become clear that beneficiaries require assistance in developing programmes and actions and that it is in particular necessary to provide a facility to enable limited support targeted specifically at the design-preparation phase before larger scale funds are committed to less-well defined and relatively high-risk actions. The government's strategic planning, **project prioritisation** and especially project implementation capacities need to be strengthened. Past experience shows that it is important to regularly update Strategic Planning documents, which are prioritised, based on the most recent reliable data. **Financial programming of infrastructure projects** requires special attention taking into account complementary studies such as environmental impact assessment, economic and financial feasibility, cost-benefit methodology and affordability limitations (fiscal space).

During the programming, more **focus should be given to sustainability** concerns having in mind that high employee turnover, reliance on temporary staff and lack of expert skills in the administration hinder proper implementation of policies and projects.

Sector approach:

Regarding the implementation of the EU Integration Facility under the national IPA 2014 programme, the experience shows that the beneficiary institutions are still relying in general on the IPA “project approach”. The sector approach concept should be **further internalised** for future IPA support in Montenegro, **avoiding isolated infrastructure projects**, and focusing more on the accession process, building among others the required capacities for a successful implementation of EU acquis.

Project implementation:

The implementation of projects requires that institutions have adequate staff capacities available for working on activities during the lifetime of the project. IPA assistance should be improved by **improving communication and coordination**, increasing administrative and monitoring capacity, better linking EU assistance to national sector strategies and action plans.

Lack of **mature projects and pipelines** of projects has been identified as one of the elements hindering IPA implementation. Projects should be analysed not only from the relevance but as well from the maturity point of view. **Project gap assessments** have to be carried out in order to identify the project's needs for being ready for implementation. For those projects being identified as a priority, measures need to be put in place in order to address well in advance the gaps and to finalise technical studies together with all necessary complementary documentations.

Internal capacities in the line Ministries for preparing adequate Tender dossiers have **to be reinforced**. On the other hand, the recent experience gained at the Directorate of Public Works as an Implementing body for contracting within the transport sector will facilitate a faster implementation during the next programming period.

Coordination among stakeholders:

As coordination among stakeholders is recognized as a problem, its overcoming will require comprehensive and clear information flows and focus on common understanding of responsibilities, obligations and deadlines. Additionally, competent authorities need to be proactive in cooperation with relevant internal and external stakeholders at central and local level. Coordination should also envisage formalised mechanisms to involve the relevant external stakeholder in the implementation and monitoring of policies and programmes.

List of Actions foreseen under the selected Sectors/Priorities:**Democracy and Governance**

INDIRECT MANAGEMENT WITH THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS	
Action 1 "EU Integration Facility"	EUR 2 898 000		
Action 2 "Support to participation in Union Programmes"	EUR 970 853		
TOTAL	EUR 3 868 853	TOTAL	

Transport

INDIRECT MANAGEMENT WITH THE IPA II beneficiary		OTHER IMPLEMENTATION ARRANGEMENTS	
Action 3 "EU Support to Transport Development"	EUR 9 642 250		
TOTAL	EUR 9 642 250	TOTAL	

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

SECTOR 1	<i>Democracy and Governance</i>		3 868 853 EUR
Action 1	EU Integration Facility	Indirect management by the Beneficiary	2 898 000 EUR

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

Description of the Action and objective:

The purpose of the EU Integration Facility (EUIF) is to provide high quality, cost-effective expertise to Chief Negotiator / National IPA coordinator but also to sector working groups, line ministries and all other relevant institutions or stakeholders in the overall process of EU accession, IPA II programming and implementation and preparation for cohesion and structural funds.

This Action would focus mainly on technical support and capacity building related to the EU accession process and it should ensure effectiveness and impact of actions financed through IPA II. The EUIF shall provide support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, but it may also be used in ad-hoc circumstances where EU assistance is required and/or suggested.

The general objective of this action is:

- To support Montenegro in successfully conducting the process of EU accession and managing the overall EU assistance

The specific objectives of the action are:

- To strengthen overall capacities for accession negotiations, transposition of the acquis and implementation of EU policies;
- To improve the quality and maturity of planning and programming documents and support effective and efficient management and absorption of IPA funds

Expected results:

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

Key performance indicators: The following indicators are proposed to measure the progress in implementation:

- Progress in accession to the EU
- Number of benchmarks met
- % of EU funds absorption

(2) Assumptions and conditions

Establishment and functioning of all relevant coordination mechanisms, as well as availability and commitment of the staff for capacity building interventions, represent the main assumptions that are needed before and during the implementation of this action.

Also, high fluctuation in staff working in state administration, particularly in the beneficiary institutions, represents potential risk that can affect implementation of this action.

Continued commitment of government structures to the accession process is one of the main conditions that have to be in place for an effective and timely implementation of this action. Government of Montenegro has expressed its strong commitment to membership of the European Union, which remains as one of Montenegro's highest strategic priorities.

(3) Implementation arrangements for the action

This action will be implemented in indirect management by Montenegro.

(3)(a) Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) in the Ministry of Finance

(3)(b) Short description of the tasks entrusted to the entity

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

Action 2	Support to participation in Union Programmes	Indirect management by the Beneficiary	970 853 EUR
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(1) Description of the Action, objective, expected results and key performance indicators

Description of the Action and objective:

Protocol 8 of the *Association and Stabilisation Agreement* provides the legal basis and establishes the general principles of Montenegro's participation in Union Programmes. On this basis, Montenegro has already signed Agreements to participate in a number of Union Programmes in areas such as education, science, culture, employment, entrepreneurship and innovation, taxation, custom system etc. The action will strengthen ownership and responsibility of Montenegro (including in financial terms) for participation in Union Programmes, and will contribute to an increase in the exchanges with EU Member States.

The objective of the action is:

- To ensure participation of Montenegro in Union Programmes by co-financing the costs of the entry-tickets/participation fees to be paid in areas such as set out in the respective international agreements governing the participation to Union programmes or agencies.

Expected results:

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

Key performance indicators: The below indicators are proposed for measuring the performance:

- Number of programmes for which an International Agreement has been concluded;
- Montenegro's participation rates in the different Union Programmes.

(2) Assumptions and conditions

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

Montenegro is responsible to pay the full amount of the entry ticket, prior to receiving the partial reimbursement from IPA II. The reimbursement will be paid as a grant to Montenegro. Following the reimbursement of the ticket from IPA funds, national co-financing will amount to at least EUR 943 852.

(3) Implementation arrangements for the action:

This action will be implemented in indirect management by Montenegro.

(3)(a) Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the **National Fund Division** in the Ministry of Finance.

(3)(b) Short description of the tasks entrusted to the entity:

This Action will consist of the payment of the IPA part of the financial contribution to the programmes by the National Fund.

SECTOR 4	Transport		9 642 250 EUR
Action 3	EU Support to Transport Development	Indirect management by Montenegro	9 642 250 EUR

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

Description of the action and objective:

This action benefits the railway, maritime/inland water land and road transport modes in terms of capacity building and acquis alignment. This action aims to combine support to the railway and maritime and inland waterways transport mode. In addition to supporting key infrastructure improvements and safety and security equipment, the Action aims also to strengthen capacities within the main relevant stakeholders in the transport sector (Ministry of

Transport and Maritime Affairs of Montenegro, Railway companies, Maritime Safety Department and Directorate for Public Works among others) as well to align national legislation with the *acquis* in order to complete the necessary steps for the EU accession. Finally, past EU funding experience through IPA 2007-2013 has highlighted the necessity to concentrate on building a wider and better prepared consolidated project pipeline reaching sufficient level of maturity for investment projects. The Single Project Pipeline has now defined the way to prioritize the infrastructures in line with the strategic planning and programming mechanisms, on both the Core and Comprehensive networks, with a particular focus on quick gains and removing bottlenecks at the borders with neighbours.

The general objective of the action is:

- To improve the transport system in Montenegro in terms of quality, efficiency and safety by ensuring alignment to EU standards and facilitating inter-connection of Montenegro with the neighbouring countries and the EU

The specific objective of the action is:

- To ensure alignment of the national legislation with the EU transport *acquis* and to increase the capacities for its implementation, as well as to improve rail, maritime and inland waterways transport

Expected results:

- Improved transport conditions and travel times on the railway corridor Bar–Vrbnica;
- Improved safety standards concerning maritime and inland transport;
- Improved capacity within national transport institutions and alignment with EU *acquis*.

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

- Logistics performance Index (LPI) for infrastructure
- Overall assessment of level of preparations of Montenegro under chapters 14 and 21

(2) Assumptions and conditions:

This action comes to support Montenegro in the process of improving its transport sector in the context of the Berlin Process and the Connectivity Agenda. Montenegro will also undertake to ensure that the conditions underlying the action are fully met throughout its implementation, as well as after its completion:

- Effective cooperation among the Ministry and the other competent authorities in the Transport sector;
- Continued implementation of the soft measures identified in the context of the Berlin process and the Connectivity Agenda;
- Successful continuation and realization of planned activities and commitment of all involved (Ministry and other stakeholders) to actively participate in the project;
- Montenegro remains committed to undertake horizontal public administration reforms;
- Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured.

(3) Implementation arrangements for the action:

This action will be implemented in indirect management by Montenegro.

(3)(a) Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the **Directorate of Public Works (DPW)**.

(3)(b) Short description of the tasks entrusted to the entity:

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the Action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

DPW, as the Implementing Agency under IPA, bears the sole responsibility for the proper implementation of all contracts in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Railway Infrastructure of Montenegro (ZICG AD) will provide support to the DPW whereby ensuring the proper technical implementation of the contract activities. In this regard, the DPW and Ministry of Transport and Maritime Affairs (MTMA) will closely cooperate throughout the contracts implementation process.

The MTMA and the Maritime Safety Department (MSD) will be the leading institutions concerning project execution.

The overall responsibility for the development, management and coordination of the transport sector in Montenegro lies within the MTMA, which will coordinate activities among stakeholders and define the time frame for the implementation of activities. Allocation of infrastructure facilities to all interested railway undertakings lies within the ZICG AD joint-stock company, established according to the Strategy of restructuring of the Railways of Montenegro.

The MDS will ensure conditions for, and actual performance of tasks stemming from the international obligations that the State has agreed to by signing conventions, agreements and protocols, related to the safety and security of navigation in the area of responsibility of the Contracting Government. They will actively participate in project implementation and will be final beneficiary of response equipment.

3 BUDGET

3.1 INDICATIVE BUDGET TABLE - ANNUAL ACTION PROGRAMME FOR MONTENEGRO FOR THE YEAR 2017

		Indirect Management with the IPA II beneficiary			Other implementation arrangements						
		EU Contribution	IPA II beneficiary Co-financing	Total expenditure		EU Contribution	IPA II beneficiary Co-financing	Total expenditure	MM	Total programme	Total EU Contribution
Objective 1	Sector 1 - Democracy and Governance	3 868 853	943 852	4 812 705						4 812 705	3 868 853
	Action 1 "EU Integration Facility"	2 898 000	0.00	2 898 000					Indirect		
	Action 2 "Support to participation in Union Programmes"	970 853	943 852	1 914 705					Indirect		
Objective 2	Sector 4 - Transport	9 642 250	1 701 574	11 343 824						11 343 824	9 642 250
	Action 3 "EU Support to Transport Development"	9 642 250	1 701 574	11 343 824					Indirect		
TOTALS		13 511 103	2 645 426	16 156 529		0.00	0.00	0.00		16 156 529	13 511 103

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

INDIRECT MANAGEMENT:

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

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

5 PERFORMANCE MONITORING ARRANGEMENTS

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

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

In the specific context of indirect management by IPA II beneficiaries, National IPA Coordinators (NIPACs) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

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