

ANNEX

Country Action Programme for Montenegro for the year 2016

1 IDENTIFICATION

<b>Beneficiary</b>	<i>Montenegro</i>
<b>CRIS/ABAC Commitment references</b>	IPA/2016/037896
<b>Total cost</b>	EUR 26 544 530
<b>EU Contribution</b>	EUR 22 948 900
<b>Budget line</b>	22.020102
<b>Management Mode/ Entrusted entities</b>	<p>Indirect management by the entrusted entities listed below:</p> <ul style="list-style-type: none"> <li>– <i>Directorate of Public Works</i> for Action 1, and <i>Central Finance and Contracting Unit (CFCU, Directorate for the Financing and contracting of EU Assistance Funds, Ministry of Finance,)</i> for Action 2, together with the lead institutions responsible for the execution of the Actions:</li> <li>– <i>Ministry of Sustainable Development and Tourism</i> for Action 1, and <i>Ministry of Economy</i> for Action 2</li> </ul>
<b>Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary</b>	At the latest by 31 December 2017
<b>Final date for concluding <u>procurement and grant contracts</u></b>	3 years following the date of conclusion of the Financing Agreements,  with the exception of the cases listed under Article 189(2) Financial Regulation
<b>Final date for operational implementation</b>	6 years following the date of conclusion of the Financing Agreements.
<b>Final date for implementing the Financing Agreement</b> (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreements.
<b>Programming Unit</b>	DG NEAR Unit D.1 Montenegro
<b>Implementing EU Delegation</b>	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 Country Action Programme for Montenegro for the 2014 under IPA II contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro<sup>1</sup> through actions covering six of the eight priorities defined in the ISP; *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. *Democracy and governance* and the *Rule of law and fundamental rights* sectors were also in the focus of the Annual Action Programme for Montenegro for the year 2015 through the sector budget support programme aimed at supporting the implementation of the Integrated Border Management Strategy. The *Action Programme for Montenegro for the year 2016* comes to complement the previous IPA II support programmes with a focus on economic development and growth by providing assistance to the **Environment and Climate Action** and **Competitiveness and Innovation** sectors.

Based on the sector approach principle, in 2015 Montenegro developed a *Regional Development Operational Programme 2016-2020 (RDOP)* to provide a multiannual framework for IPA programming in Environment and Competitiveness sectors (as well as Transport). The RDOP defines the sequencing of the activities; the actions planned for 2016-2017 will 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.

The Country Action Programme for Montenegro for the year 2016 allocates **EUR 16 000 000** for capacity building and *acquis* related activities for the sector **Environment and Climate Action** and **EUR 6 948 900** for strengthening the **Competitiveness and Innovation** sector of Montenegro. The two actions, in line with the strategic objectives of the ISP, will bring added value to Montenegro, as well as to the European Union by supporting the integration process and by contributing to the economic development of Montenegro and the EU.

The allocation of 2016 funds will help Montenegro to overcome the challenges faced by the sectors and hampering the growth potential of the country. In the field of Environment, Montenegro has significantly changed its legal and policy framework since 2007 by adopting new laws and further developing the strategic framework for the sector. However, the implementation of legislation lags behind the efforts made to improve the legal and policy framework. In the Competitiveness and Innovation sector, several obstacles hamper a sustainable growth of the Montenegrin economy, such as a limited access of SMEs to financing.

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

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

In the area of **Environment and Climate Action** sector, previous assistance under IPA I focused mainly on the alignment with the environmental *acquis*, administrative capacity building and infrastructure development in the water and waste management sectors. The project “*Establishment of Natura 2000 network*” under IPA 2012-2013 aimed to carry out all necessary activities to start with laying foundations, including extensive field mapping and data gathering of future Natura 2000 network in Montenegro, in line with the requirements of the EU Birds and Habitats Directives. Under IPA II, the 2014 Annual Country Action Programme identified two intervention area for “*Strengthening the capacities for air quality management in Montenegro*” and “*Implementation of the Water Framework Directive*” with a EUR 2 835 000 EU contribution. The Actions planned under IPA 2016 complement these interventions.

As regards the **Competitiveness and Innovation** sector, previous assistance under IPA I focused on supporting the development of a sector strategy and financing measures to strengthen the business environment and to facilitate access to the Internal Market. Under IPA II, three actions supported the sector in 2014; “*Enhancement of business environment and competitiveness of the private sector*”, “*Support to regulation of financial services*” and “*Alignment with and implementation of the EU internal market acquis*” with a total budget of EUR 5 350 000. Activities foreseen under IPA 2016 are a continuation of these actions. The preparation of a study on identification of the main areas for implementation of grant schemes for SMEs and clusters (e.g. quality standards, innovations) as well as implementation of pilot competitiveness grant schemes is under preparation with IPA 2014 support. As a continuation of this project, allocation of grants for SME and clusters is planned through this Action under IPA 2016. Funds are committed to training and to technical assistance for staff of an Innovative and Entrepreneurial Centre and for the provision of detailed technical specifications for equipment to be installed in three laboratories.

**International organisations** (IOs) such as the UN system, together with **international financial institutions** (IFIs) like the World Bank Group (WB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and **bilateral donors** such as the Kreditanstalt für Wiederaufbau (KfW) are also playing an active role in providing assistance to finance the three sectors in Montenegro.

In the field of **Environment and Climate Action**, **UNDP** provides assistance to Montenegro for a swifter market transformation toward low emissions, a resource efficient economy, and resilient ecosystems, economies and communities. Examples of activities carried out with UNDP’s support include the flood risk assessment of 12 municipalities or the development of water treatment system in Mojkovac. **KfW** is mainly active in the energy sector and in municipal infrastructure, including financing wastewater treatment facilities for the municipalities of Kotor and Tivat and the implementation of sewage disposal measures at the Kotor bay. As regards the **EIB**, a loan agreement supports the rehabilitation and construction of water and waste infrastructure in municipalities across the country.

As regards **Competitiveness and Innovation**, **UNIDO** and **UNDP** are working with the Government on the implementation of economic reforms for enhancing the competitiveness of economy in Montenegro through industrial modernization and upgrading, enhancing the linkages between science, innovation and industry, clusters and export consortia development, youth and women employment and entrepreneurship activities. **EIB** has approved a new loan facility to the Investment and Development Fund of Montenegro (IDF) as financial intermediary in the amount of EUR 70 million for financing small and medium-sized projects

carried out primarily by SMEs as well as local authorities. At the end of 2015 IDF became a member of ENIF – Enterprise Innovation Fund within the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Program. **EBRD** tries to address the issue of access to finance for businesses partly resulting from the elevated risk-averse lending by banks, by encouraging partner banks to increase their lending to SMEs, via direct financing to support SMEs' innovation and through policy dialogue to improve investment climate with a focus on agribusiness and tourism sector. The European Fund for South-East Europe (EFSE), as well as **KfW**, also play an active role in giving many micro-entrepreneurs access to financial services. Approximation of the legislation with EU *acquis* on free movement of services and competition protection (ALA) was also supported through a project co-financed by the European Union and BMZ, implemented by **GIZ** (Deutsche Gesellschaft für Internationale Zusammenarbeit), with the Ministry of Economy as the main beneficiary.

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:

- *Planning and programming of IPA assistance* should be improved by improving communication and coordination among project beneficiaries and projects, increasing administrative and monitoring capacity, better linking EU assistance to national sector strategies and action plans.
- The government's strategic planning, project prioritization and especially project implementation *capacities need to be strengthened*, and policy development and coordination should be strengthened. The implementation of projects requires that institutions have adequate staff capacities available for working on activities during the lifetime of the project.
- The *sector approach concept* should be further internalised for future IPA support, avoiding isolated infrastructure projects, and focusing more on the accession process, building among others the required capacities for a successful implementation of EU *acquis*.
- 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.
- 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.
- A *clear link between reforms and capacity building initiative* in the sector and the *horizontal public administration reforms* (PAR Strategy 2016-20) is to be ensured. A partial reform of the civil service is part of the upcoming PAR Strategy 2016-20. Competent authorities need to be very proactive in cooperation with relevant stakeholders at central and local level and to improve inter-sectoral cooperation with other ministries in the programming and implementation of projects financed with the support of IPA.
- Finally, consultation with the relevant *external stakeholders* (CSOs, economic operators, etc.) is crucial for the implementation of legislation and programming of EU funds.

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

**Environment and Climate Action**

INDIRECT MANAGEMENT WITH THE IPA II beneficiary	
Action 1- "Capacity Building and Acquis related Activities for Sector Environment & Climate Action"	EUR 16 000 000
TOTAL	EUR 16 000 000

**Competitiveness and Innovation**

INDIRECT MANAGEMENT WITH THE IPA II beneficiary	
Action 2-"Strengthening the Competitiveness and Innovation sector of Montenegro"	EUR 6 948 900
TOTAL	EUR 6 948 900

**2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS**

<b>SECTOR 3</b>	<b><i>Environment and Climate Action</i></b>		<b><i>16 000 000 EUR</i></b>
<b>Action 1</b>	Capacity Building and Acquis related Activities for Sector Environment & Climate Action	<b><i>Indirect management by beneficiary country</i></b>	<b><i>16 000 000 EUR</i></b>

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

**Description of the Action and objective:**

The overall objective of Action 1 - "Capacity Building and Acquis related Activities for Sector Environment & Climate Action" is to support Montenegro's alignment with the EU *acquis* under Chapter 27 of the accession negotiations, as well as to increase the administrative capacity through institutional building. The specific objective of this Action is to support the transposition process and develop the institutional capacity for strategic planning, implementation and enforcement of environmental and climate change *acquis*, in line with the National Environmental Approximation Strategy - NEAS.

This Action will assist Montenegro by contributing to the development of technical capacities for the sound implementation of EU *acquis* for the sector Environment and Climate Action, providing support for:

- harmonising the Montenegrin legislation with the EU environmental *acquis*;
- strengthening the institutional framework and administrative capacities for planning and implementation of environmental policies.

It is also important to support public awareness-raising on issues relevant to environmental protection and climate change.

The Action will focus on the following subsectors: horizontal (cross-cutting) legislation/issues, ambient air quality (AAQ), water management, waste management, industrial pollution control, chemicals management, nature protection, noise assessment and management in environment and civil protection and climate change as a separate sector.

***Expected results and key performance indicators:***

The main expected results of this Action include:

- improved administrative capacity for the Environment and Climate Action Sector;
- alignment of the national legislation with the EU *acquis* for Environment and Climate Action Sector;
- alignment of Project Pipeline, National Strategies and Implementation Plans with the EU *acquis* for Environment and Climate Action;
- improved resources for implementing and monitoring Environment and Climate Action policies.

Progress towards reaching the expected results will be measured according to a number of key indicators, including:

- Progress made towards meeting accession criteria, as assessed by the Montenegro (Progress) Report under Chapter 27 – Environment
- Level of effectiveness of NEAS Action Plans for Transposition and Administrative Capacity (composite indicator), made of:
  - % achievement Activities Plan for Transposition of Legislation, and
  - % achievement Activities Plan for Upgrading Administrative Capacities

***(2) Assumptions and conditions***

The implementation of the Action requires that the Government of Montenegro continues to support reforms in the Environment & Climate Action Sector according to National Environmental Approximation Strategy (NEAS).

For the purpose of aligning to and implementing the EU legislation on environmental protection and climate change, Montenegro has prepared the NEAS. The implementation of NEAS will be supported through this Action. Therefore, the adoption by the Government of the NEAS and the start of its implementation are **pre-conditions** necessary for implementing this Action.

The Action Plan for full transposition of the EU legislation in the Environment and Climate Action sectors, included in the NEAS, has to be completed in line with the timing foreseen, as the transposed legislation forms the basis for further implementation. Delay with the transposition would consequently delay the implementation of the different sub-sector strategies.

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

- Institutional adjustment measures included in the NEAS Action Plan are implemented and increased financial resources sector from the state budget are allocated to the Environment (for staffing, monitoring, inspections, etc.);
- The outputs delivered through past projects in this field are in place and utilised, including the adoption of the Waste Management Plan 2015-2020
- Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured;
- Legal and institutional proposals and results of the projects are implemented in a consequent manner.

***(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** together with the **Ministry of Sustainable Development and Tourism**.

***(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.

At the operational level, the Ministry of Sustainable Development and Tourism will have the overall coordination and reporting role over the implementation of the Action, while other relevant bodies and departments will be responsible to participate in the project activities for which they are responsible/collaborators.

The Directorate for Public Works acting as the Implementing Agency under IPA will bear 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. The Project Implementation Unit (PIU) of the Ministry of Sustainable Development and Tourism will provide support to the Directorate of Public Works whereby ensuring the proper technical implementation of the contract activities. In this regard, the Directorate of Public Works and the PIU will closely cooperate throughout the contracts implementation process.

<b>SECTOR 5</b>	<b><i>Competitiveness and Innovation</i></b>		<b>6 948 900 EUR</b>
<b>Action 2</b>	Strengthening the Competitiveness and Innovation sector of Montenegro	<b><i>Indirect management by beneficiary country</i></b>	<b>6 948 900 EUR</b>

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

***Description of the Action and objective:***

The overall objective of Action 2 - "*Strengthening the Competitiveness and Innovation sector of Montenegro*" is to strengthen the economic competitiveness and innovation capacity of Montenegro. The specific objective of this action is to support the development of the private sector and of a knowledge-based economy. In addition, it supports alignment of national legislation and strategies to the EU *acquis* in the sector and the provision of advanced advisory service for private sector; as well as the internationalisation of the Montenegrin economy. The Action will also improve the research and innovation infrastructure available to SMEs in order to support their development in this regard. Finally, as regards administrative capacities, IPA support will be used for the provision of horizontal assistance for the capacity development of the relevant institutions involved in competitiveness and innovation management. The foreseen activities include:

- improving access to finance of private sector for competitiveness and innovation;
- supporting business development through advanced advisory services;
- promoting the internationalisation of the economy;
- improving of R&I related infrastructures that can be used in support for the SMEs development;
- provision of horizontal assistance for increasing the capacity of relevant institutions involved on Competitiveness and Innovation Management;
- alignment of national legislation and strategies with EU *acquis* for chapters relevant for Competitiveness and Innovation.

***Expected results and key performance indicators:***

The main expected results of this Action include:

- increased private sector's competitiveness, with a focus on SMEs
- increased innovation capacity of the private sector, with a focus on SMEs;
- increased administrative capacities and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation.

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

- Doing Business – Distance to frontier (score);
- Number of new businesses registered.

## ***(2) Assumptions and conditions***

The implementation of the Action requires the full commitment and support to the development of the process by the responsible institutions/stakeholders and the Government on the competitiveness and innovation strategy.

Results can be delivered on the assumption that services developed through the Action correspond to enterprises' needs, that institutions and stakeholders involved allocate a sufficient number of staff in the activities, are committed to ensure sustainability of facilities and services, and do coordinate adequately.

This Action comes to support Montenegro in the process of developing its economic competitiveness and implementing its Economic Reform Programme. Montenegro will also undertake to ensure that the conditions underlying the Action are fully met throughout its implementation, as well as after its completion:

- industrial policy adopted in order to develop further activities in the area of its implementation, monitoring and evaluation;
- effective cooperation among the Ministries and local authorities responsible for various aspects of Competitiveness and Innovation;
- implementation of the assistance under IPA 2014 initiated and the results used in the inception of the activities under this Action;
- adoption of policy documents related to this sector (Strategy, Action plan, Feasibility study, Strategic (business) Plan) which are based on reliable data, duly costed and consulted with the relevant internal and external stakeholders;
- successful continuation and realization of planned activities and commitment of all involved (Ministry and other stakeholders) to actively participate in the project;
- 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 **Central Financial and Contracting Unit** of the Ministry of Finance together with the **Ministry of Economy**.

### ***(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.

At the operational level, the Ministry of Economy will have the overall coordination and reporting role over the implementation of the Action, while other relevant bodies and departments will be responsible to participate in the project activities for which they are responsible/collaborators.

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), acting as the Implementing Agency under IPA, bears the sole responsibility for the exact and proper

implementation of all contracts in question and in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Support will be provided by the Project Implementation Unit (PIU) of the Ministry of Economy and will serve in ensuring the proper technical implementation of the contractual activities. In this regard, the CFCU and the PIU will closely cooperate throughout the entire implementation process of contracts.

### 3 BUDGET

#### 3.1 INDICATIVE BUDGET TABLE - COUNTRY ACTION PROGRAMME FOR MONTENEGRO FOR THE YEAR 2016

		2016 Indirect management with the IPA II beneficiary			Financing Decision	
		EU Contribution	IPA II beneficiary Co-financing	Total expenditure	TOTAL programme	TOTAL EU Contribution
Objective 2	<b>Sector 3 - Environment and Climate Action</b>	<b>16 000 000</b>	<b>2 823 530</b>	<b>18 823 530</b>		
	Action 1 - Capacity Building and Acquis related Activities for Sector Environment & Climate Action	16 000 000	2 823 530	18 823 530		
	<b>Sector 5 -Competitiveness and Innovation</b>	<b>6 948 900</b>	<b>772 100</b>	<b>7 721 000</b>		
	Action 2 - Strengthening the Competitiveness and Innovation sector of Montenegro	6 948 900	772 100	7 721 000		
	<b>TOTAL 2016</b>	<b>22 948 900</b>	<b>3 595 630</b>	<b>26 544 530</b>	<b>26 544 530</b>	<b>22 948 900</b>

#### **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, the National IPA Co-ordinator (NIPAC) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

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