



**Public Finance Management
Reform Program
2022 – 2026**

Montenegro, 2022

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I INTRODUCTION

I -1 PURPOSE OF ADOPTION

The **Programme of Accession of Montenegro to the EU 2021 - 2023**, which was adopted by the Government of Montenegro on March 2021, is a comprehensive strategic document, which defines the framework and pace of reforms that are needed for Montenegro's further alignment with the EU's legal system. It refers to three main pillars of the enlargement process:

1. Public administration reform;
2. Rule of law; and
3. Economic governance.

At the Government session held on January 27th, 2022, the Government of Montenegro, after public consultations with representatives of civil society, adopted the new Program for the Accession of Montenegro to the European Union 2022-2023¹ which will support the fulfilment of specific final criteria in the negotiation chapters, in addition to serving as a further obligation to the administration to carry out activities from this overarching strategic document and as a confirmation of commitment to the European integration process.

The need for further improvement of public finance management is set as one of the key areas of existing and future strategic public administration reforms in Montenegro, thus recognizing the importance of public finance management reform for the further development of all sectors of the economy and a better quality of life for all citizens.

This PFM Programme sets down Montenegro's key reform plans in this area for the upcoming period aimed at increasing accountability and ensuring sound financial management and good governance by improving the economy, efficiency and effectiveness in managing public resources. Furthermore, the Programme will ensure better coordination and inter-institutional cooperation for planning, implementation and monitoring of the policies related to strengthening fiscal discipline and stability, as well as optimise the allocation and use of public resources. The Programme should also secure improved transparency of the PFM system.

The Public Finance Management Reform Programme (PFM RP) is needed to ensure fiscal sustainability and sound management of public finances in line with EU legislation. It is expected to result in significant advancements in the functioning of the budgetary system, managerial accountability, budget execution and internal and external audit.

The adoption of the PFM Reform Programme is one key criterion for obtaining further support from the Instrument for Pre-Accession Assistance (IPA) technical support and a prerequisite for Sector Budget Support through the IPA. Timely progress in PFM is also one of the main eligibility criteria for ongoing and future budget support.

¹ Program for the Accession of Montenegro to the European Union 2022-2023: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKewji39uzkLT9AhUTgPOHHVo0AugQFnoECBwQAQ&url=https%3A%2F%2Fwww.eu.me%2Fdownload%2F1843%2Fgeneral-documents%2F26351%2Fmontenegros-programme-of-accession-to-the-european-union-2022-2023.pdf&usg=AOvVaw2vXT5833LC0_hruSHWXUAN

The PFM RP outlines priority objectives for the Government, identifies indicators to measure progress towards the objectives, sets specific targets for 2024 and 2026, defines sequenced activities for each objective and estimates the additional resource needs of the administration to carry out the planned activities.

The rationale for a future PFM reform is based on the weaknesses identified in several recent assessments, as well as on the requirements set by the closing benchmarks for the PFM related negotiation chapters (5- Public Procurement, 8 – Competition Policy, 16 – Taxation, 17 – Economic and Monetary Policy, 18 - Statistics, Chapter 22 – Regional Policy and Coordination of Structural Instruments, 29 - Customs Union, 32 – Financial Control, and 33 – Financial and Budgetary Provisions.

The **Public Expenditure and Financial Accountability (PEFA) Assessment²**, conducted in 2019, was quite positive but also identified several areas to improve that are addressed in this document. The identified areas of weakness are the following: i) Transfers to local self governments; ii) Performance information for service delivery; iii) Fiscal risks reporting on; iv) Public investment management; v) Public asset management; vi) Medium-term perspective in expenditure budgeting; vii) Budget preparation process; viii) Accounting for revenue; ix) Expenditure arrears; x) Earnings control; xi) In-year budget reports; xii) and Annual Financial Reports.

The Ministry of Finance and Social Welfare (MoF), undertook a remote Public Investment Management Assessment (PIMA) during June 16 - July 12, 2021. PIMA identified that the institutional framework governing the management of public investments is relatively stronger than in low-income developing countries and economies with expanding markets. Guidelines, the Law on Budget and Fiscal Responsibility, the Law on Public Procurement and the Law on Public-Private Partnership (PPP) were also adopted to ensure that public investment projects are better prepared and comparable across sectors. New (LBFR) Budget and Fiscal Responsibility—and subsequent amendments, public procurement, and public-private partnerships (PPP) have been introduced to support competition, transparency, and sustainability of public finances. Guidelines and bylaws have also been adopted to ensure a better preparation of public investment projects and that project-funding requests follow standardized templates to make them comparable across sectors. However, there is a lot of room for improvement in project planning and assessment, especially in better identification of fiscal risks associated with capital projects. In the assessment, it is highlighted that a strong PIM framework in Montenegro is of key importance to ensure that the capital investments provide the highest return to the country. Although the multiple reforms undertaken have strengthened the institutional design of the PIM framework, leading to assessment scores similar to those of emerging markets and developing countries, the effectiveness of the overall PIM framework is limited, with scores similar to those of low-income countries. This implies that good practices included in the framework are not being fully adhered to, undermining the impact of public investments.

² Procjena javne potrošnje i finansijske odgovornosti (Januar,2020): <https://www.pefa.org/sites/pefa/files/2020-02/ME-Dec19-PFM-PR-Public%20with%20PEFA%20Check-MNE.pdf>

Nonetheless, greater project assessment, better strategic planning document coordination, and more rigorous review processes should all help to ensure that public investments do not increase fiscal risks or jeopardize fiscal sustainability. The potential to choose the projects that will have the biggest influence on GDP growth is diminished by a complicated strategic planning framework, poor project appraisal procedures, and a constrained review process.

Other relevant assessments include the **IMF Article IV Consultation** of September 2019 and November 2022³, as well as SIGMA monitoring reports and eligibility assessments for EU Sector Budget Support programmes. The Commission assessment and Priorities of the **Economic Reform Programme 2021-2023**⁴ (ERP 2021-2023) as well as current strategies in relation to the different subsystems have also been taken into account in formulating strategic objectives.

I - 2 THE PREVIOUS PUBLIC FINANCE MANAGEMENT PROGRAM

In December 2015, Montenegro had adopted a multiannual **Public Finance Management Reform Programme (PFM RP) 2016-2020** which addressed several key weaknesses of the budget system and focuses on five main strategic goals (further subdivided into subsystems): 1) Development of Sustainable fiscal framework, public expenditures planning and budgeting 2) Improvement of budget execution 3) Enhancement of public internal financial control (PIFC) 4) Transparent financial reporting and accounting 5) The SAI capacity to meet the INTOSAI standards. The PFM RP was updated in June 2017 to include activities in four new areas not originally covered by the Reform: Upgrade of the macroeconomic projections model; Strengthening capacities of the Customs Administration; State Aid reform; and strengthening of capacities and improvement of the audit procedures in the area of the EU funds auditing. The implementation of the PFM RP 2016 -2020 was extended until the end of 2021 through the Transitional Action Plan for 2021.

The slow pace of PFM reform implementation increased in 2019 thanks to the support provided by several IPA Technical Assistance (TA) projects, but slowed down again in 2020 and 2021 due to the COVID-19 pandemic. The targets for the pillars 3 and 5 (PIFC and external audit) have been largely achieved as of end-2021. For the other pillars, the results of the implementation of the PFM reform are mixed. Moderate progress was reported in some areas of medium-term budget planning and budget execution, but serious challenges remain in particular for capital budgeting, state aid reform, commitment, cash and assets management, as well as in terms of interoperability of the different IT systems in place. The implementation of the Public Sector Accounting Law in 2021⁵ remains uncertain due to delays in upgrading the SAP Accounting IT system.

According to the **EU Progress Report 2020**⁶, several key reforms were not included or were removed from the PFM programme since its adoption. They include alignment with the ESA 2010,

³ <https://www.imf.org/en/News/Articles/2021/11/16/montenegro-staff-concluding-statement-of-the-2021-article-iv-mission>

⁴ Program ekonomskih reformi 2021-2023. godina (Avgust, 2021): <https://www.gov.me/dokumenta/c7751cbd-3be1-48c4-9332-c215bacdd551>

⁵ <https://www.katalogpropisa.me/propisi-crne-gore/zakon-o-racunovodstvu-2/>

⁶ Izvještaj EK o napretku CG za 2020.godinu (Mart, 2021):

improvement of reporting on budget execution, commitment management, cash flow planning and arrears management.

While during the EU Progress Report for 2021⁷, good progress was noted on the adoption of Programme-based and gender sensitive budgeting, including the first elements of performance-based budgeting and the gradual introduction of the medium-term budget framework, which also represents one of the main strategic goals within the PFM RP 2022-2026.

Additional legislative changes are still needed to complete the ongoing reforms. The budget management information system (BMIS) has been significantly improved due to the establishment of a budget planner and a centralized system for calculating earnings. Capital budgeting, debt management, commitment and assets management and the interoperability of the different IT systems in place.

Budget for citizens

A template for Citizens Budget (format and content) was developed, which was revised by the State Budget Directorate. Employees of the State Budget Directorate have been appointed who, with the help of the project, will work on the Citizens Budget using data from BMIS.

I – 3 POSITIONING IN THE STRATEGIC FRAMEWORK OF MONTENEGRO

The **Public Administration Reform Strategy 2022-2026**⁸ (PAR) includes PFM as one of its key pillars; and the **Economic Reform Programme (ERP) 2022-2024**⁹ confirms the political will of the Montenegrin Government to continue reforms in economic governance. The ERP provides the strategic outline for EU assistance in the economic field and is, at the same time, the country's key strategic document for medium-term macroeconomic and fiscal programming.

Given that over the previous period the Government adopted a set of sector-based PFM strategies, the priorities in the current PFM Reform Programme are partly based on the strategies already in place, which have undergone public discussions and consultations with the European Commission. These include:

- the Strategy of the Tax Administration 2019-2022
- the Business Strategy of the Customs Administration 2019-2021
- the Trade Facilitation Strategy 2018-2022 (Customs Administration)
- the Strategy for Improving Public Procurement Policy and Public-Private Partnership 2021-2024

<https://www.eu.me/download/1605/godisnji-izvestaji-evropske-komisije-o-napretku-crne-gore/24174/izvestaji-evropske-komisije-o-napretku-crne-gore-za-2020-godinu.pdf>

⁷ https://neighbourhood-enlargement.ec.europa.eu/montenegro-report-2021_en

⁸ Nacrt strategije reforme javne uprave 2022-2026. (Novembar, 2021):

<https://www.gov.me/clanak/javna-rasprava-o-nacrtu-strategija-reforme-javne-uprave-2022-2026>

⁹ Nacrt Programa ekonomskih reformi 2022-2024. (Novembar, 2021):

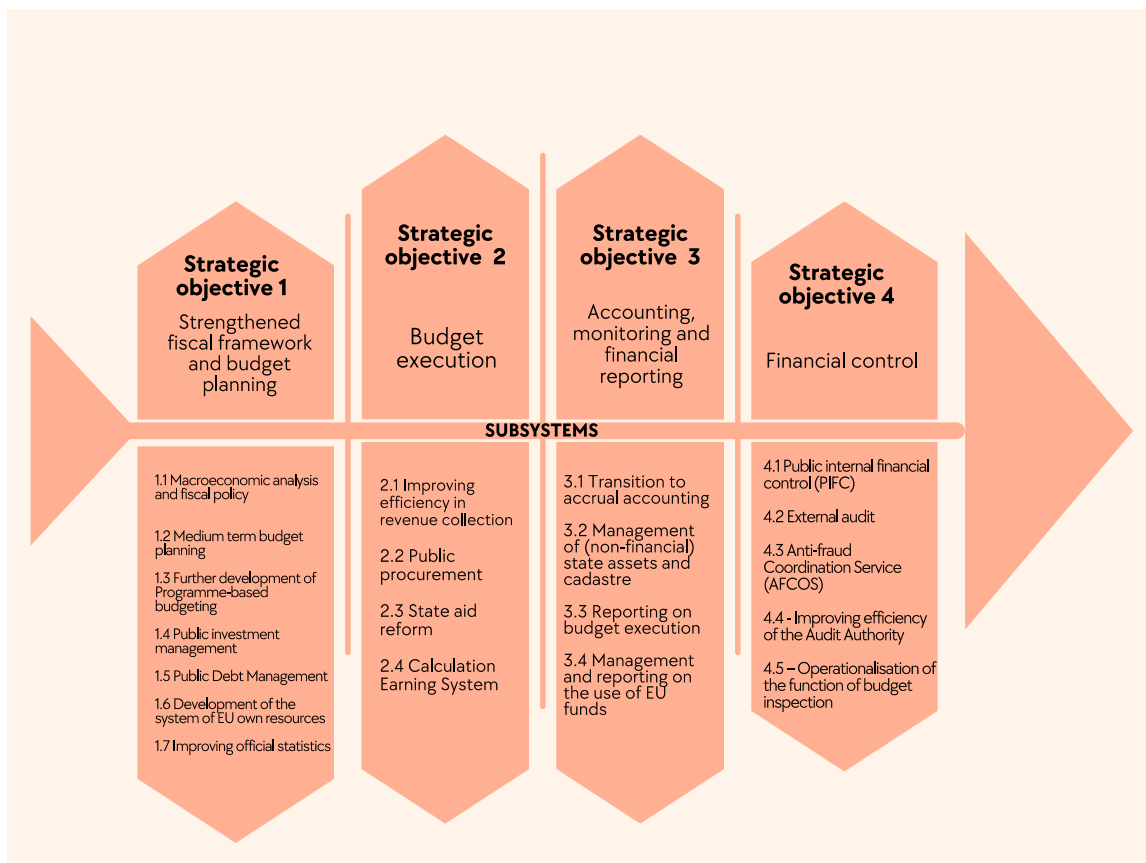
<https://www.gov.me/dokumenta/7ef43c15-739b-470a-998c-4ef60004b799>

- the Strategic Development Plan 2018-2022, Communication Strategy 2020-2024 and HRM Strategy 2021-2025 of the State Audit Institution
- the Strategy for the Transition to the Accrual-Based Public Accounting
- the Strategy for the fight against fraud and the management of irregularities in order to protect the financial interests of the European Union for the period 2019-2022
- the Strategy 2021-2025 of the Audit Authority
- the Action Plan for Meeting the Cohesion Policy Requirements (Chapter 22).

Full cooperation between the Ministry of Finance and the Ministry of Public Administration has been established through participation in PAR Special Working Group in charge for preparation of the new PAR Strategy by adding transparency and alignment efforts in order to blend the two documents and avoid possible overlaps.

The priorities from PFM RP 2022-2026, which are related to other PAR issues, will be reflected in the new PAR Strategy as well.

I - 4 PROGRAM STRUCTURE

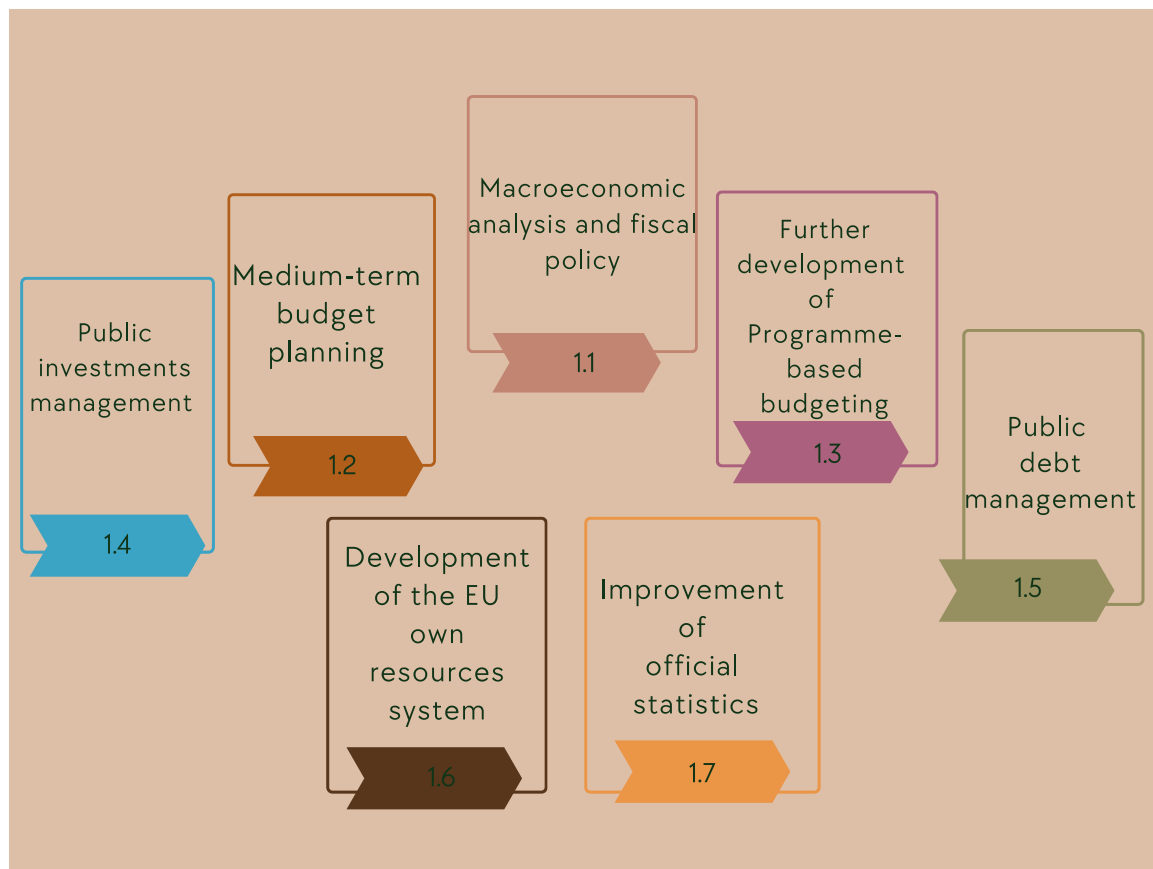


Taking into account the above mentioned, the primary reform areas, measures, and results have been identified according to the following structure based on the situational analysis of the PFM Reform Programme 2022–2026 priorities:

Strategic objective	Subsystems	Main Stakeholders
Strategic objective 1 - Strengthened fiscal framework and budget planning	1.1 Macroeconomic analysis and fiscal policy 1.2 Medium-term budget planning 1.3 Further development of Programme-based budgeting 1.4 Public investments Management 1.5 Public debt management 1.6 Development of the EU own resources system 1.7 Improvement of official statistics	<ul style="list-style-type: none"> • State Budget Directorate -MoF • State Treasury Directorate – MoF • Statistical Office of Montenegro
Strategic objective 2 – Budget execution	2.1 Improving efficiency in revenue collection 2.2 Public procurement 2.3 State aid reform 2.4 Earnings calculation system	<ul style="list-style-type: none"> • Directorate for Tax and Customs System of the Ministry of Finance • Revenue and Customs Administration • Directorate for Public Procurement Policy - MoF • State Treasury Directorate - MoF • Agency for Protection of Competition
Strategic objective 3 - Accounting, monitoring and financial reporting	3.1 Transition to accrual accounting 3.2 Management of (non-financial) state assets and cadastre 3.3 Reporting on budget execution 3.4 Management and reporting on the use of EU funds	<ul style="list-style-type: none"> • State Treasury Directorate - MoF Directorate for Property - Legal Affairs - MF • State Budget Directorate - MoF • Directorate for the management structure -MoF • Cadastre and State Property Administration
Strategic objective 4 - Financial control	4.1 Public internal financial control (PIFC) 4.2 External Audit 4.3 Anti-Fraud Coordination Service (AFCOS) 4.4 Improving efficiency of the Audit Authority 4.5 Operationalizing the budget inspection function	<ul style="list-style-type: none"> • Directorate for Central Harmonization and Development of Internal Controls - MoF • State Budget Directorate - MoF • State Auditing Institution • Auditing Authority • Anti-Fraud Coordination Office

II SITUATIONAL ANALYSIS

II -1 STRATEGIC OBJECTIVE 1: STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING



II-1.1 Macroeconomic Analysis and Fiscal Policy

Macroeconomic framework: As part of the medium-term forecasting process, the Directorate for Economic – Financial System in the MoF prepares the annual macroeconomic projections covering the budget year and the two following fiscal years. This Directorate uses the “Montenegro Macroeconometric Model” (MMM) consisting of: (i) a forecasting module, which is used to generate predicted values of macroeconomic indicators at the top of the baseline scenario development for sensitivity analysis (based on external assumptions published by international financial institutions and MONSTAT and (ii) an impact assessment module “Structural Reform Impact Assessment Module” for assessment of the impact of policies based on different policy scenarios.

The macroeconomic framework is sufficiently comprehensive and coherent. The baseline macroeconomic scenario is broadly plausible, and major uncertainties and risks are clearly outlined and recognized. The programme also presents an alternative scenario resulting in lower

economic growth in case of external shocks on tourism and investment. The underlying assumptions are well elaborated and quantified. In 2020, significant deviations were observed since unpredictable market shocks occurred mainly due to the negative effects of the COVID 19 pandemic.

Fiscal framework: The Fiscal Strategy of Montenegro is the cornerstone of budgetary policy. It outlines government's main fiscal objectives to be achieved during its mandate and it represents the basis for planning medium-term and annual policies. The Fiscal Strategy of Montenegro includes assessments of the fiscal impact of revenue and expenditure policy measures including quantitative and qualitative targets. The Strategy is adopted by the Parliament of Montenegro on the proposal of the Government at the beginning of its term of office and is linked to its duration. The Fiscal Strategy of Montenegro 2022-2025 defined goals and priorities of economic policy, as well as challenges for sustainable growth and measures to mitigate them. Given the growing fiscal pressures, fiscal consolidation measures have been identified to ensure credibility of public finances and improve Montenegro's position in financial markets, as well as the effects of these measures on the evolution of macroeconomic and fiscal indicators. The proposed structural reforms, i.e. development and economic policy measures in the public and real sector, contribute to improving the country's competitiveness and increasing potential economic growth in the medium and long term.

The Fiscal Strategy of Montenegro for the period 2022-2025, adopted by the Government of Montenegro on July 28th, 2022, defines the general goal of fiscal policy, which is reflected in the stabilization of public finances for their long-term sustainability through reduction of public expenditures, gradual reduction of public debt, realization of primary surplus and current budget surplus.

According to the European Commission's Assessment of the Montenegro Economic Reform Programme 2022-2024¹⁰, the fiscal framework is well aligned with the baseline medium-term macroeconomic scenario. The fiscal framework is sufficiently comprehensive and integrated with the overall policy objectives. In general, most revenue and expenditures measures are sufficiently explained, in particular for 2020, while the medium-term impact is elaborated more succinctly. The Programme does not present long-term projections of population trends or of the implications of an ageing population on the labor market and public finances, as well as to present contributions to changes in gross debt.

Numerical fiscal rules: The Law on Budget and Fiscal Responsibility (LBFR) establishes fiscal rules envisaging that the fiscal policy is to be planned and implemented in accordance (among others) with the following criteria: 1) budgetary cash deficit of general government will not exceed 3% of GDP by market prices; 2) public debt will not exceed 60% of GDP by market prices. According to the ERP 2022-2024, consequently, the key fiscal aggregates will be partially adjusted to numerical fiscal rules.

Fiscal Council: Initial steps have been taken to establish an independent fiscal council for strengthening the oversight of the implementation of fiscal policy. An Options Paper on the Establishment of Independent Fiscal Council in Montenegro was drafted, and further work on the

¹⁰ <https://www.gov.me/en/documents/7049c66a-5b87-4102-9d2e-6fde9c24fd5d>

establishment of the Fiscal Council is planned through Amendments to the Law on Budget and Fiscal Responsibility in 2022.

The most significant challenge in fiscal policy relates to monitoring of the Fiscal Strategy of Montenegro. Currently, there are no reports being produced that would provide any information on the progress against the implementation of the Fiscal Strategy of Montenegro, explanation of deviations, or corrective actions to be taken is produced as part of the annual budget documentation or for internal government purposes. It is however noted that the State Budget Directorate reports on the achievement of fiscal indicators on monthly, quarterly and annual basis.

The MoF as the responsible monitoring agency for monitoring public enterprises, receives financial reports from most public enterprises, but does not prepare a consolidated fiscal risk report nor assess potential adverse financial implications (risks) on the central government budget. There is no legal obligation for public enterprises to submit audited financial statements to the MoF.

Macroeconomic and Fiscal Policy Guidelines, the ERP, the Public Debt Report or any other government financial document does not provide sufficient information on fiscal risks. According to the PEFA Report, these documents contain some risk analysis, but there are no comprehensive risk assessments contained with associated fiscal implications, quantification of potential spillover effects on the budget, fiscal risks of guarantees and estimates of contingent liabilities (such as PPPs, deposit insurance and on-going litigations).

In order to address this problem, the Government of Montenegro established in August 2021 the LLC "Montenegro Works" (MW) and tasked it with monitoring the financial situation of public enterprises and providing professional support for implementing reforms aimed at increasing efficiency of their management and transparency. The voluntary liquidation of the Company was carried out on August 8, 2022, in accordance with the Decision on the Voluntary Liquidation of the Limited Liability Company "Montenegro Works" ("Official Gazette of Montenegro", number 083/22 of 31 July 2022"), which indicates that the regular monitoring of business operations of majority-owned companies must be reformed.

Also, further efforts are required to ensure the fiscal data are compatible with ESA 2010.

II-1.2 Medium Term Budget Planning

Important achievements in the past two years include the gradual introduction of programme budgeting and the MTBF framework, which includes preparing new policy proposals in accordance with the specific instructions issued by the MoF through the State budget circular.

MTBF Legislation: These reforms were supported by the adoption of secondary legislation in 2020 and by the expected approval of Amendments to the LBFR. Working groups were established with the aim of preparing envisaged reforms through the Amendments to the LBFR in terms of introduction of MTBF, additional strengthening of program budgeting and accrual accounting. It

also aims at introducing Fiscal Council and at addressing the management of irregularities in relation to EU funds, in order to close the negotiations on Chapter 32 – Financial Control.

The Government approved a **Concept Note**¹¹ in February 2020 with the intention of providing a roadmap for program budgeting reform, as well as recommendations for amendments to budget legislation.

Medium-term budgetary frameworks: Beginning in 2019, as part of the budget preparation process, the Government started to adopt the Fiscal Policy Guidelines on annual basis. They are based on the Fiscal Strategy of Montenegro and provide three-year macroeconomic and fiscal projections, the objectives of economic and fiscal policy, medium-term macroeconomic and fiscal framework for the three-year period including spending limits by first level spending units, as well as by certain categories of the economic classification. Revenue and expenditure projections are presented as part of the Explanation to the Budget Law, which is an integral part of documentation of the annual Budget Law.

Economic Reform Programmes (ERP): The Macroeconomic and Fiscal Policy Guidelines also provide the fiscal basis for the ERP, which are submitted annually to the European Commission (EC). The ERPs contain medium-term macroeconomic projections, budgetary plans for the next three years and a structural reform agenda. The Government of Montenegro at its session from January 26th, 2022 adopted ERP for the period 2022-2024 and it represents an instrument for planning the country's economic policy and managing reforms, which aim to maintain macroeconomic stability, strengthen international competitiveness and improve the conditions for inclusive growth. Also, ERP is an important instrument in the framework of Montenegro's EU accession negotiations in the area of meeting the Copenhagen economic criteria.

Expenditure ceilings: The Macroeconomic and Fiscal Policy Guidelines exemplify the basis for the development of the budget circulars (i.e.instructions for budget preparation). Furthermore, these Guidelines define spending ceilings that are binding for the budget year and indicative for the next two fiscal years.

Strategic planning: Initiatives are also ongoing in order to better link strategic planning and the MTBF. The adoption of a Decree on Modalities and Procedure of Drafting, Alignment and Monitoring of Implementation of Strategic Documents and the Methodology for Medium-Term Planning of the Work of Ministries in 2018, significantly improved the institutional and regulatory framework for strategic planning at the state administration level. Aligning or merging the processes for MTWP and MTBF formulation could result in a link between the MTBF and the Medium Term Work Program of the Government (MTWP). Strategic planning will be included in the Public Administration Reform Strategy 2022-2026.

The linkage between strategies and expenditure policy proposals is weak (only available in “some” cases). Although the sectoral strategies and related action plans include clearly defined objectives, their costing is not systematically available and related costs are not systematically assigned to dedicated budget programmes and are not systematically budgeted. Moreover, outcomes and results of strategies are not systematically monitored and measured.

¹¹ Draft Concept Note for Programme budgeting, MTBF and capital budgeting, developed by the IPA TA project “improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System”

The quality of strategic documents and reports has significantly improved, but the number of strategies is still high. Hence, further improvement is needed, especially in the area of performance and financial reporting. Likewise, the **EU Progress Report 2020** notes that while the framework is in place, improvements are still needed to its reliability and content.

The Medium-Term Fiscal Plan has yet to be linked to policy planning. Through further implementation and development of program budgeting, it is possible to significantly strengthen the link between the Government's strategic priorities and Medium-Term Budget Planning.

Capacities for MTBF are limited in the MoF and in the spending units. Due to the pandemic, trainings were postponed; nonetheless, they were held in May and June 2021 in preparation for the 2022 budget.

Advanced training of trainers-budget analysts was carried out to improve the application of program budgeting and medium-term budget framework, who plan the capital budget in order to train them to work with users on improving the program structure and performance information, with the aim of more efficiently creating the medium-term budget framework and the annual program budget - with a special focus on improving the program structure and description of strategic and operational goals, indicators and target values.

Standard operating procedures have been developed, which will be used by spending units (first level) for (i) preparation of requests for the medium-term budget framework, (ii) preparation of budget requests in program format and (iii) preparation and submission or publication of budget performance reports and communication was established with the IT sector for the development of the budget planning system (BMIS) on how to integrate these SOPs into BMIS.

However, in the coming period, it is necessary to intensify the work and periodically conduct trainings, in parallel with the implementation of the reform.

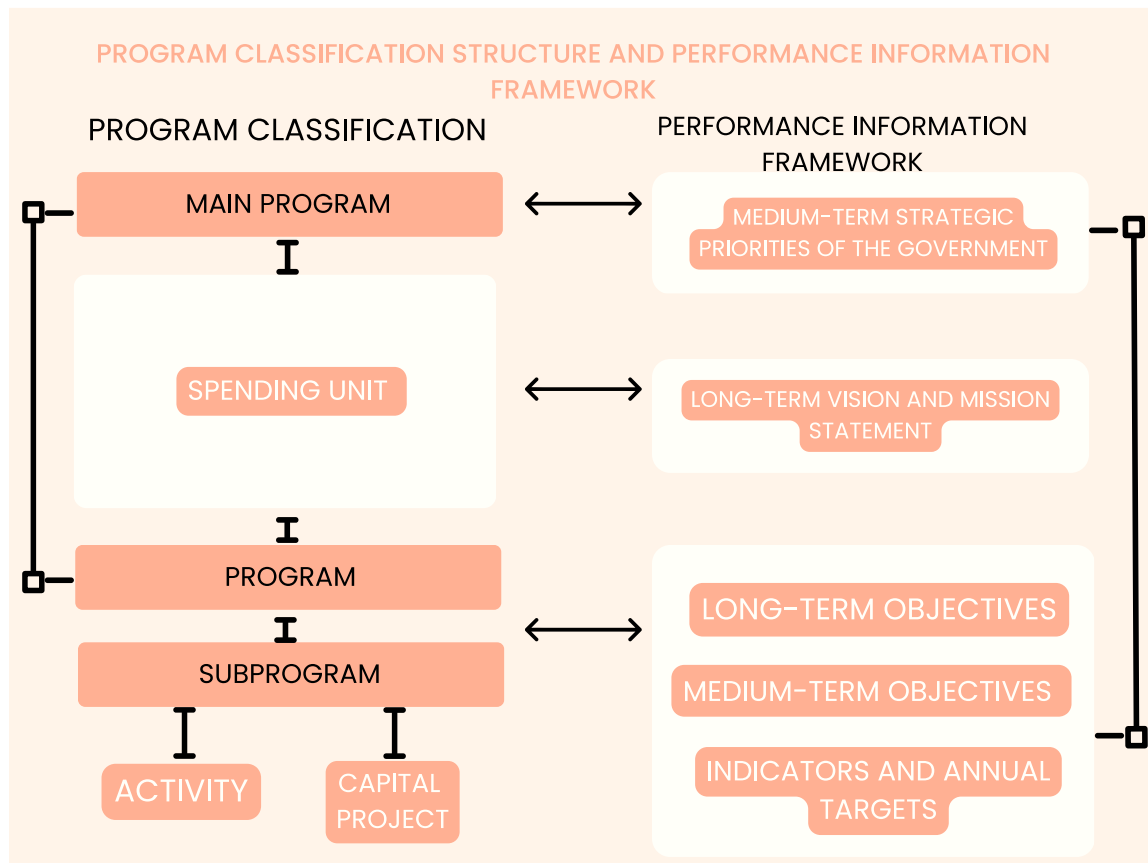
II-1.3 Further Development of Programme-Based Budgeting

Legal framework and methodology: Programme budgeting was introduced through an Amendment to the Decision on the Manner of Preparation and Content of the Program Budget of the Spending Units adopted in October 2020. Also, the Ministry of Finance approved the Program Budgeting Manual in 2020, which was distributed to budget users along with the Budget Circular for 2021 Budget, serving as guidance on formulating medium-term and annual programme objectives and performance indicators

For the 2021 budget, a new budget classification has been adopted and implemented, including performance information. There are four levels: Main programme (by sector); programme (by spending unit); sub-programme; and activity; as well as capital project. Also, the organizational budget classification has been updated.

The budget circular was adapted based on the new programme and organisational classifications and improved (including gender budgeting). Performance indicators have been defined for all budget users for the preparation of the 2021 budget and the aforementioned practice was continued with the adoption of the 2022 Budget.

The structure of program classification and accompanying performance information, which are presented in the Annual Budget Law, is given in the following graphic:



Budget flexibility is limited: The LBFR includes a basic facility allowing for reallocations between budget lines appropriations of up to 10%. The proposed adjustments to the programme classification provide an opportunity to introduce a more refined set of transfer rules to improve flexibility in budget implementation.

Training on programme budgeting was delivered by an IPA Technical Assistance project for officials of the State Budget Directorate and budget coordinators of all major spending units. Further to this, in the second quarter of 2021, the IPA Technical assistance project delivered two rounds of MTBF trainings to all budget users.

The IT system for budget preparation (BMIS) is operational, and has been used for planning of the 2021 Budget at the 4th level of the programme structure as well as for the preparation of the 2022 Budget. However, further upgrade is planned, as well as the establishment of SAP system interoperability functions. In early 2021, calculation of earnings was installed in a test environment, while its implementation and application began in 2022, and through this system the scope is gradually expanding with the aim of centralizing the calculation of earnings for all budget users. An interface for establishing communication with the Human Resources Management Information System (HRMIS) for central employee register has been developed, as

well as a communication interface with the BMIS system is already in place, but is still not fully operational with the SAP system.

Notable progress was made in implementing programme budgeting. In accordance with the amended Decision on the Method of Preparation and Content of the Program Budget, objectives, outputs, outcomes and performance indicators have been formulated for all programmes.

However, there are a number of challenges in the further development of program budgeting. Namely, the Reports on performance results for achievements and outcomes were prepared during 2022, through the final budget account for 2021. Given that performance indicators and targets were lacking from the previous periodic reports on the implementation of the budget. Given that the previous periodical reports on the execution of the budget did not include performance indicators or goals, it is intended to carry out additional activities to the periodic reports over the next period, in order to include the aforementioned missing information.

Furthermore, there are considerable capacity constraints in the spending units that must be overcome by ongoing trainings on programme budgeting as a prerequisite before useful program structures and performance data can be developed.

Local government units: After implementation of MTBF and programme budgeting at central level activities should be initiated at the local level.

With assistance from the Ministry of Finance of the Slovak Republic, the MoF is carrying out the project "Strengthening Transparent and Responsible Public Financial Management in Montenegro" in collaboration with UNDP. The second cycle of this project, which will last until March 2023, was approved in July 2020 aims to train municipal officials in the development of program budgets, the development of capital budgets and medium-term budget frameworks.

As regards programme budgeting, it is necessary to define and adopt regulations on the basis of which local governments will also implement program budgeting, bearing in mind that the Decision on the Method of Preparation and Content of the Program Budget of Spending Units is defined only at the central level.

Also, the process of planning and implementation of capital projects financed from municipal budgets needs improvement in terms of prioritization, transparency and better links between capital spending and strategic development plans.

The limited capacity of a number of local governments and the lack of software to support the planning and execution of the program budget and the MTBF present a challenge in the implementation of these activities.

II-1.4 Public Investment Management

International indicators of the quality of public investment management in Montenegro show that, despite recent improvements, there is still room for further improvements in the process of preparation, planning, implementation and reporting on public investments.

A comprehensive reform approach is needed for the capital budgeting system, including regulatory framework and IT support for the development, management, accounting and monitoring of capital projects. In this regard, the MoF with the technical support of the International Monetary Fund (IMF) carried out the Public Investment Management Assessment (PIMA). The assessment provided a detailed overview of the state of the public investment management system identifying reform priorities to maximize the return on invested public capital.

The mission was held in the period from June 16th, 2021 to July 12, 2021, where a report with recommendations and an action plan was prepared.

Legislation: The PIM framework is prescribed by the LBFR and the Decision on Developing Capital Budget and Determining and Evaluating the Criteria for Selection of Capital Projects („Official Gazette“, no. 57/18 i 67/21). This Decision serves as a general guideline throughout the entire public investment cycle (preparation, selection, implementation and monitoring). It has introduced a methodology for the selection of new capital projects to be included in the budget on the basis of a Multi Criteria Assessment, and is applied since 2019. With the support of the IPA Technical assistance project, the Methodology was further improved in January 2021.

Planning: The Law on Budget and Fiscal Responsibility defines the budget preparation process that encompasses the development of the capital budget. However, based on a special budget circular, the capital budgeting process is conducted concurrently with the current budget preparation process. Capital investments are currently planned on an annual basis; however, this process needs to be viewed from a multi-year perspective. In the budget for 2021, capital projects are planned on a multi-year level, and the explanation of the Budget Law contains a list of all investment projects that will be implemented during the year, as well as information on the implementation period for multi-year projects and estimated costs of total investments. The process of planning public investments within the state budget is the responsibility of the Ministry of Finance.

Appraisal/selection: Proposals for the capital budget are prepared based on the requirements of spending units and local governments. The prioritization process is carried out by the Commission for determining the priority list of capital projects, which evaluates and prepares the proposal for the list of priority projects, after which the Government of Montenegro makes a final assessment and decision on the selection of priority projects for funding from the capital budget.

The Capital Project Administration and the Traffic Administration are responsible for the implementation of capital projects, while the line ministries have a supervisory function over them. Capital projects are recorded in the BMIS system for budget planning, and this is the first

step towards establishing a public register of capital projects, whose implementation is planned to continue in the coming period.

Monitoring and reporting: As any other spending unit, these two institutions are obliged to submit quarterly financial reports of capital projects to the Government of Montenegro and the Ministry of Finance. The execution of the capital budget is presented at the aggregate level, as part of the quarterly reports on the execution of the budget. Reports on physical implementation are prepared and submitted to the Government on annual basis.

The PEFA Report 2019 identified several issues in the area of Public investment management: The absence of national guidelines for performing economic analysis of investment projects; and the absence of formal procedures regulating Investment project selection by the Commission for determining Capital Investment Priority List nor documentation of the prioritization performed. In regard to investment project costing, the Budget Law contains only the aggregate planned capital costs for certain capital projects, and also no insight has been developed into the capital or current costs that will arise in the following years after the end of the capital project. The absence of comprehensive costing limits the scope for Investment project monitoring in regard to cost overruns and implementation delays, leading to under-budgeting for ongoing projects, and preventing the calculation of the fiscal space available for financing new capital projects.

Training: With support of the IPA TA project, in June 2021 capital budget training was delivered for the representatives of the Ministry of Finance, Directorate for Public Investment Planning, the Directorate for Capital Investments, as well as representatives of selected ministries and municipalities.

II-1.5 Public Debt Management

In the area of **public debt management**, reorganization of the debt management function has started in 2017 with a gradual separation of business processes, reflecting operational standards for front office and back office in the financial sector. In August 2022, the Rulebook on Internal Organization and Systematization of the MoF, adopted by the Government of Montenegro, established a Directorate for Public Debt, consisting of the Division for Debt Management, Analysis of Indebtedness and Foreign Relations (front office), the Division for Cash Management, Debt Servicing, State and Public Debt Records (back office).

According to the PEFA Report 2019, debt management practices are generally sound. The IMF in 2018 has provided training for the development of a medium-term debt management strategy, for the preparation and implementation of bond issues on the international market, and for financial derivatives and hedging. Training of new staff is still ongoing since both divisions are facing a significant outflow of staff, which requires continuous repetition of on-the-job training, both by employees in the Directorates and by external experts. Strengthening the capacity of the Division's staff for debt management, debt analysis and foreign relations is still a significant challenge.

In 2018, **the Public Debt Management Strategy for the period 2018-2020** was adopted, which referred to the need to equalize debt repayment through improving the average maturity indicator, as well as reducing borrowing costs through reducing the average weighted interest

rate. In addition to the above, the Strategy referred to the need to manage exchange rate and interest rate risks, as well as to the development of the domestic government securities market in order to diversify sources of financing and enable borrowing under conditions that are more favorable.

In the following period, the adoption of the Debt Management Strategy for the period 2022-2024 is planned.

Debt transactions (borrowing and servicing) are recorded in a SAP module that was customized to fit the needs of the MoF. The module provides basic analytical and reporting features. This SAP module for Debt management was assessed to be inadequate in terms of reporting, and there is an intention to replace it by the new software. This new system will be a component of the budget preparation system BMIS.

II-1.6 Development of the EU Own Resources System

Chapter 33 – Financial and budgetary provisions relates to the management of the EU's own resources (rules governing the funding of the EU budget). The closing benchmark calls for increasing administrative capacity and adopting an action plan for introducing procedures to calculate, forecast, account for, collect, pay, control and report to the EU on own resources starting with Montenegro's accession. The subchapters of Chapter 33 are: 1) Traditional own resources (customs duties); 2) Resources based on VAT; and 3) Contributions based on the gross national income (GNI). The Action Plan for the Establishment of the EU's Own Resources System in Montenegro was adopted in March 2019.

According to the **EU Progress Report 2021**, there is a continuation of the Analysis of accounting rules, and progress was made in labeling and defining income in accordance with its future classification. Simulation exercises were organized for accounting and reporting of observed cases of fraud and irregularities. Fraud reporting in accordance with OWNRES database requirements has been enhanced by the preparation of more seized goods reports. Amendments to the Customs Law are being prepared in order to regulate mandatory enforcement of movable and immovable property. When it comes to the collection of customs debt, the adoption of a model for writing off customs debt is expected. The application of the Law on Accounting in the Public Sector has been postponed until 2024, and the Revenue and Customs Administration is preparing to start applying the rules of double-entry bookkeeping in the coming period.

As for the resources from the value added tax, in July 2020, the Parliament of Montenegro adopted Amendments to the Law on Value Added Tax, which led to harmonization with trade taxation of certain products, services and imports. It is still necessary to further harmonize the VAT Law with the EU acquis, and in particular to delete exemptions from the obligation to pay VAT and other taxes that are not in accordance with the EU acquis. Also, in 2021, the Parliament of Montenegro adopted Amendments to the Law on Value Added Tax in order to achieve further alignment with the EU acquis.

As for the funds from the gross national income, the GDP of Montenegro is calculated according to the Methodology of the European System of National and Regional Accounts (ESA) from 2010. Data on gross national income (GNI) have been available since 2010 and are published on the

MONSTAT website. Sustained efforts are needed for comprehensive national accounts statistics and GDP/GNI calculations.

As for the administrative infrastructure, the administrative capacities of the Directorate for Coordination and Management of EU Own Resources in the Ministry of Finance, in general, of all institutions involved in the system of own resources, are still weak. The framework contract, financed by the European Commission, which is under preparation, will help Montenegro establish efficient management of its own resources. The implementation of the Action Plan related to own resources, which was adopted in the spring of 2019, is underway. Annual reports on the achieved progress are prepared and submitted to the Government of Montenegro for adoption.

II 1.7 Improvement of Official Statistics

In the previous period, a high level of methodological compliance of all Statistical System research of Montenegro with the legal EU acquis in the field of official statistics was achieved, which further serve as input for the calculation of macroeconomic data in accordance with the ESA methodology.

Negotiations within Chapter 18 – Statistics include the harmonization of Montenegrin legal regulations with the EU legal acquis in the field of official statistics, which consists of approximately 350 regulations, directives and recommendations. In addition to the mentioned negotiation chapter, the field of official statistics is also connected with other chapters, especially from the aspect of meeting the final benchmarks within Chapter 17 - Economic and Monetary Union. The challenges of closing Chapters 17 - Economic and Monetary Union and Chapter 18 - Statistics relate to the production of Government Finance Statistics (GFS)/ Excessive deficit procedure (EDP) statistics.

When it comes to the key challenges identified in Chapter 18 - Statistics, they are clearly indicated in the EU Progress Reports, which primarily relate to: i) strengthening the capacity of MONSTAT in order to entirely fulfill its obligations; ii) the need to make progress in harmonizing with the European System of Accounts (ESA) 2010, including the submission of GFS statistics, as well as all available data on excessive debt and deficit and iii) the allocation of the necessary resources for organizing the population and household census and organizing the census in accordance with the conditions and EU recommendations.

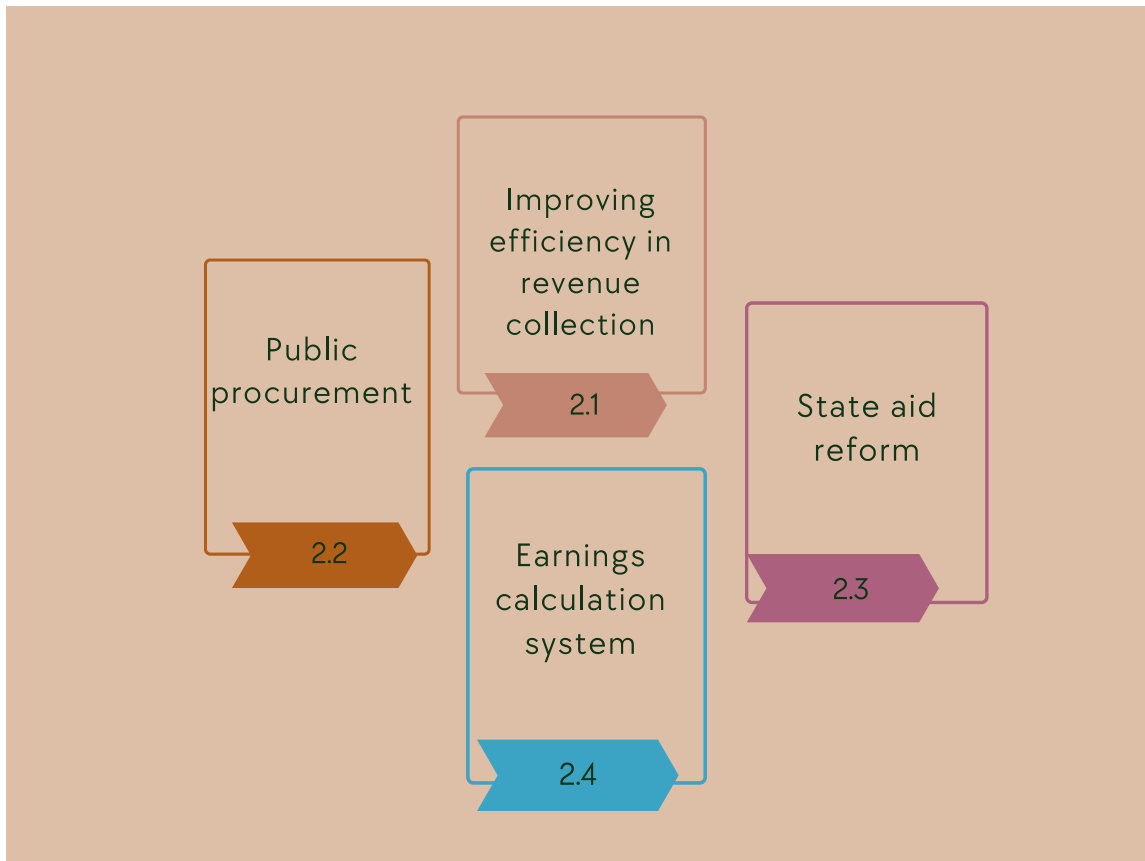
In order to fulfill the recommendations from the Progress Report, with the Law on Budget for 2022¹² the necessary funds are allocated for both, regular statistical activities and the implementation of population, household and dwelling censuses. Also, the proposal of the Law on the Census of the Population, Households and Dwellings was established by the Government of Montenegro, which was referred to the parliamentary procedure.

In order to fulfill obligations in this area, some of the key activities that will be carried out in the coming period are:

¹² Zakon o budžetu za 2022. godinu (<https://www.gov.me/dokumenta/edbaa6e5-91e1-4f02-8f6d-f15bd736734f>)

- Amendments to the Law on Official Statistics and System of Official Statistics, in the direction of transferring and more closely defining the competences of government finance statistics producers – GFS
- Amendments to the five-year Programme of Official Statistics for the 2019-2023¹³ period, in accordance with the new Law
- In accordance with the new legal solutions, amendments to the current Cooperation Agreement between MONSTAT, the Ministries and the Central Bank of Montenegro (CBCG), which was signed on 05/06/2016, in terms of the new distribution of competences and a detailed description of the sources of all data
- Adoption of a new Strategy for the Implementation of the ESA 2010 Methodology in the field of GFS

II -2 STRATEGIC OBJECTIVE 2: BUDGET EXECUTION



II- 2.1 Improving Efficiency in Revenue Collection

At its 20th session held on April, 2021, the Government of Montenegro adopted the Decree on the Organization and Manner of Work of the State Administration proposing to merge Tax Administration and the Customs Administration of Montenegro into one agency - Revenue and Customs Administration of Montenegro in order to more effectively implement tax and customs policies. **In the area of tax administration**, it is necessary to further improve the efficiency of operational functions, and reduce taxpayer's compliance costs. Risk-based business processes will contribute to increase collection of taxes and social security contributions from all sources of economic activity.

Implementation of the action plan addressing the issues highlighted by the TADAT assessment of 2015 will continue. To this effect, the MTA adopted the Strategy of the Tax Administration 2019-2022, with the aim of improving the core processes, which is structured along the following pillars: 1) Modernize business processes; 2) Improve the use of data and technology; 3) Improve professionalism; 4) Strengthen the MTA Headquarters and the management framework; 5) Increase compliance with tax obligations. The MTA has updated this strategy in accordance with the EU's fiscal blueprint, and established a reform committee and a risk management board to

monitor its implementation. The MTA has also adopted the Information and Communication Technologies (ICT) Strategy 2019-2022. Also, based on the TADAT assessment, the provision of assistance continued during 2020 - 2021, through the project "Strengthening the administrative capacities of the countries of the Western Balkans" implemented by IMF consultants. The Assistance Plan for the period until the end of 2023 was adopted, and the version of the tax assistance framework for the period 2023-2026 is drafted.

EU accession: Improving the capacity of the Revenue Administration will also contribute to achieving the country's goal of EU accession and economic integration with EU member states. The three closing benchmarks for Chapter - 16 are primarily aimed at (i) harmonization with EU legislation in the areas of VAT, excise duties and direct taxes; (ii) improving administrative, infrastructural and IT capacity for tax collection and control; and (iii) Progress in the development of all IT systems for tax administration, including those relate to tax cooperation and exchange of information in the field of taxation. According to the **EU Progress Report 2021**, good progress was made in **harmonization with the EU acquis**. On administrative cooperation and mutual assistance, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters was ratified by the Parliament in December 2019. The Laws on tax advisors, and on contributions for compulsory social insurance were adopted in July 2019, but Montenegro still needs to adopt legislation to align with the EU *acquis* on the mandatory automatic exchange of tax information. Adoption of the Amendments to the Laws on VAT, Corporate income tax and Law on tax administration is still pending.

The establishment of three new departments in 2019 increased institutional capabilities (internal audit, international cooperation and tax police dealing with tax evasion). Activities linked to the application of **VAT EU common system** face delays, in particular with the deployment of the VAT Information Exchange System (VIES).

Taxpayer services have been improved by developing e-services. The percentage of electronically submitted applications surpassed the target for the previous four years, resulting in 2020 VAT e-returns of 89% and personal income tax e-returns of 99.6%. VAT returns are exclusively submitted electronically every month. Currently, in accordance with the Law on e-Government, emphasis will be placed on e-registration of business entities, linkages with systems of institutions participating in the process of company registration and data exchange.

Revenue collection has maintained a steady growth in previous years:

- In 2017, 24 million euros above the plan;
- In 2018, 73 million euros above the plan;
- in 2019, 80 million euros were collected above the plan;
- In 2020, despite the pandemic, 65 million euros were collected above the envisaged plan;
- In 2021, despite the COVID-19 pandemic, revenue collection amounted to 78.8 million euros or 7.1% more than planned;
- In 2022, despite the COVID-19 pandemic and the war in Ukraine, for the period January-August, revenue collection has a total value of EUR 95.4 million or 11.6% above the plan.

Overall, public revenue mobilization was primarily achieved by reducing informal economy, decreasing tax arrears, improving tax compliance and the improvement of tax system. These areas remain the priorities in the coming years. Achievements in regard to the reduction of the informal economy by reforming tax administration are the adoption of the Law on Fiscalization in Trade in

Products and Services and related bylaws in August 2019, providing the legal basis for the implementation of the e-fiscalization system which obligatory for all taxpayers and became operational in 2021. The Commission for the Suppression of the Grey Economy, started to develop the revised Action Plan for the Suppression of the Grey Economy 2020, based on the previous Action Plan 2017, which contains measures to be implemented in relation to tax inspection. This Action Plan is still in the early stages of development, but once it is sufficiently developed and implemented, it'll serve as a comprehensive strategic document for all organizations engaged in combating undeclared work and will address the existing legislative environment.

The share of **tax arrears** has been substantially reduced compared to earlier years, partly because of increased collections and partly because of improved management of tax arrears introduced with the Law on Rescheduling of Tax Debt (2016) providing for debt rescheduling agreements that guarantee write-off of interest and procedural costs to tax debtors who repay the principal debt in instalments.

Currently, a large part of the tax arrears are owed by insolvent or non-operating entities and are non-collectible, but difficult to write off under current legislation due to procedural obstacles.

Operational capacity and computerization: The landscape of IT systems for tax administration is heterogeneous. A new Integrated Revenue Management System (IRMS) is under implementation in the frame of the ongoing "Revenue Administration Reform Project" which aims to improve the efficiency of the operational functions of the tax administration in terms of modernized business processes based on risk assessment. Implementation of the IRMS is delayed whereby the main challenge is the staff turnover of key officials and the need for capacity strengthening. In particular, the absorption capacities of the IT Department are significantly insufficient, considering the complexity of the ongoing IT projects. The procurement procedure is expected to start in the first half of November 2022. The implementation of the Contract for the DWH/BI data storage platform, which is a part of the main project "Tax Administration Reform" with a value of 1,759,000 euros, is underway.

When it comes to the area of customs, activities are directed towards the harmonization of legislation with the EU acquis and the development of information systems, protection of society, ensuring security and facilitation of international trade, including the simplification and harmonization of customs procedures, effective revenue collection and strengthening of human resources.

EU accession requirements in the area of customs relate to (i) Adoption of legislation in areas requiring further alignment, including the Authorized Economic Operator (AEO) programme; (ii) Application of the customs rules, notably in the areas of declaration processing, origin, simplified procedures, intellectual property rights, and selectivity of controls and risk analysis; and (iii) Progress in developing all the required IT interconnectivity systems.

Regarding **administrative and operational capacity**, the Customs Administration is implementing its Business Strategy 2019-2021 with four pillars: (i) Alignment of legislation with the acquis and development of information systems; (ii) Protection of society, security and facilitation of international trade, including simplification and harmonization of customs procedures; (iii) Efficient and effective revenue collection; and (iv) Development and improvement of human resources.

The main strategic document is the **Trade Facilitation Strategy 2018-2022**¹⁴ that the Customs Administration is implementing together with other institutions. This strategy has five (5) goals: (i) Improving transparency and access to information; (ii) Harmonisation and rationalisation of formalities, documentation and fees; (iii) Implementation of procedures for simplified and accelerated customs clearance of goods; (iv) Improving co-operation and increasing effectiveness of border controls; and (v) Expansion of automatic processing and electronic data exchange. This Strategy consolidates obligations resulting from the WTO Trade Facilitation Agreement, CEFTA Protocol 5 and EU accession in respect of trade facilitation.

In regard to IT, the Revenue and Customs Administration is gradually developing its IT systems in accordance with the Multiannual Strategic Plan (MASP) defined by the EC.

Excise system: With support of the IPA projects "Support to the Customs Administration in the field of excises" and "Introduction of a system for electronic management of excise stamps" an electronic excise stamp management system has been implemented that allows excise taxpayers to communicate automatically with the Customs Administration for issuing excise stamps for marking tobacco products and alcoholic beverages. The system for electronic management of excise stamps is connected to the national application for excises, and went into live production in February 2021. This application will enable electronic monitoring of the movement of excise products using an electronic excise document, as an essential prerequisite for future connection with the Excise Movement and Control system (EMCS) which is operational since January 2021. Excise control contributes to the fight against the informal economy.

Simplified procedures for customs clearance of express consignments were implemented and e-Manifest Application became operational, allowing for pre-processing of shipments before their arrival. Amendments to implementing legislation on Authorized Economic Operator (AEO), aimed at alignment with the EU acquis, have been adopted in August 2019. Montenegro started issuing approvals to businesses meeting the conditions. Three approvals have already been issued. Preparations for the accreditation of the customs laboratory were stepped up and several tender procedures for the procurement of laboratory equipment were successfully completed.

The degree of alignment of customs legislation with the EU acquis is high, in particular with regard to the legislation relating to customs tariffs, customs exemptions and protection of intellectual property at the border. On July 25, 2022, the Parliament of Montenegro adopted the Customs Law (Official Gazette of Montenegro, No. 86/22), which entered into force on August 11, 2022, and will be applied six months after entry into force, i.e. from February 11, 2023. The Customs Law achieved an extremely high level of compliance with the new Customs Law of the Union. A significant novelty in this Law is the definition of provisions related to the use of electronic data processing techniques, which will be used to exchange information from declarations, requests or decisions, between customs authorities, as well as between economic entities and customs authorities.

The full implementation of the new Customs Law requires the development of new and upgrading of existing IT systems. In order to implement the Customs Law, the Ministry of Finance and the Revenue and Customs Administration drafted the Draft Regulation for the implementation of the

¹⁴ Strategija trgovinskih olakšica 2018-2022 (April, 2028): <https://www.gov.me/dokumenta/3382d499-2573-449b-8c16-eb47ad4f0eaf>

Customs Law, with the technical assistance of the IFC (World Bank Group), which hired experts from the Ministry of Finance and the Customs Administration of Serbia. The Proposal for the aforementioned Regulation is currently under development and will be submitted to the relevant authorities for consideration and coordination. On July 6th, 2022, the Ministry of Finance adopted the Rulebook on Amendments to the Rulebook on the Form, Content and Method of Submitting the Customs Declaration and Other Forms Used in the Customs Procedure ("Official Gazette of Montenegro", No. 76/22).

In regard to the **common transit procedure**, preparations have begun for Montenegro's accession to the Convention on the Common Transit Procedure and the Convention on Facilitation in Trade in Goods. The first version of the New Computerized Transit System (NCTS) for national application was installed in January 2021, and the first version of NCTS for international application was installed in June, 2021. From January 27, 2022, NCTS compliance testing, Mode 1, was started using the Conformance Testing Application (CTA) application developed by the EC for these purposes, and activities with Mode 2 testing continued in 2022. New applications, such as the Guarantee Management System, the Risk Management System, the User Authorization and Authentication System, the Portal for the Economy, etc., were developed, like NCTS, within the framework of the IPA project "Support to the Customs Administration" and will be interconnected with NCTS.

The quality of risk profiling for excise products in the transit procedure was improved and instructions covering the system and process of risk analysis based on the European framework for risk analysis were adopted. Explanations for the application of the NCTS, for customs officials and economic entities, were developed during the project and will be adopted by the customs authority after the entry into force of the new Customs Law and its by-laws. The deadline for the implementation of the "Support to the Customs Administration" project is December 10th, 2022.

The ongoing development of IT systems for interoperability with EU systems represents the main obstacle to meeting the requirements for EU membership. This requires sufficient administrative capacity in the business and IT departments, as well as significant financial resources for the maintenance of new systems.

II- 2.2 Public Procurement

The Directorate for Public Procurement Policy (DPPP), within the MoF is responsible for developing public procurement policy, including PPP and concessions, drafting legislation and monitoring of the public procurement system. In the last few years, the focus of activities in the area of public procurement was set on harmonization with the EU acquis, implementation of the Law Public Procurement and Law on Public Private Partnerships (PPP), and implementation of electronic public procurement.

The **legal framework** on public procurement is broadly aligned with the acquis. The new Law on Public Procurement was adopted on 30 December 2019. It has transposed the 2014 EU Procurement Directives on classical procurement, utilities and concessions and the Defense and Security Directive. Regarding implementing legislation, 21 legal acts were adopted, including centralized public procurement, defense procurement and e-procurement. In the coming period, it is planned to adopt another by-law, in accordance with the Law. Moreover, the Law on Public-

Private Partnerships, which is compliant with the 2014 EU Directives on the award of concession contracts, was adopted in December 2019 together with accompanying regulations.

The Commission for Protection of Rights in Public Procurement's (CPRP) review of complaints serves as the basis of the **remedy system**. According to the PEFA Report 2019 the complaint review mechanism is well-established by the legislation, and review procedures and remedies are broadly in line with the EU Remedies Directive. Complaints against the CPRP decisions can be made to the Administrative Court. The number of complaints related to procurement procedures is decreasing; there are however delays in issuing decisions. With entry into force of the new Law on Public Procurement, the decisions of the CCPP are published on the Public Procurement Portal, thus increasing transparency in the public procurement system.

With EU support, the **e-procurement system** started operating from January 1st, 2021 and its use is mandatory for all parties subject to application of the Law and all procurement transactions. It covers all stages of the public procurement process and all current procurement plans have been republished using the system. Centralized procurement has become more widely used for certain standard procurements and framework agreements are used by the centralized procurement bodies (Cadastre and State Property Administration). Links to other electronic platforms in the country (in particular the Ministry of Justice and the system of the Tax Administration) will facilitate the verification of eligibility for participation in public procurement procedures.

The MoF has **trained and certified** 650 public procurement officers, covering all contracting authorities. This train-the-trainers scheme still needs to be expanded in order to cover the 3,500 registered economic operators.

A Strategy for Improving Policy for Public Procurement and Public-Private Partnerships in Montenegro for the period 2021-2025 with an Action Plan for the second half of 2021 and 2022 was adopted in October 2021. The Strategy was prepared in cooperation with SIGMA experts.

One of the challenges in public procurement is the **high number of contracting authorities**. Smaller municipalities with limited own capacities for their utilities infrastructure projects need assistance. Centralized procurement is the approach to mitigate this problem, but it is still not yet sufficiently established in the public procurement system. Capacity building is needed.

Market competition and value for money: Although the majority of public procurement transactions is carried out through open competition, the number of bidders remains persistently low.

II-2.3 State Aid Reform

Bearing in mind the vaguely defined competences for the coordination of measures, in August 2022 the Directorate for Coordination, Reporting and State Aid was formed within the Ministry of Finance, which performs tasks related to the coordination of the preparation of strategic documents, action plans, analysis, information, monitoring and reporting Government on the implementation of activities, as well as the preparation of legal and by-laws in the field of state aid. The Department for State Aid in the Agency for Protection of Competition (APC) is responsible for implementing the legal framework on state aid. The Council of the APC appointed by the

Government makes decisions on state aid. Adopted State Aid decisions can be appealed before the Administrative Court.

The Law on State Aid Control was adopted in 2018 and provided the basis for opening Chapter 8 - Competition. In 2020, secondary legislation was adopted for implementation of the Law. According to the **EU Progress report 2021**, the legal framework is to a large extent in line with the EU acquis and the SAA as well as with Articles 107 and 108 of the Treaty on Functioning of the EU (TFEU).

Implementation of legislation is lagging behind, although the number of decisions adopted by the APC Council is increasing, as is the number of ex officio cases. Also, registers for COVID-19 aid, general state aid register, and de minimis aid registers have been established. Training on state aid and concessions was organized for various target groups, with focus on state aid in the field of infrastructure (highway) and COVID-19. In addition, trainings were organized for local self-government units on the topics of the general concept of state aid, reporting and reporting procedures, and data entry into registers. Data for the previous 5 fiscal years have been entered into the register of state aid and it is planned to improve the state aid application procedures, so that in the future the application will be done electronically. However, the awareness of stakeholders (donors and beneficiaries at central and local level) about state aid rules is still underdeveloped, which is why continuous and focused multi-day trainings are needed.

Requirements for closing for the EU negotiation subchapter on state aid relate to completing the harmonization of national legislation with the EU acquis; building adequate administrative and judicial capacity in the field of state aid control; demonstrating satisfactory records on state aid control; assessing compliance of State Aid with the Law on Control of State Aid; and recovering non-compliant state aid.

The main shortcomings relate to **cases of non-compliant state aid**. As legislative alignment is largely complete, the focus will be on implementation, in particular the need to build law enforcement capacity in this area. New recruitment and training of staff is needed, as well as IT support. Monitoring of compliance in the field of state aid needs to be significantly strengthened, including compliance with the conditions for aid accumulation; application of state aid rules in major projects undertaken in cooperation with third countries; and assessment on concession acts.

II- 2.1 System for Centralized Calculation of Earnings

With the adoption of the Rulebook on Internal Organization and Systematization of the Ministry of Finance, the Directorate for Calculation, Control and Earning Policy was established, which performs tasks related to salary policy, as well as centralized calculation and control of salaries and other budget funds related to salaries, compensations, supplements and severance pay.

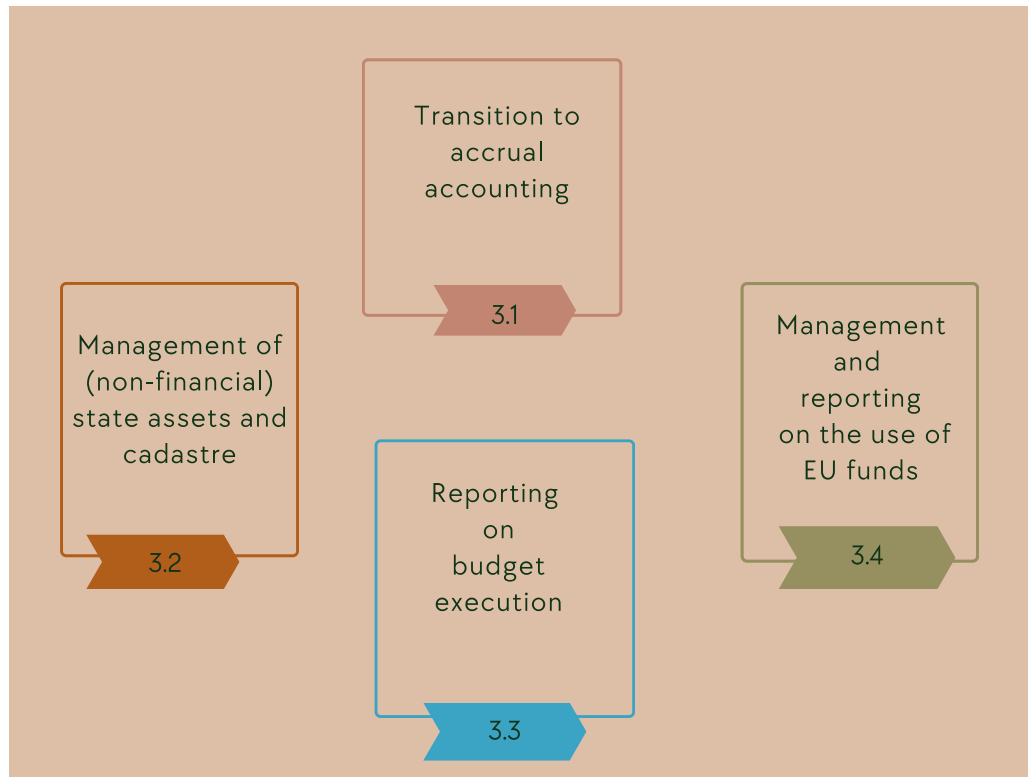
According to the PEFA report for 2019, the PI 23 indicator refers to the control of the calculation of salaries, and in accordance with the PEFA Methodology, a general grade of C+ has been assigned to this area. Namely, in the absence of a employee central record for all employees at the central level (not including municipalities), a significant number of employees perform independent salary calculations, while the Ministry of Finance performs centralized calculations

for about ¼ of the total number of employees, hence a limited control and revision of salary calculations is performed.

Bearing in mind the strong influence on trends and the level of public spending, a significant segment within the PFM RP and general PAR is the management of the total salary fund of employees in the public sector. In this regard, in the previous period, through the support of the EU within the Instrument of Pre-Accession Assistance (IPA II) 2014-2020, a system for centralized calculation of salaries was intensively implemented. This process began in 2019 with the development of a unique software solution, in order to enable the automation of the process, and to perform the centralization and more efficient process of calculation of salaries, with a greater degree of control and reporting, as well as a more efficient management of salary spending in the public sector.

After the procurement process and the installation of server equipment by the end of 2020, as well as frequent and continuous training of end users and several test, parallel calculations during 2021, in February 2022 the system began operational work for approximately 10,000 employees and 135 consumer units. In the following period, activities are planned to include the remaining consumer units of the state budget users, which will finalize the centralization of salary calculation, and continuously improve it in the following period.

II-3 STRATEGIC OBJECTIVE 3: ACCOUNTING, MONITORING AND FINANCIAL REPORTING



II-3.1 Transition to Accrual Accounting

In 2015, the Government of Montenegro adopted the **Strategy for transition of the public sector to accrual accounting**, which defined as basic pillars for this reform: training of accounts in the public sector, adoption of the law on accounting in the public sector, and upgrading the accounting information system for the application of the new accounting methodology.

Training of accountants in the public sector started in 2016 in the frame of the PACT project in cooperation with the Center for Excellence in Finance (CEF) in Ljubljana. In the period 2016-2020, three generations of 120 public sector accountants in total, have completed training on accrual accounting in the CIPFA scheme, and 60% of them have been certified. In 2022, the training continued, in accordance with the Rulebook on the manner of conducting training and taking exams for obtaining the title of accountant in the public sector, which was adopted by the Ministry of Finance.

In 2018, the Government of Montenegro adopted the **Action Plan for the Implementation of the Strategy**, which recognized the adoption of the Law on Accounting in the Public Sector as a priority. The new Law on Public Sector Accounting was adopted in November 2019 and provides the legal basis for accounting in the public sector. It defines the transition from cash to accrual accounting, to be implemented from January 1st, 2022. The Law is broadly compliant with accrual based IPSAS with some differences (mainly issues that are not applicable in Montenegro). It regulates financial reporting, and introduces the profession of public sector accountant with certification requirements.

A set of implementing regulations are required for the implementation of the Law, namely the Rulebook on chart of accounts; the Rulebook on accounting methodology; the Rulebook on financial reporting; the Rulebook on register of public sector entities; and the Rulebook on training programme and manner of taking exams for obtaining public sector accountant certificate, Manual for training and certification of public sector accountants; Rulebook on the contents of business books, as well as a manual for posting according to the new accounting methodology.

In the forthcoming period, it is necessary to ensure the adoption and application of new accounting regulations and to upgrade the accounting information system to support accrual accounting and financial reporting. Training of accountants for the application of the new accounting regulations and for the use of the accounting information system will be required, as a process of continuous education in this area.

Accrual accounting will significantly contribute to the implementation of ESA 2010.

The most significant challenge for the transition to accrual accounting consists in the need for **upgrading the Accounting IT system**. The activities initiated to address this challenge are: (i) an analysis of the process and functionality of the accounting information system in accordance with the new accounting regulations; and (ii) a gap analysis of the existing accounting information system in relation to the functionality required for application of the new accounting standards. The gap analysis will serve to identify requirements for the upgrades of the SAP system in order to implement the new Law on Public Sector Accounting and the associated bylaws.

II-3.2 Management of (Non-Financial) State Assets and Cadastre

In January 2021, the Real Estate Administration and the State Property Administration merged into the Cadastre and State Property Administration (CSPA).

Legislation on state property: The Law on State Property of 2009, amended in 2011, regulates that State authorities and local self-governments should make an inventory, assessment and recording of immovable property that is in their possession and submit the data to the CSPA within a year. The CSPA is responsible for keeping a unified register of state property and records of concluded contracts on acquisition and disposal of immovable and movable property in state ownership.

Asset Management Module: The current register of movable and immovable assets maintained by the Property Administration is very basic and incomplete, and captures only aggregate data. Since 2015 the CSPA is in the process of implementing a new IT module: a web application for asset management ARS (Asset Registry System), providing for a register of state property which has been developed in order to record and maintain data on movable and immovable property provided by spending units and extra-budgetary funds. Implementation is conducted in three phases: 1) the spending unit (direct budget users); 2) state budget spending units (indirect budget users and diplomatic consular representations) and 3) Local government. It is important to note that a complete assets register is required for the implementation of accrual accounting.

Training on use of the software and preparation of the migration tables has been completed for first- and second-line central level spending units, but still continues for local government.

Cadastral information system: Cadastral records have been maintained in electronic format since 1996. Ownership data is recorded at the level of Regional Units and is partially incomplete. In addition to the ownership database, a graphical database is maintained which is partially inconsistent. An upgrade of the cadastral information system is needed consolidate the data at the central level and improving their quality. Development of a strategic framework is required for the application of new technologies, defining priorities, procedures, human and financial resources, risks, and harmonization with the current situation. In order to improve the cadastral information system the following new functionalities and services shall be developed:

- e-services for notaries
- Functionality for downloading electronically signed real estate list, title deed and certificate
- Integration of the current systems for management of cadastral records

There are also plans for a document management system for archiving purposes.

In addition to IT development, it is necessary to amend the current legal framework, regulations and procedures regulating the use of the IT system.

II 3.3 Reporting on Budget Execution

A Rulebook on the preparation and delivery of financial reports for budget, state funds, and local governments prescribes the format and content of quarterly and annual financial reports. They

include cash flow statements by economic and functional classification; a report on unsettled liabilities; and a consolidated report per first-line spending unit.

First-line spending units submit quarterly consolidated reports to the MoF. Also, the MoF publishes a summary report on budget execution on a monthly basis on its website. The reports are presented according to economic classification and do not report separately on different spending units, functions or programs. Therefore, a direct comparison with the original budget is possible only at a certain level of aggregation and only on the basis of economic classification. Therefore, it is necessary to improve the reporting in order to present data on execution in line with other available classifications.

II-3.4 Management and Reporting on the use of EU Funds

For the purposes of management and reporting on the use of EU funds, there is a need to develop a relevant information system. Namely, recording data on EU funds, i.e. reporting on their use, is the main requirement for the management of pre-accession funds, and later, when the country a EU member state, for the management of Structural and Cohesion Funds.

Bearing in mind that Montenegro currently uses EU Pre-Accession Funds (IPA funds) and is in the process of negotiations for full membership, one of the benchmarks for Chapter 22 - Regional Policy And Coordination of Structural Instruments is the establishment of a monitoring and evaluation system, including the establishment of an electronic management information system (MIS). The MIS, which Montenegro shall develop, will enable reliable data on contracts and financial management, as well as monitoring the management of EU Aid, in accordance with the requirements of Chapter 22.

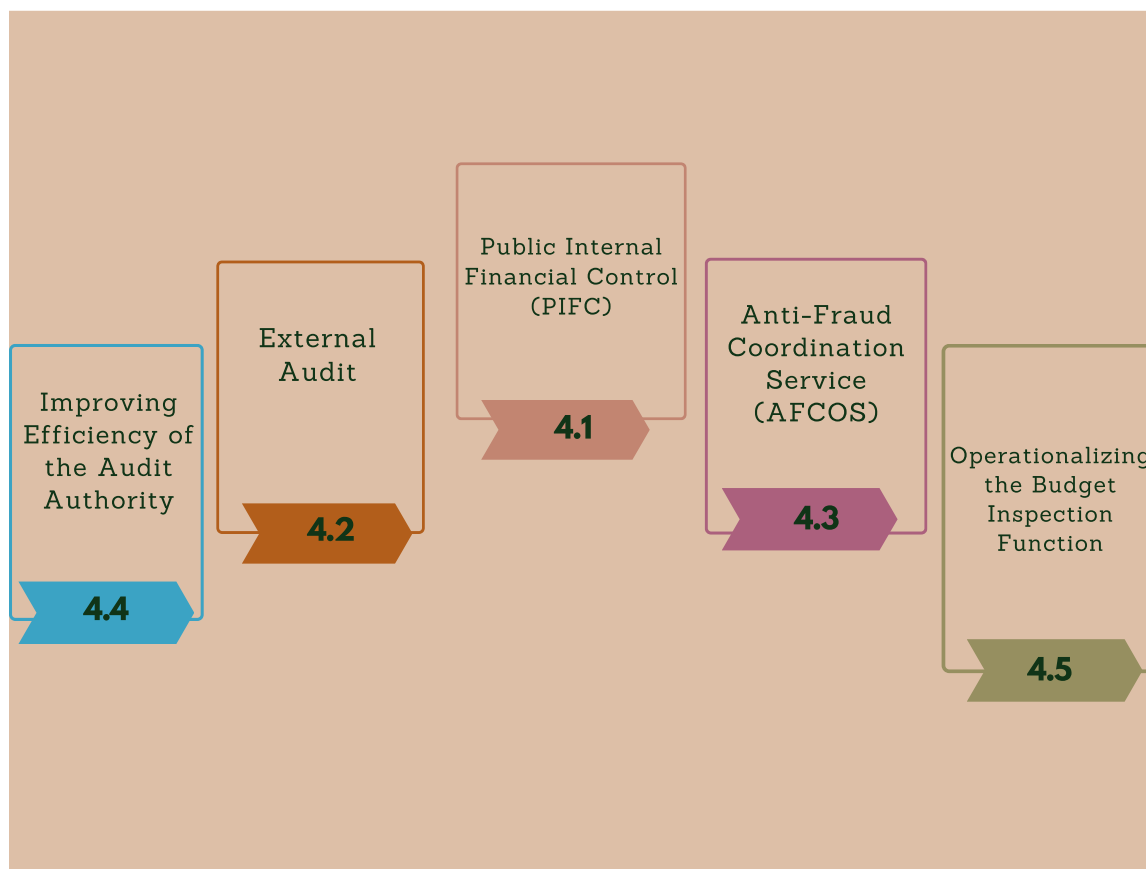
The MIS should enable the recording of data at the Program and project level, from available contracting data to contract monitoring and monitoring of achievement of indicators and the monitoring of financial spending.

The main users of MIS should be the key stakeholders involved in the management of EU funds, i.e. Management Structure - Accounting body, Managing Authority, Intermediate bodies, as well as Audit Authority, with the possibility of expansion to a larger group of users such as the contractors themselves, that is, beneficiaries of EU support, etc.

The MIS should enable the generation of relevant reports, for the purpose of efficient and effective use of EU funds, and for the purpose of reporting to competent authorities.

Therefore, once the situational analysis are conducted, the MIS will be developed in line with the planned dynamics, as an independent software solution or as an integrated part of another, relevant software solution already in place.

II – 4 STRATEGIC OBJECTIVE 4: FINANCIAL CONTROL



II-4.1 Public Internal Financial Control (PIFC)

The **legal and regulatory framework for PIFC** is largely in place, particularly after the implementation of most activities planned under the 2013-2017 PIFC Strategy and Improvement of the Regulatory Framework for Management and Internal Control during 2018 and 2019. All activities envisaged by the previous PFM Reform Program 2016- 2020 have been implemented.

Ministry of Finance, the Directorate for Central Harmonization (CHU) is responsible for the development and coordination of the PIFC system, notably in regard to monitoring and reporting. The CHU has conducted training on internal audit and FMC and certification of public internal auditors together with the CEF, based on the CIPFA programme. The CHU has developed a localized version of this programme, which is now being implemented by the HRMA in cooperation with the CHU. The first round of localized CIPFA certification was organized in 2020. A long-term professional development programme for certified internal auditors is also in place.

CHU Directorate focuses on training, support and monitoring of budget beneficiaries at the central and local level. In accordance with the Law on Governance and Internal Control, in the coming period an additional focus will have to be set on strengthening internal audit, governance and control in public enterprises.

Internal audit practice, rules, and standards are regulated in line with international standards. The number of internal auditors continues to increase, and significant progress has been made in strengthening their capacity through training and certification.

By end-2021, a total of 890 auditors had been appointed, of which 88% are certified. In 2021, a new Decree on the Establishment of Internal Audit in the Public Sector has increased the number of units that are obliged to establish an internal audit unit.

The percentage of implemented audit recommendations continuously increased until 2019. After that, due to the COVID-19 pandemic, the percentage of implemented recommendations decreased and in 2021 it is 71.70%. According to data for 2021, the number of recommendations related to achieving value for money and improving internal controls is about 28.6%. However, it is necessary to further strengthen the capacity of internal auditors in this area.

Internal control legislation is in line with international standards. A framework for governance and internal control (FMC) is in place and was updated. A system for detecting and acting on information about financial irregularities was developed, but the effect on the number of irregularities reported is not yet evident. Spending units are increasingly adopting risk registers, but risk management is not consistently applied by all budget entities.

Although more than 90% of institutions have adopted risk registers, there is still not sufficient understanding of the risk management process. Also, only half of the budget entities have adopted action plans to improve the systems of governance and control.

Managerial accountability: The legal and regulatory framework for the development of managerial accountability is provided by the Law on Governance and Internal Control in public sector (FMC Law) ("Official Gazette of Montenegro", No. 075/18) and the Decree on the delegation of authorities and tasks of financial management and internal controls in the public sector was adopted (" Official Gazette of Montenegro", no. 079/20). Additionally, as an aid in establishing the concept of management responsibility, the Ministry of Finance in October 2020 adopted the Methodology on the transfer of tasks and tasks of financial management and internal controls in the public sector. This Methodology is part of the implementation of the Action Plan of the PAR Strategy and the starting point for establishing a system of managerial responsibility.

Management culture in public sector institutions is still highly centralized, and delegation of responsibility for budget management or decision-making authority to middle management is not frequent. The primary focus is still on compliance rather than results. Although there are no obstacles in the legislative/regulatory framework for the transfer of authority, only 8.3% of ministries have formally transferred responsibilities and authority to heads of organizational units (2020 data). Considering that transfer is allowed, but not mandatory, and that for smaller institutions transfer is often not even appropriate, the implementation of this concept still remains a key challenge.

Managerial accountability is closely connected to programme and results-oriented budgeting. Programme budgeting provides the opportunity to strengthen managerial accountability as it expands the authority of heads of spending units and (subordinate) programme managers, and at the same time increases their accountability for achieving objectives within the adopted budget. However, it should be noted that this link between programme budgeting and managerial accountability is not yet addressed in any regulation. It is however addressed in the programme budgeting manual.

The key challenge for the application of the concept of managerial accountability is to link budgets and responsibilities; planning activities and goals at the level of the organization; preparing budgets at the level of organizational units; as well as delegating spending authority. This goal is also recognized in the Public Administration Reform Strategy.

II-4.2 External Audit

According to the EU Progress Report 2020 and 2021, the SAI has improved its institutional capacity in terms of management and auditing staff. Most of its auditors are certified and have access to training on the basis of a needs assessment. The SAI has adopted three strategic documents which are currently being implemented: A Strategic Development Plan 2018-2022 with the following objectives: 1) Strengthening the integrity of the SAI at the domestic and international level; 2) Strengthening the impact of the SAI in improving public finance management strategic objective; and 3) Increasing the capacity and efficiency of the SAI. In addition, the SAI has adopted a Communication Strategy 2020-2024 and HRM Strategy 2021-2025. The new Public Financial Management Reform Program for the period 2022-2026 will contribute further improving the strategic framework by implementing current and developing new SAI strategic documents, increasing the quality of audits and improving digitalization of the audit and follow up process of implementation of audit recommendations.

Standards and methodology: The SAI has standardized audit processes for financial, regularity and performance audit by adopting manuals, guidelines and instructions. A number of ISSAI level IV requirements have been incorporated into the operating manuals to reflect the detailed requirements of the standards in the SAI operating procedures and to assure compliance with level IV. Training related to the application of level IV of the ISSAI standards for financial, regularity and performance audit has been held in the frame of an IPA TA project. The SAI has however identified the following weaknesses: The lack of a SAI Medium-Term Audit Plan, which is based on a comprehensive risk assessment to determine strategic audit priorities; inconsistency of the existing strategic framework with the duration of the programme; insufficient training and capacity for auditing environmental protection; lack of a software solution for audit management and insufficient IT capacity and infrastructure for audit management.

Capacity for performance audit: The SAI performed three performance audits in 2019, compared to four in 2018. According to the **PEFA Report 2020**, the SAI's capacity for performance audit has increased, but the number of audits for economy, efficiency, and effectiveness is still limited. According to the **IMF Article IV Consultation 2019**, it is necessary to improve audit capacities for the implementation of a wide range of audits, including financial audit, regularity audit and performance audit.

Implementation of recommendations: Following the adoption of recommendations on the final statement of accounts by parliament, the government develops an action plan for their implementation and reports on it regularly. Audited entities have to submit a report to the SAI on the implementation of recommendations. According to the SAI, the percentage of implemented recommendations given in the Audit report of the Proposal Law on Final state budget account of Montenegro for 2019 was as follows: 27% fully implemented; 16% partially implemented; 52% not implemented; and 5% ongoing.

The **PEFA Report 2019** shows similarly low implementation rates for 2016 and 2017. Despite of a B score for Dimension 30.3. (External audit follow-up), the Report states concerns over the follow-up on recommendations. According to the **EU Progress Report 2020**, the Parliament does not ensure structured follow-up on SAI recommendations, although the SAI may decide to perform follow-up audits. For this reason, and in order to strengthen the impact of audits, in June 2020 the SAI adopted the Guidelines for the preparation, monitoring and control of the implementation of recommendations. The Report concludes that the overall implementation rate of SAI recommendations needs to be further improved. According to the **IMF Article IV Consultation 2019**, Montenegro needs to further ensure an effective mechanism for reporting and monitoring of the implementation of the SAI recommendations

The main challenges relate to the capacities of the SAI which, in terms of number of staff, are insufficient for complying with its comprehensive mandate, covering all public financial operations, including central level spending units, municipalities, state-owned enterprises, international organizations and political parties. The SAI's continued obligation to audit political parties remains a significant burden on its resources and finances. Insufficient space in the SAI's current premise is yet another issue which limits recruitment of new employees.

II4.3 Anti-Fraud Coordination Service (AFCOS)

The responsible unit is the Directorate for Budget Inspection and Suppression of Irregularities and Frauds within the Ministry of Finance, while establishing the Department for Suppression of Irregularities and Fraud (AFCOS Office) in 2013, together with the AFCOS network.

The AFCOS Office is the main point of contact for OLAF, and responsible for reporting irregularities to OLAF within the Electronic Irregularity Reporting System (IMS).

According to the **EU Progress Report 2020 and 2021**, Montenegro is largely aligned with the EU acquis in this area, but not aligned with regard to its criminal law with the EU acquis on the fight against fraud to the EU's financial interests. Cooperation with the EC during investigations is ensured, and progress on developing a solid track record on reporting of irregularities was made (42 reported cases by end-2019), but a solid track record on investigations still needs to be ensured. The Report calls for strengthening the coordination capacity of the AFCOS Office.

In the frame of the Twinning light project "Strengthening the capacity of the AFCOS Office in Montenegro", in mid-2018 the AFCOS Office analyzed shortcomings in the AFCOS system, concluding that those were primarily related to the legal and institutional framework for the functioning of the AFCOS system. As a result, the **Strategy for Combating Fraud and Irregularities to protect financial EU interests for the period 2019-2022** was adopted in May 2019, providing the basis for improving the capacity of the AFCOS Office and the functioning of the AFCOS

network. The most important achievement was the adoption of Guidelines for Irregularity Management, which enabled a clear division of obligations and responsibilities of all participants in the IPA Reporting Structure throughout the irregularity management process that has significantly improved the reporting system.

The shortcomings identified in the Strategy relate to the lack of a legal basis for the functioning of the AFCOS system in terms of clear definition of responsibilities, AFCOS Advisory Body and AFCOS Office in the AFCOS system, as well as their mutual relationship in terms of cooperation, communication and exchange of information. Establishment of the legal framework for the functioning of the AFCOS system is planned in the frame of the amendment of the LBFR.

Development of a new Strategy for Combating Fraud and Irregularity Management in order to protect the EU's financial interests for the period 2023-2026 with an accompanying Action Plan is required, which would further strengthen the legal framework and capacity building of the AFCOS office and the AFCOS system. This Strategy would address the adoption of a legal basis for conducting administrative checks; a risk analysis methodology in the field of irregularity management; a Communication Strategy (to improve communication between AFCOS bodies and with the public); and training.

II-4.4 Improving Efficiency of the Audit Authority

According to the **EU Progress Report 2020 and 2021**, the capacity of the Audit Authority improved. 20 staff positions (out of 32 systematized positions) are currently filled. After the Deputy Auditor General was appointed in December 2019, a Strategy 2021-2025 of the Audit Authority was adopted in 2020. Auditors have been trained in system audit, audit of transactions, audit of annual accounts, sampling, control quality and insurance policies, FIDIC and PRAG. Trainers have been trained, and future training will be organized through the HRMA. Two manuals have been adopted, covering all five policy areas, and are being implemented since April 2019, as well as a Manual on control and quality assurance of audit work. The auditors of the Audit Authority use software for auditing.

The implementation of pre-accession funds from the IPA II program is ongoing until 2025, while under IPA III the first phase of programming has been completed and the first (temporary) payments under contracts financed under these programs are expected in 2022-2023. During the period 2022-2025, IPA II and IPA III will be carried out in parallel and the Audit Authority will have to conduct audit of both programming periods in parallel, as well as audit activities related to the closure of IPA II Programme. Further training of the auditors and the development of audit procedures is needed in this regard.

In order to prepare for IPA III, and later for EU membership, an analysis of the Law on Audit of EU Funds is required to harmonize it with auditing standards and future EU requirements. Another measure to be planned is the improvement of visibility of the Audit Authority which is currently limited to the Audit Authority's website.

II-4.5 Operationalizing the Budget Inspection Function

The centralized budget inspection function in the MoF is not operational. The LBFR regulates inspection supervision and stipulates that the MoF shall carry out supervision over the implementation of the LBFR and control legality of use of budgetary funds by public sector entities.

The Budget Inspection Unit was formally established in 2014 in the Ministry of Finance which will carry out controls on legal and dedicated use of budget funds of spending units; preparation and implementation of control of budget execution of local self-governments, public institutions, independent regulatory authorities, enterprises and legal entities owned by the state or municipality or having a majority ownership share, control of accounting, financial and other business documents of the subjects of supervision; supervision in part of legal, efficient and effective work of the Agency for the Protection of Competition.

III APPENDICES

III-1 BUDGET TRANSPARENCY

The following subsystems, goals and activities of the Public Finance Management Program will contribute to strengthening budget transparency:

III-1.1 Strategic Objective 1 – Strengthened Fiscal Framework and Budget Planning

Subsystem 1.1 Macroeconomic analysis and fiscal policy

Objective 1.1.2 - Improving the identification and monitoring of fiscal risks

- Development of a methodology on fiscal risks
- Preparation of the Fiscal Risk Statement as part of the Fiscal Policy Guidelines
- Periodic monitoring of fiscal risks

Subsystem 1.2 Medium-term budget planning

Objective 1.2.4 – Further strengthening of the link between strategic plans and the budget

- Coordination with the office for public administration reform; establishment of the planning function in all major consumer units; procedures for determining the costs of strategies; and institutional competencies related to coordination
- Connecting SRBO with the strategic planning system and the government's medium-term work program
- Connecting strategic documents with the program budget

Subsystem 1.3 Further development of program budgeting

Objective 1.3.1 – Improving program structure and performance information

- Harmonizing and improving the quality of the program structure of consumer units
- Analyzing existing goals and indicators and possibly improving their quality, including defining the gender dimension

Objective 1.3.4 – Evaluation of program performance

- Develop procedures and a manual for evaluating the performance of programs and projects

Subsystem 1.4 Management of public investments

Objective 1.4.1 – Improvement of the capital budget planning process and capacity for public investment management

- Strengthening the legal and regulatory framework for public investment management

Objective 1.4.2 – Improving the efficiency of allocation for capital budgets by determining the fiscal space

- Develop a methodology for public investment management: Guidelines for conducting economic analyzes (justification analysis) of investment projects to ensure value for

money; and the updated Manual for capital budgeting (in order to determine the fiscal space)

Objective 1.4.3 – Improvement of the procedure of implementation and monitoring of capital projects

- Establishment of a (public) database of capital projects
- Develop procedures for monitoring and reporting on the realization of capital projects

Objective 1.4.4 - Preparation of a long-term investment document

- Preparation of a long-term investment document (master plan of infrastructure projects)

III - 1.2 Strategic Objective 3 – Accounting, Monitoring and Financial Reporting

Subsystem 3.3 Reporting on budget execution

Objective 3.3.1 – Establishing a process and publishing transparent annual and periodic reports on budget execution

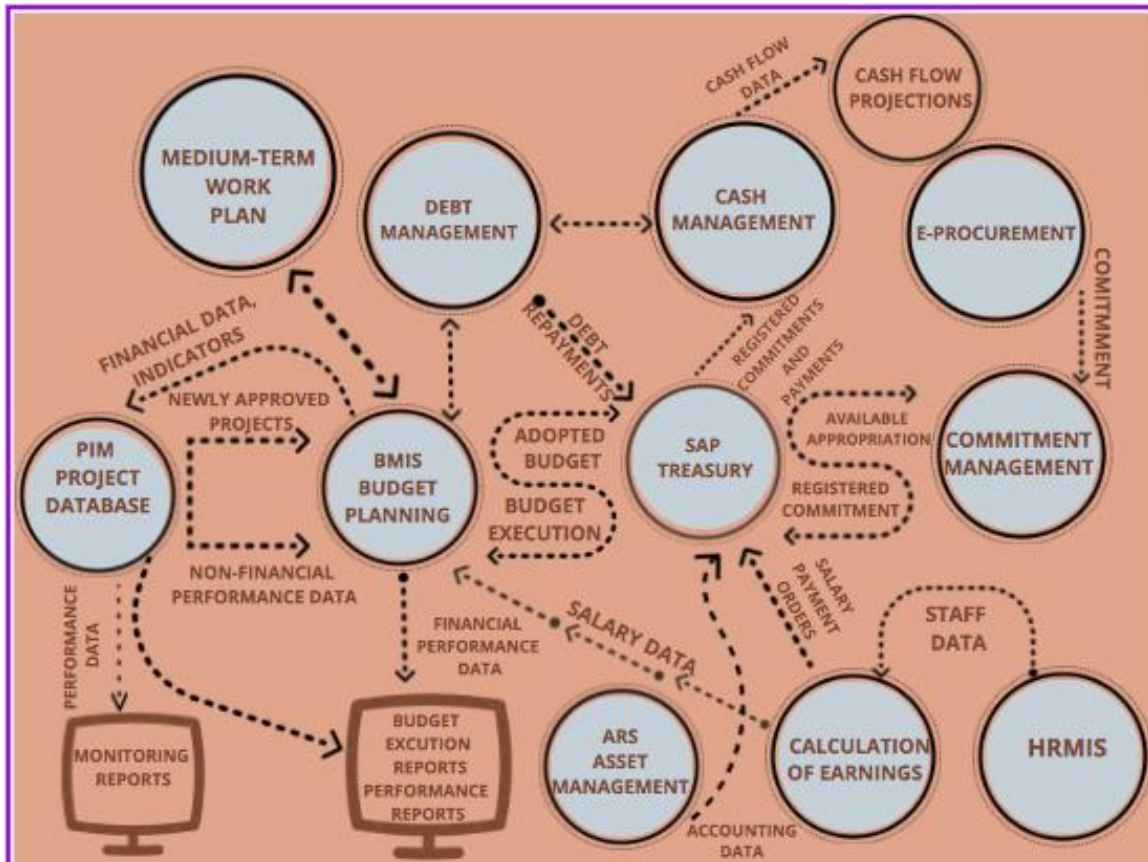
- Upgrade BMIS to improve annual and periodic reports on budget execution
- Increasing transparency and improved visualization of budget statements - Budget for citizens

Objective 3.4.2 – Establishing the process of creating annual and periodic reports on budget performance

- Prepare half-yearly and annual reports on budget performance through BMIS

III - 2 INFORMATION TECHNOLOGIES

The graphic below provides an overview of the interoperability between different systems:



The following subsystems, goals and activities of the PFM RP will contribute to computerization and automation of business processes in public finance management:

III-2.1 Strategic Objective 1 – Strengthened Fiscal Framework and Budget Planning

Subsystem 1.2 Medium-term budget planning

Objective 1.2.4 – Further strengthening of the link between strategic plans and the budget

- Connecting SRBO with the strategic planning system and the government's medium-term work program

Subsystem 1.3 Further development of program budgeting

Objective 1.3.2 – Establish a reporting and monitoring system for performance information

- Upgrade of BMIS with a new program budgeting structure and improved performance information

Objective 1.3.3 – Implementation of program budgeting at the local level

- Introduction of BMIS at the local level

Subsystem 1.4 Management of public investments

Objective 1.4.3 – Improvement of the procedure of implementation and monitoring of capital projects

- Establishment of a (public) database of capital projects
- Upgrade of the existing IT system (BMIS) to support public investment management processes

Subsystem 1.5 Public debt management

Objective 1.5.3 – Improving the software solution for public debt management

- Implementation of the debt management module within BMIS, to improve reporting and include models to improve public debt risk management and scenario analysis and ensure interoperability with the SAP system

Subsystem 1.6 Development of the EU own resources system

Objective 1.6.3 - Harmonization of the regulatory framework with EU legislation

- Analysis of the existing regulatory framework
- Prepared changes to the regulatory framework in accordance with EU legislation

III-2.2 Strategic Objective 2 – Budget Execution

Subsystem 2.1 Improving efficiency in revenue collection

Objective 2.1.2 - Improvement of procedures, development and implementation of IT systems in the customs and tax area

- Development of an integrated revenue management system
- Implementation of the VAT Information Exchange System (VIES)
- Complete NCTS implementation (phase 5)
- Development of a dynamic plan for the implementation of other IT systems required for interconnection and electronic data exchange, especially ITMS, ECS and ICS

Subsystem 2.2 Public Procurement

Objective 2.2.2 - Improving the functionality of the e-procurement system and training its users, in order to achieve value for money in public procurement and PPP

- Further development of the functionality of the e-procurement system
- Establish the interoperability of e-procurement with related IT systems and registers

Subsystem 2.4 Salary calculation system

Objective 2.4.1 – All consumer units whose employees' wages are financed from the Budget of Montenegro included in the information system for centralized calculation of wages

- Migration of master data on employees from existing to new COZ systems
- Conducting training for employees to use the COZ system
- Adapting the information system to all the specifics of new users

Objective 2.4.3 - Upgrade of the software solution for centralized calculation of wages for classified data

- Upgrade the software solution for calculating wages for institutions and organizational units with data classified by a certain degree of secrecy

Objective 2.4.4 - Upgrade of the software solution for the centralized calculation of wages in the part covering all personal incomes paid from the Budget of Montenegro

- Upgrade the software solution for salary calculation in the part that covers all personal incomes that are paid from the Budget of Montenegro

III-2.3 Strategic Objective 3 – Accounting, Monitoring and Financial Reporting

Subsystem 3.1 Transition to accrual accounting

Objective 3.1.2 - Upgrading the IT system to support accrual accounting

- Development of the Project Terms of Reference for the accounting information system in accordance with the new accounting regulations
- Upgrade of the IT system to support accrual accounting
- Preparation of the test environment

Subsystem 3.2 Management of (non-financial) state assets and cadaster

Objective 3.2.2 – Upgrade of relevant IT systems in the field of state property and cadastre management and development of E-services

- Improving the functionality of IT solutions for state property management and data quality
- Improvement of the cadastral information system and improvement of data quality
- Establishment of new e-services (connection of notaries with the cadastre for submission of electronic documents)
- Establish interoperability with relevant IT systems

Subsystem 3.3 Reporting on budget execution

Objective 3.3.1 – Establishing the process of creating and publishing transparent annual and periodic reports on the execution of the budget

- Upgrade BMIS to improve annual and periodic reports on budget execution

Objective 3.3.2 – Establishing the process of creating annual and periodic reports on the performance of the budget

- Prepare half-yearly and annual reports on budget performance through BMIS

III-2.4 Strategic Objective 4. Financial Control

Subsystem 4.5 – Operationalization of the budget inspection function

Objective 4.5.2 – Capacity building

- Establishing, developing and maintaining an IT system for detecting and reporting irregularities in the public sector, and training for the same

III-3 LOCAL SELF-GOVERNMENT FINANCES

The following sub-systems, objectives and activities of the Public Finance Management Program will contribute to the strengthening of local self-government public finance management:

III-3.1 Strategic Objective 1 – Strengthened Fiscal Framework and Budget Planning

Subsystem 1.2 Medium-term budget planning

Objective 1.2.2 - Establishing a methodological framework for medium-term budget planning for local governments

- Draft methodology for assessing the fiscal impact of political initiatives and available fiscal space
- Development of procedures for identification, prioritization, determination of costs and selection of new proposals for public policies/capital projects

Objective 1.2.3 - Capacity building in terms of medium-term budget planning at the level of central and local government

- Conducting trainings on the medium-term budget framework

Subsystem 1.3 Further development of program budgeting

Objective 1.3.3 – Implementation of program budgeting at the local level

- Introduction of BMIS at the local level
- Development of a Roadmap and manual for the implementation of program budgeting at the local level
- Training of officials of local self-government units

III-4 HUMAN RESOURCES

In addition to training, specific actions should be targeted to ensure staff retention and staff recruitment (or transfer). The MoF should **ensure the availability of the necessary (internal) human resources to implement the PFM reform activities** and to achieve the objectives of the PFM Strategy.

The twinning project funded by the IPA, implemented measures aimed at enhancing the professional leadership skills of senior civil servants in terms of competency frameworks for selection criteria and training for officials in charge of developing job systematization and candidate testing. A Regulation that establishes the standards for creating and revising the personnel plan was adopted in accordance with the Law on Civil Servants and State Workers in order to strengthen personnel planning.

OVERVIEW OF STRATEGIC AND OPERATIONAL GOALS

Subsystems	Objectives	Main activities
Strategic objective 1 – Strengthened fiscal framework and budget planning		
1.1 Macroeconomic analysis and fiscal policy	<p>1.1.1 – Fiscal Council establishment to strengthen supervision over the implementation of fiscal policy and its capacity building</p> <p>1.1.2 - Improving the identification and monitoring of fiscal risks</p> <p>1.1.3 – Strengthening the capacity of the Ministry of Finance for improved macroeconomic forecasting</p>	<p>1.1.1</p> <ul style="list-style-type: none"> Comparative analysis of independent fiscal institutions provided by the Options Document Drafting legal amendments/new laws and by-laws for the purpose of establishing the Fiscal Council Drafting procedures/regulations for the functioning of the Fiscal Council <p>1.1.2</p> <ul style="list-style-type: none"> Developing the Methodology on Fiscal Risks Preparing the Statement on Fiscal Risks as part of the Macroeconomic and Fiscal Policy Guidelines Periodic monitoring of fiscal risks <p>1.1.3</p> <ul style="list-style-type: none"> Training DEP staff on macroeconomic modeling, financial programming and impact assessment
1.2 Medium-term budget planning	<p>1.2.1 - Amendment of the legal and regulatory framework that reflects the budget reform</p>	<p>1.2.1</p> <ul style="list-style-type: none"> Drafting by-laws for the implementation of the LBFR (once the amendments to the LBFR are adopted): institutional competences, coordination process and content of the MTBF <p>1.2.2</p>

Subsystems	Objectives	Main activities
	<p>1.2.2 - Establishing a methodological framework for medium-term budget planning for local governments</p> <p>1.2.3 – Capacity building in terms of medium-term budget planning at the central and local government level</p> <p>1.2.4 - Further strengthening of the link between strategic plans and the budget</p>	<ul style="list-style-type: none"> • Drafting the Methodology for assessing the fiscal impact of policy initiatives and existing fiscal space • Development of procedures for identification, prioritization, determination of costs and selection of new proposals for public policies/capital projects ¹⁵ <p>1.2.3</p> <ul style="list-style-type: none"> • Conducting trainings on the medium-term <p>1.2.4</p> <ul style="list-style-type: none"> • Coordination with the Office for Public Administration Reform; Establishment of the planning function in all major expenditure units; procedures for determining the costs of strategies; and institutional competencies related to coordination • Linking MTBF with the strategic planning system and the Government's Medium-Term Work Program • Linking strategic documents with the program budget
<p>1.3 Further development of program budgeting</p>	<p>1.3.1 – Improving program structure and performance information</p> <p>1.3.2 – Establishing a system of reporting and monitoring performance information</p> <p>1.3.3 – Implementation of program budgeting at the local level</p>	<p>1.3.1</p> <ul style="list-style-type: none"> • Harmonization and improvement of the quality of the program structure of expenditure unit • Analyzing existing goals and indicators and possibly improving their quality, including defining gender dimensions • Advanced training on program budgeting for different target groups <p>1.3.2</p> <ul style="list-style-type: none"> • Further development of subprograms, activities and performance measurements in all spending units • Development of procedures for monitoring and reporting on the program budget • Upgrade of BMIS with new program budgeting structure and improved performance information <p>1.3.3</p> <ul style="list-style-type: none"> • Introduction of BMIS at the local level • Drafting a Roadmap and manual for the implementation of program budgeting at the local level • Training officials of the local self-government unit ¹⁶ <p>1.3.4</p>

Subsystems	Objectives	Main activities
	1.3.4 – Evaluation of program performance	<ul style="list-style-type: none"> Develop procedures and a manual for evaluating the performance of programs and projects
1.4 Public Investment Management	<p>1.4.1 – Improvement of the capital budget planning process and capacity for public investment management</p> <p>1.4.2 – Improving allocation efficiency for capital budgets by determining the fiscal space</p> <p>1.4.3 – Improvement of the Implementation process and monitoring of capital projects</p> <p>1.4.4 – Development of the Long-Term Investment Document</p>	<p>1.4.1</p> <ul style="list-style-type: none"> Strengthening the legal and regulatory framework for public investment management Strengthening of the institutional framework and coordination and training of the members of the Commission for determining the list of capital investment priorities <p>1.4.2</p> <ul style="list-style-type: none"> Developing the Methodology for Public Investment Management: Guidelines for Preparing Economic Analyses (feasibility analysis) of investment projects to ensure value for money; and the updated Manual for Capital Budgeting (in order to determine the fiscal space) Training for cost accounting of capital projects Promote the use of public-private partnerships <p>1.4.3</p> <ul style="list-style-type: none"> Establishment of a (public) database of capital projects Upgrade of the existing IT system (BMIS) to support public investment management processes Develop procedures for monitoring and reporting on the implementation of capital projects <p>1.4.4</p> <ul style="list-style-type: none"> Developing a long-term investment document (master plan of infrastructure projects)
1.5 Public debt management	<p>1.5.1 - Improving the capacity of the unit responsible for the area of public debt</p> <p>1.5.2 – Adopting a new debt management strategy</p> <p>1.5.3 – Improving the software solution for public debt management</p>	<p>1.5.1</p> <ul style="list-style-type: none"> Recruitment and training of employees <p>1.5.2</p> <ul style="list-style-type: none"> Prepare and adopt the 2022-2024 Debt Management Strategy. and its periodic updates Introducing a system for monitoring the implementation of the Debt Management Strategy <p>1.5.3</p> <ul style="list-style-type: none"> Implementation of the debt management module within BMIS, in order to improve reporting and to include models that will enhance public debt risk management and scenario analysis and ensure interoperability with the SAP system

Subsystems	Objectives	Main activities
1.6 Establishment of the EU Own Resources Management System	<p>1.6.1 – Strengthening the administrative capacity of all institutions included in the EU Own Resources System</p> <p>1.6.2 – Developing procedures for establishing a EU own resources system</p> <p>1.6.3 – Harmonization of the regulatory framework with EU legislation</p>	<p>1.6.1</p> <ul style="list-style-type: none"> Building administrative capacities for the coordination and management of the EU's own resources (training of the Directorate for the coordination and Management of the EU's Own Resources - MoF and other organizational units and institutions included in the system of the EU's own resources) <p>1.6.2</p> <ul style="list-style-type: none"> Developing procedures for the establishment of a system of own resources in the area of traditional own resources Developing procedures for establishing a system of own resources in the area of own resources based on VAT Developing procedures for establishing a own resources system in the area of own resources based on GNI <p>1.6.3</p> <ul style="list-style-type: none"> Analysis of the existing regulatory framework Prepared amendments to the regulatory framework in accordance with EU legislation
1.7 Official Statistics Improvement	<p>1.7.1. – Official Statistics aligned with international standards</p> <p>1.7.2. - The Government Finance Statistics aligned with ESA 2010 Methodology</p> <p>1.7.3. – Improved pre-accession fiscal notifications, i.e. reporting on the excessive deficit procedure</p>	<p>1.7.1</p> <ul style="list-style-type: none"> Improving coordination between the MoF, MONSTAT and the Central Bank by forming working teams and improving data exchange Training of statisticians Developing an integrated IT system for collecting, processing, publishing and documenting the results of Official Statistics <p>1.7.2</p> <ul style="list-style-type: none"> Producing Government Finance Statistics in accordance with the ESA 2010 Methodology and the Government Finance Statistics Manual (GFSM) requires improvement of data collection procedures <p>1.7.3</p> <ul style="list-style-type: none"> Capacity building for the professionalization of the financial reporting system, especially fiscal notifications for pre-accession requirements in accordance with the ESA methodology
Strategic objective 2 – Budget execution		
2.1 Improving efficiency in revenue collection	<p>2.1.1 – Alignment with the EU acquis in the areas of taxation and customs</p>	<p>2.1.1</p> <ul style="list-style-type: none"> Continuous compliance with EU directives in the tax field Continuous compliance with EU directives in the customs area

Subsystems	Objectives	Main activities
	<p>2.1.2 - Improvement of procedures, development and implementation of IT systems in the customs and tax area</p> <p>2.1.3 – Improvement of billing efficiency</p> <p>2.1.4 – Improvement of voluntary tax discipline and compliance with tax obligations</p> <p>2.1.5 - Development and improvement of human resources</p>	<ul style="list-style-type: none"> • Draft Law on the Ratification of the Convention on Common Transit Procedure • Draft Law on the Ratification of the Convention on the Simplification of Formalities in Trade in Goods <p>2.1.2</p> <ul style="list-style-type: none"> • Developing an integrated Revenue Management System • Implementing of the VAT Information Exchange System (VIES) • Complete NCTS implementation (Phase 5) • Implementing IT systems required for interconnection and electronic data exchange with the EU - especially ITMS, AES, ICS2, NCTS Phase 6 and EMCS, etc. • Reduction of administrative barriers through further implementation of trade facilitation measures in accordance with the Trade Facilitation Strategy 2018-2022. and ERP <p>2.1.3</p> <ul style="list-style-type: none"> • Strengthening tax risk management through risk profiling, recording tax audit results and collecting information from third parties; in particular risk analysis for the control and processing of VAT refunds <p>2.1.4</p> <ul style="list-style-type: none"> • Strengthening external and internal communication through targeted raising of public awareness and taxpayer education programs <p>2.1.5</p> <ul style="list-style-type: none"> • Ensure further employment of IT department officials • Training officials
<p>2.2 Public procurement</p>	<p>2.2.1 – Established capacities for the implementation of the new legal framework for Public Procurement and Public-Private Partnership</p> <p>2.2.2 – Improving the functionality of the e-procurement system and user training, in order to achieve value for money in public procurement and PPP</p>	<p>2.2.1</p> <ul style="list-style-type: none"> • Developing training system for the needs of PP and PPP in the instructor training scheme for different target groups (customers) • Improving manuals and instructions on the use of the e-procurement system <p>2.2.2</p> <ul style="list-style-type: none"> • Increasing the number of business entities that are registered in the e-procurement system • User training for the e-procurement system • Further development of the functionality of the e-procurement system

Subsystems	Objectives	Main activities
	<p>2.2.3 – Improvement of Complaint Review System</p> <p>2.2.4 – Increasing market competition, especially the participation of SMEs</p>	<ul style="list-style-type: none"> • Establish interoperability of e-procurement with related IT systems and registers • Improve the monitoring system by developing an analytical framework for measuring the economy of the e-procurement system <p>2.2.3</p> <ul style="list-style-type: none"> • Capacity building of the Commission for the Protection of Rights in Public Procurement Procedures (training, case management system) <p>2.2.4</p> <ul style="list-style-type: none"> • Educational program for encouraging SMEs inclusion in public procurement procedures, especially simple procurements
<p>2.3 State Aid Reform</p>	<p>2.3.1 – Harmonization of legislation with the EU acquis</p> <p>2.3.2 – Strengthening administrative capacities of Agency for Protection of Competition, the Department for State Aid Control and the Council of Agency for Protection of Competition</p> <p>2.3.3 – Building a set of ex-ante and ex-post control cases and its implementation by the Agency for Protection of Competition</p>	<p>2.3.1</p> <ul style="list-style-type: none"> • Drafting and adoption of regulations <p>2.3.2</p> <ul style="list-style-type: none"> • Training of the Sector for State Aid and Councils for the Implementation of Legislation • Training of judges and prosecutors <p>2.3.3</p> <ul style="list-style-type: none"> • Ex officio closure of pending cases (grating the recovery of state aid, depending on the case) • Pove Increasing the number of ex-ante and ex-post controls • Strengthening compliance monitoring in the field of state aid
<p>2.4 Calculation System of Earning</p>	<p>2.4.1 – All spending units whose employees' salaries are financed from the State Budget are included in the information System for Centralized Calculation of Earnings</p> <p>2.4.2 – SCCoE maintenance secured</p>	<p>2.4.1</p> <ul style="list-style-type: none"> • Migration of master data on employees from existing to new SCCoE • Conducting trainings for employees to use the SCCoE • Adapting the information system to all the specifics of new users <p>2.4.2</p> <ul style="list-style-type: none"> • Ensuring sustainability of the SCCoE <p>2.4.3</p>

Subsystems	Objectives	Main activities
	<p>2.4.3 - Upgrade of the software solution for centralized calculation of earnings for classified data</p> <p>2.4.4 - Upgrade of the software solution for centralized calculation of earnings encompassing of all personal incomes paid from the Budget of Montenegro</p>	<ul style="list-style-type: none"> • Upgrade the software solution for calculating earnings for institutions and organizational units with classified data with a certain degree of secrecy <p>2.4.4</p> <ul style="list-style-type: none"> • Upgrade the software solution for calculating earnings in the part that covers all personal incomes that are paid from the Budget of Montenegro
<p>3.1 Transition to accrual accounting</p>	<p>3.1.1 – Entry into force and application of the Law on Accounting in the Public Sector</p> <p>3.1.2 - Upgrade of the IT system to support accrual accounting</p> <p>3.1.3 – Training and certification of accountants in the public sector</p>	<p>3.1.1</p> <ul style="list-style-type: none"> • Adopted by-laws for the implementation of the Law on Accounting in the Public Sector • Analysis of the state of local self-government units for the application of the Law on Accounting in the Public Sector <p>3.1.2</p> <ul style="list-style-type: none"> • Conducting Cost benefit analysis for upgrading the accounting information system • Developing the Project Terms of Reference for the accounting information system in accordance with the new accounting regulations • Upgrading the IT system to support accrual accounting • Preparing the test environment <p>3.1.3</p> <ul style="list-style-type: none"> • Train accountants in the public sector in accordance with the Rulebook on the manner of conducting training and taking exams for obtaining accountant certification in the public sector • Drafting analysis of accountants who need to be trained and certified in the coming period
<p>3.2 Management of (non-financial) state assets and cadastre</p>	<p>3.2.1 - Completing the establishment of the property register and its update</p>	<p>3.2.1</p> <ul style="list-style-type: none"> • Completing the property register of all spending units at the central level with an estimate based on the single method of state property listing at the Cadastre • Establishing a control function to assess the quality of registered data • Strengthening the Real Estate Assessment Commission • Staff training in the field of state property in the domain of property register management, collection and exchange of international experiences and best practices <p>3.2.2</p>

Subsystems	Objectives	Main activities
	<p>3.2.2 – Upgrading state property management and cadastre relevant IT systems, as well as E-services development</p> <p>3.2.3 - Legislation amendment and strategic documents development to ensure system and data quality</p>	<ul style="list-style-type: none"> • Improving the IT solutions functionality for state property management and data quality Improving the cadastral information system and improvement of data quality • Establishing new e-services (connection of notaries with the cadastre for submission of electronic documents) • Establishing interoperability with relevant IT systems • Staff training of the Cadastre and State Property Administration on the IT system utilization <p>3.2.3</p> <ul style="list-style-type: none"> • Legal framework amendment for the management of state assets (arrangement of one-time submission of data on already acquired assets for registration in the ARS application, as well as for maintaining a up-to-date database in terms of transfer and disposal) • Amendments to the regulatory framework in terms of defining the mandatory norms for submission of electronic documents by notaries • Improve the Law on State Property • Drafting a strategic document for developing a Cadastral IT system
<p>3.3 Budget Execution Reporting</p>	<p>3.3.1 – Establishing the process of drafting and publishing transparent annual and periodic reports on budget execution</p> <p>3.3.2 – Establishing the process of drafting annual and periodic reports on budget performance</p>	<p>3.3.1</p> <ul style="list-style-type: none"> • Upgrade BMIS to improve annual and periodic reports on budget execution • Increasing transparency and improved visualization of budget statements – A Citizens Budget <p>3.3.2</p> <ul style="list-style-type: none"> • Create semi-annual and annual reports on budget performance through BMIS
<p>3.4 Management and reporting on the use of EU funds</p>	<p>3.4.1 – Establishment of MIS for the management of EU funds</p> <p>3.4.2 – Establishing a process for monitoring EU support programs</p>	<p>3.4.1</p> <ul style="list-style-type: none"> • Analysis of needs and development of technical specifications for MIS • Implementation of the public procurement procedure for construction purposes of MIS • MIS implementation <p>3.5.2</p> <ul style="list-style-type: none"> • Organizing recording (entry) of data in MIS Drafting reports • Strengthen the monitoring function and fulfilling the defined performance indicators
<p>4.1 Public Internal</p>	<p>4.1.1 – Improvement of management</p>	<p>4.1.1</p>

Subsystems	Objectives	Main activities
Financial Control (PIFC)	<p>responsibility and risk management procedures</p> <p>4.1.2 – Strengthening of internal audit and FMC in state enterprises</p> <p>4.1.3 –Improvement of CHU capacity and internal audit function</p>	<ul style="list-style-type: none"> • Analysis of management responsibility in pilot institutions / delegation of decision-making authority, in relation to the program budget, to at least two budget users at the central level • Pilot audit of delegation of authority and audit of performance management within ministries ("horizontal audit") • Development of methodology for internal reporting (in accordance with management responsibility, performance reporting) at the central level • Develop methodological guidelines for strategic/key risks • Assessing the quality of the established system for detecting and handling notifications of suspected irregularities, as well as evaluating and, if necessary, updating the established regulations in this area • Training of managers and employees on management responsibility, delegation of authority and internal reporting <p>4.1.2</p> <ul style="list-style-type: none"> • Strengthening the capacity of managers and employees in the field of management and internal control in companies in which the state has a majority share <p>4.1.3</p> <ul style="list-style-type: none"> • Strengthening the capacity of CHU employees to monitor and improve management and internal control in the public sector (training, workplace support, exchange of experience from EU member states) • Further development of methodological guidelines for external quality assessment through mutual assessment • Strengthening the capacity of the internal audit function at budget users, among other things for conducting performance audits, risk management audits, IT audits and conducting mutual quality assessments • Advanced training for developing "soft skills" for managers and employees in internal audit units
4.2 External Audit	<p>4.2.1 - Improve the strategic planning framework</p>	<p>4.2.1</p> <ul style="list-style-type: none"> • Draft the Strategic Plan for the Development of SAI for the period 2024 - 2027 and the Action Plan for the Implementation of the Strategic Plan for the Development of SAI for the Period 2024 – 2027 • Draft the SAI Communication Strategy for the period 2025 - 2028 and the Action Plan for the implementation of the SAI Communication Strategy for the period 2025 - 2028 • Draft the Human Resources Management Strategy of SAI for the period 2026 - 2029 and the Action Plan for the

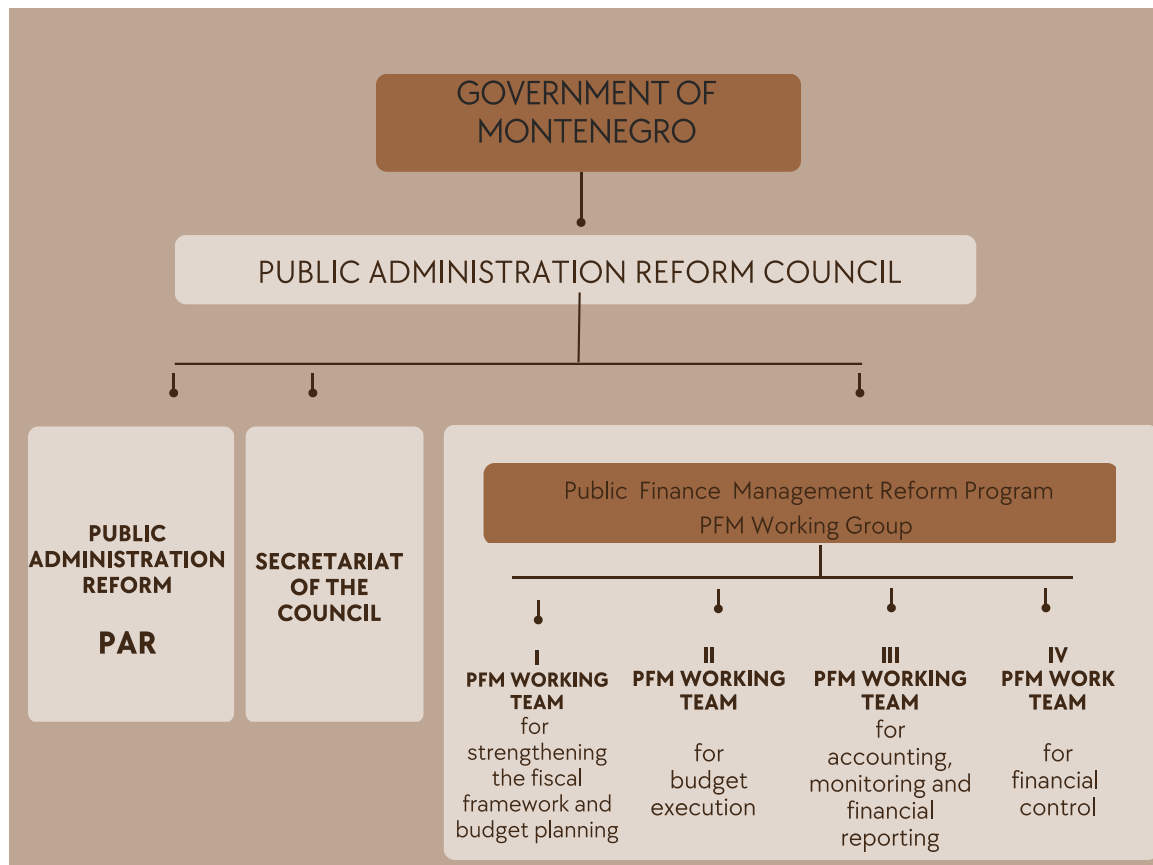
Subsystems	Objectives	Main activities
	<p>4.2.2 - Increase the quality of audits</p> <p>4.2.3 - Improve the digitization of the audit and the process of monitoring the implementation of audit recommendations</p>	<p>implementation of the Human Resources Management Strategy of SAI for the period 2026 - 2029</p> <p>4.2.2</p> <ul style="list-style-type: none"> • Draft a medium-term audit plan of SAI • Draft Guidelines for Environmental Protection Audit • Strengthen performance review <p>4.2.3</p> <ul style="list-style-type: none"> • Acquiring, developing and implementing a software for managing the SAI audit process • Ensure the full implementation of the Guidelines for the preparation, monitoring and control of the implementation of the recommendations of the State Audit Institution through the Recommendations Registry
<p>4.3 Anti-Fraud Coordination (AFCOS)</p>	<p>4.3.1 – Improving the functioning of the AFCOS system</p> <p>4.3.2 – Improving the work of bodies within the AFCOS network in the area of management of irregularities</p> <p>4.3.3 – Strengthening the administrative capacity of the AFCOS system</p> <p>4.3.4 - Improving the protection of EU financial interests</p>	<p>4.3.1</p> <ul style="list-style-type: none"> • Establishing a legal basis and improving coordination: amendment of the Law on Budget and Fiscal Responsibility and adoption of by-laws • Develop procedures for prevention, risk analysis, detection, reporting, coordination and cooperation <p>4.3.2</p> <ul style="list-style-type: none"> • Development and adoption of the Communication Strategy and Communication Procedures between the authorities of the AFCOS system and the public • Establish a Case Management System for irregularities and fraud in the context of IPA funds <p>4.3.3</p> <ul style="list-style-type: none"> • Training needs analysis and drafting a training plan • Training on irregularity management and reporting for authorities using pre-accession funds • Improving irregularity reporting • Training on fraud, corruption and other irregularities in the system (AFCOS network) and protection of whistle-blowers <p>4.3.4</p> <ul style="list-style-type: none"> • Drafting and adopting the Strategy for Combating Fraud and the Management of Irregularities in order to protect the financial interests of the EU for the period 2023-2026, along with the Action Plan
<p>4.4 Improving the Audit Authority efficiency</p>	<p>4.4.1 - Improvement of the legislative framework</p> <p>4.4.2 - Strengthening capacity and increasing the</p>	<p>4.4.1</p> <ul style="list-style-type: none"> • Alignment of the Law on the Audit of EU Funds and its by-laws with audit standards and future EU requirements <p>4.4.2.</p> <ul style="list-style-type: none"> • Training of auditors on the closure of the IPA II program and novelties related to the IPA III program period

Subsystems	Objectives	Main activities
	efficiency of conducting audits	
4.5 Operationalization of the budget inspection function	4.5.1 - Establishing the legislative framework 4.5.2 – Capacity building	4.5.1 A regulatory and methodological framework drafted 4.5.2 <ul style="list-style-type: none"> • Staff recruitment and training • Establishment, development and maintenance of IT systems for detection and reporting of irregularities in the public sector, and training for the same

V - MONITORING, REPORTING AND EVALUATION

The public finance management reform in Montenegro is a key component of the Public Administration Reform that also represents an important input for the The Public Administration Reform Strategy, which serves as the overarching state public policy statement for the field of public administration planning in Montenegro. In this context, program management demands continuous improvement in all areas related to the management of public finances. This involves efficient coordination of the program's implementation as well as an efficient method of reporting on the results achieved during the implementation period.

Given the significance of the new PFM program as well as the objectives, activities, and indicators required for its implementation, it is essential to set up an effective coordination structure that will guarantee timely completion of the Program and clearly define the roles and responsibilities of all institutions involved.



The Ministry of Finance (MoF), which oversees the PFM Working Group, is in charge of overseeing, monitoring, and reporting on the outcomes of the Public Finance Reform Program's planned activities. Namely, based on the reports submitted by the working teams, the PFM Working Group will be in charge of coordinating the preparation of half-yearly/annual reports on the implementation of the PFM, as well as other documents and information related to the implementation of the Program. Additionally, in line with best practices, the PFM working group

will be in responsibility of communicating with pertinent international partners about the implementation of the reforms and their progress.

Representatives of organizational units responsible for the areas monitored by the PFM Program are appointed as members of the Working Teams. With the purpose of more effective and accurate reporting, each work team will appoint a secretary who will be in charge of collecting and unifying data as well as a coordinator who will oversee the work team's activities and interact with the coordination team. Work teams' organizational structure consists of:

1 WORKING TEAM FOR STRENGTHENING THE FISCAL FRAMEWORK AND BUDGET PLANNING

- representative of the MoF for the area of economic policy and development;
- representative of the Ministry of Finance for the area of the state budget;
- representative of the Ministry of Finance in the area of public debt management;
- representative of the Administration for Statistics of Montenegro.

2 WORKING TEAM FOR BUDGET EXECUTION

- representatives of the state administration body responsible for the area of revenue and customs collection;
- representative of the Ministry of Finance for the areas of the state treasury;
- representative of the Ministry of Finance in the field of public procurement;
- representative of the Ministry of Finance for the areas of centralized calculation of wages;
- representative of the Agency for the Protection of Competition.

3 WORKING TEAM FOR ACCOUNTING, MONITORING AND FINANCIAL REPORTING

- representative of the Ministry of Finance for the areas of the state treasury;
- representatives of the state administration body responsible for the area of cadastre and state property;
- representative of the Ministry of Finance for the area of the state budget;
- representative of the Ministry of Finance in the area of coordination of EU funds.

4 WORKING TEAM FOR FINANCIAL CONTROL

- representatives of the Ministry of Finance for the areas of central harmonization and internal audit;
- representative of the State Audit Institution;
- representative of the Auditing Body;
- representatives of the Ministry of Finance in the field of budget inspection and fight against fraud.

Close cooperation will be maintained with the Ministry of Public Administration, which is in charge of monitoring the implementation of the new Public Administration Reform Strategy 2022-2026. In accordance with the established organization of management and implementation of PAR, the Council for Public Administration Reform which serves as an advisory body to the Government of Montenegro, monitors the implementation of the Public Administration Reform Strategy and the

Public Finance Management Program. PAR Council will be regularly informed before submitting periodic reports on the implementation of PFM to the Government of Montenegro for adoption. The Secretariat for Public Administration Reform is being established to complement the for Public Administration Reform Council activities, setting up the conditions for further technical and professional assistance. In order to adequately present and prepare for the needs of the Council in connection with monitoring the implementation of the Public Finance Management Program, the Secretariat will maintain close communication with the coordinating structure for PFM in this respect.

The monitoring, reporting, and evaluation plan is laid out in PFM RP 2022-2026 in accordance with the Methodology for Developing Policies, Drafting and Monitoring the Implementation of Strategic Documents.

Monitoring will make sure that information on the accomplishment of objectives and outcomes throughout the execution of operations is regularly collected and analyzed. The focus will be on the Action Plan for the realization of the annual activities envisaged with the plan. If these data will be available for the reporting period, the report on the monitoring of the implementation of the activities should discuss the result indicators with reference to the performance indicators. In order to do this, the performance will be assessed, the reform's focus and direction will be reexamined, and potential amendments for the upcoming period will be considered. Also, an ex post evaluation of the results and performance after the completion of the PFM RP 2022–2026 implementation is anticipated, which will serve as the foundation for the adoption of the following PFM program. The evaluation will primarily focus on performance indicators, and the report will be presented to the Government through the Secretariat-General of the Government of Montenegro for adoption after being considered at the Council for Public Administration Reform.

A variety of data sources will be used to compile an objective report, starting with information provided by the pertinent institutions, documents from the government, reports on the execution of the work program, interviews with contact people, focus groups with relevant parties, materials from NGOs, as well as researches and reports from international organizations.

The Ministry of Finance will report to the Government on the implementation of the Program and propose possible amendments to the Program. The report will be formally coordinated with all pertinent institutions and will be based on the outcomes of the coordination working group's work. To continue implementing the Program, the working group will create annual action plans for the upcoming year at the beginning of each year. The Action Plan, which is an integral part of the Program, represents a comprehensive plan of activities for a four-year period and the basis for annual implementation plans. This Action Plan will be consolidated and unified by the working group. The proposed Program is a "living document," which denotes that it will be updated once a year in light of lessons learned during implementation and potential changes to European legislation.

The Montenegrin government will update the European Commission twice a year on the PFM RP implementation status. Reports on implementation will be prepared in accordance with the requirements for sectoral budget support.

The monitoring system will contain the following data: the key weaknesses that were specifically identified during the analysis of the weaknesses, annual targets, progress compared to the

previous annual monitoring report, the source of information for verification, revision of the targets that will be monitored in the upcoming year, and the Program's medium-term goals.

For the meetings of the Special Group that oversees the process of public administration reform in Montenegro as part of the EU accession process, special reports on implementation progress will be provided. A permanent technical dialogue is also held twice a year at the request of the Government of Montenegro and the European Commission. The European Commission's already-established reporting mechanisms, particularly the Annual Progress Reports, will be used to continue reporting on the progress that has been made.

ACTION PLAN

**for the implementation of the Public Finance Management Reform Program for the
period**

2022-2026.

STRATEGIC OBJECTIVE I

STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING

SUBSYSTEM OBJECTIVE 1.1		Macroeconomic analysis and fiscal policy					
Performance Indicator		Baseline 2021	Target value 2023		Target value 2026		
The difference between projected and realized GDP		- 2%	- 2%		- 2%		
Deviation between the upper limits of expenditure determined in the SRBO and the annual budget [Target: < 2%]		- 2%	- 2%		- 2%		
Deviation between the planned budget expenditures in SRBO and the execution of the budget last year		- 2%	- 2%		- 2%		
Deviation between the planned budget revenues in SRBO/year and the actual collection last year		- 2%	- 2%		- 2%		
OPERATIONAL OBJECTIVE 1.1.1		Fiscal Council establishment to strengthen supervision over the implementation of fiscal policy and its capacity building					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.1.1.1	Comparative analysis of independent fiscal institutions provided by the Options Document	Fiscal Council established and operational	MINISTRY OF FINANCE	I Q 2022	I Q 2022	20.000€	Donation
1.1.1.2	Drafting legal amendments/new laws and by-laws for the purpose of establishing the Fiscal Council			II Q 2022	II Q 2023	No additional funds are required	MNE Budget Donation
1.1.1.3	Drafting procedures/regulations for the functioning of the Fiscal Council			II Q 2023	IV Q 2023	150.000	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.1.2		Improving the identification and monitoring of fiscal risks					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 1.1		Macroeconomic analysis and fiscal policy					
1.1.2.1	Developing the Methodology on Fiscal Risks	Methodology developed	MINISTRY OF FINANCE	2022	2022	No additional funds are required	MNE Budget Donation
1.1.2.2	Preparing the Statement on Fiscal Risks as part of the Macroeconomic and Fiscal Policy Guidelines	Macroeconomic and Fiscal Policy Guidelines amended by adding a particular chapter concerning fiscal risks	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget Donation
1.1.2.3	Periodic monitoring of fiscal risks		MINISTRY OF FINANCE	2024	Continuous	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.1.3		Strengthening the capacity of the Ministry of Finance for improved macroeconomic forecasting					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.1.3.1	Training DEP staff on macroeconomic modelling, financial programming and impact assessment	Continuous implementation of the impact assessments of structural reforms Capacities enhanced	MINISTRY OF FINANCE	2022	Continuous	40.000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.2		Medium-term budget planning					
Performance Indicator		Baseline 2021	Target value 2023	Target value 2026			
Number of first-level budget users who provide comprehensive inputs for the proposal of the medium-term budget framework (MTBF)		0	50%	90%			
Number of employees in local self-government units trained for the Medium-Term Budget Framework		0	30	60			
Number of strategic reforms prepared in accordance with the new methodology for drafting strategic documents related to the program budgeting		0	40%	80%			
OPERATIONAL OBJECTIVE 1.2.1		Amendment of the legal and regulatory framework that reflects the budget reform					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.2.1.1	Drafting by-laws for the implementation of the LBFR (once the amendments to the LBFR are adopted): institutional competences, coordination process and content of the MTBF	Adopted amendments to the Law on Budget and Fiscal Responsibility and relevant by-laws	MINISTRY OF FINANCE	2022	2023	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.2.2		Establishing a methodological framework for medium-term budget planning for local governments					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.2.2.1	Drafting the Methodology for assessing the fiscal impact of policy initiatives and existing fiscal space	Methodology developed	MINISTRY OF FINANCE	2022	2022	No additional funds are required	MNE Budget Donation
1.2.2.2	Development of procedures for identification, prioritization, determination of costs and selection of new proposals for public policies/capital projects	Procedures developed	MINISTRY OF FINANCE	2023	2023	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.2.3		Capacity building in terms of medium-term budget planning at the central and local government level					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 1.2		Medium-term budget planning					
1.2.3.1	Conducting trainings on the medium-term budget framework	Improved capacities of local self-government units in the area of Medium-Term Budget Framework	MINISTRY OF FINANCE	2023	Continuous	30,000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.2.4		Further strengthening of the link between strategic plans and the budget					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.2.4.1	Coordination with the Office for Public Administration Reform; Establishment of the planning function in all major expenditure units; procedures for determining the costs of strategies; and institutional competencies related to coordination	Adopted standard operating procedures for the preparation of the program budgeting with a clear division of roles in the planning and management of the program budgeting and proposing new policies	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATION SECRETARIAT-GENERAL OF THE GOVERNMENT OF MONTENEGRO	2023	2023	No additional funds are required	MNE Budget Donation
1.2.4.2	Linking MTBF with the strategic planning system and the Government's Medium-Term Work Program	Data exchange between information systems assured	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATION SECRETARIAT-GENERAL OF THE GOVERNMENT	2024	2025	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.2		Medium-term budget planning					
			OF MONTENEGRO				
1.2.4.3	Linking strategic documents with the program budget	Amendments to the Methodology for the Preparation of Strategic Documents adopted, enabling clear linkage between the budget and the strategic document	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATI ON SECRETARIAT-GENERAL OF THE GOVERNMENT OF MONTENEGRO	2024	2025	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.3		Further development of program budgeting					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
The number of implemented gender-oriented policies and policy objectives in the program budget		0%	10%		45%		
% of local self-government units that have implemented an information system that supports program budgeting		0%	40%		90%		
OPERATIONAL OBJECTIVE 1.3.1		Improving program structure and performance information					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.3.1.1	Harmonization and improvement of the quality of the program structure of expenditure units	Gender objectives and indicators presented in the budget document	MINISTRY OF FINANCE	2022	Continuous	30,000€	MNE Budget Donation
1.3.1.2	c	Increase in the % of total budget users who have advanced performance information with their annual budget requests	MINISTRY OF FINANCE	2022	2023		
1.3.1.3	Advanced training on program budgeting for different target groups	All local self-government units have adopted the program structure and performance information, including gender-oriented indicators	MINISTRY OF FINANCE	2024	2026		
OPERATIONAL OBJECTIVE 1.3.2		Establishing a system of reporting and monitoring performance information					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.3.2.1	Further development of subprograms, activities and performance measurements in all spending units	Increased % share of budget users who submit a Statement on Gender Responsive Budgeting that shows how each program, subprogram and activity/project contributes to reducing the gender gap and improving the position of vulnerable groups in society	MINISTRY OF FINANCE	2022	Continuous	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.3		Further development of program budgeting					
1.3.2.2	Development of procedures for monitoring and reporting on the program budget	The interface between BMIS and the budget execution system (SAP) is operational	MINISTRY OF FINANCE	2022	2023	No additional funds are required	MNE Budget Donation
1.3.2.3	Upgrade of BMIS with new program budgeting structure and improved performance information	BMIS upgraded	MINISTRY OF FINANCE	2022	2023	30,000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.3.3		Implementation of program budgeting at the local level					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.3.3.1	Introduction of BMIS at the local level	Information system for budget management, which supports program budgeting introduced in most local self-government units, introduced	MINISTRY OF FINANCE	2023	2023	100.000 €	MNE Budget
1.3.3.2	Drafting a Roadmap and manual for the implementation of program budgeting at the local level	Manuals prepared and trainings conducted	MINISTRY OF FINANCE	2022	2022	No additional funds are required	MNE Budget
1.3.3.3	Training officials of the local self-government unit		MINISTRY OF FINANCE	2022	2026	10.000€	MNE Budget
OPERATIONAL OBJECTIVE 1.3.4		Evaluation of program performance					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.3.4.1	Develop procedures and a manual for evaluating the performance of programs and projects	Procedures developed	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 1.4		Public Investment Management					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
Developing the Action Plan for the improvement of the Public Investment Management System		No Action Plan adopted	Plan adopted		Action Plan implemented		
Adopting the Long-term Infrastructure Investment Plan		No plan was adopted	Working group established and activities on drafting the document have started		Long-Term Investment Plan adopted		
OPERATIONAL OBJECTIVE 1.4.1		Improvement of the capital budget planning process and capacity for public investment management					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.4.1.1	Strengthening the legal and regulatory framework for Public Investment Management	Action plan adopted (based on the PIMA report)	MINISTRY OF FINANCE	2023	2022	No additional funds are required	MNE Budget Donation
1.4.1.2	Strengthening of the institutional framework, coordination and training for members of the Commission in order to determine the list of capital investment priorities	Trainings conducted	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.4.2		Improving allocation efficiency for capital budgets by determining the fiscal space					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.4.2.1	Developing the Methodology for Public Investment Management: Guidelines for Preparing Economic Analyses (feasibility analysis) of investment projects to ensure value for money; and the updated Manual for Capital Budgeting (in order to determine the fiscal space)	An increased % of projects that the project cost estimate was conducted, according to the new Methodology	MINISTRY OF FINANCE	2023	2024	30,000€	MNE Budget Donation
1.4.2.2	Training on capital project cost estimates		MINISTRY OF FINANCE	2022	2023	50,000€	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.4		Public Investment Management					
1.4.2.3	Promote the use of public-private partnerships		MINISTRY OF FINANCE	2023	Continuous	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.4.3		Improvement of the Implementation process and monitoring of capital projects					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.4.3.1	Establishing a (public) capital project database	Public Register of capital projects released	MINISTRY OF FINANCE	2022	20226	35.000 €	MNE Budget Donation
1.4.3.2	Upgrading the existing IT system (BMIS) to support Public Investment Management processes	BMIS upgraded	MINISTRY OF FINANCE	2023	2023	100.000 €	MNE Budget Donation
1.4.3.3	Developing procedures for monitoring and reporting on the capital projects implementation	The Methodology and procedures conducted	MINISTRY OF FINANCE	2023	2025	150.000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.4.4		Development of the Long-Term Investment Document					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.4.4.1	Preparation of the Long-Term Investment Document (Infrastructure Project Master Plan)	The document "Long-Term Infrastructure Investment Plan" developed	MINISTRY OF FINANCE	2023	2026	200.000€	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.5		Public debt management					
Performance indicator		Baseline 2021	Target value 2023		Target value 2026		
Trends of the average debt maturity		5.6 years	Average maturity stable or improved compared to 2021		Average maturity stable or improved compared to 2021		
Trends of the average weighted interest rate		2.2%	Average weighted interest rate stable in accordance with market conditions		Average weighted interest rate stable in accordance with market conditions		
OPERATIONAL OBJECTIVE 1.5.1		Capacity improving of the unit responsible for the area of public debt					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.5.1.1	Recruitment and training of employees	Number of trained employees	MINISTRY OF FINANCE	2022	2026	300.000€	MNE Budget
OPERATIONAL OBJECTIVE 1.5.2		Adopting a new Debt Management Strategy					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.5.2.1	Preparing and adopting the 2022-2024. Debt Management Strategy and its periodic updates	Debt Management Strategy 2022-2024. adopted	MINISTRY OF FINANCE	2022	2023	40.000 €	MNE Budget Donation
1.5.2.2	Introducing a system for monitoring the Debt Management Strategy implementation	System for monitoring the Debt Management Strategy implementation introduced	MINISTRY OF FINANCE	2022	2024	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.5.3		Improving the software solution for public debt management					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.5.3.1	Implementing the debt management module within BMIS, in order to enhance reporting and affiliate the model for improving the public debt risk management and scenario analysis as well as ensure interoperability with the SAP system	Debt Management Software Module interoperable with SAP Payment System implemented and operational	MINISTRY OF FINANCE	IV Q 2022	2024	60.000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.6		Establishment of the EU Own Resources Management System					
Performance indicator		Baseline	Target value 2023		Target value 2026		
Negotiations on Chapter 33 (Financial and Budgetary Provisions) are temporarily closed		Chapter 33 opened	Significant progress in meeting the final benchmark		Chapter 33 provisionally closed/closed		
OPERATIONAL OBJECTIVE 1.6.1		Strengthening the administrative capacity of all institutions included in the EU Own Resources System					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.6.1.1	Building administrative capacities for the coordination and management of the EU's own resources (training of the Directorate for the coordination and Management of the EU's Own Resources - MoF and other organizational units and institutions included in the system of the EU's own resources)	Strengthened administrative capacities for coordination and establishment a system of own resources	MINISTRY OF FINANCE	2022	2024	225.000€	MNE Budget
OPERATIONAL OBJECTIVE 1.6.2		Developing procedures for establishing a EU Own Resource System					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.6.2.1	Developing procedures for the establishment of a system of own resources in the area of traditional own resources	Procedures for calculation, planning and reporting on the own resources system developed	MINISTRY OF FINANCE	2022	2024	No additional funds are required	MNE Budget Donation
1.6.2.2	Developing procedures for establishing a system of own resources in the area of own resources based on VAT			2022	2024	No additional funds are required	MNE Budget Donation
1.6.2.3	Developing procedures for establishing a own resources system in the area of own resources based on GNI			2022	2024	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.6.3		Harmonization of the regulatory framework with EU legislation					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 1.6		Establishment of the EU Own Resources Management System					
1.6.3.1	Analysis of the existing regulatory framework	Analysis conducted	MINISTRY OF FINANCE	2022	2023	No additional funds are required	MNE Budget Donation
1.6.3.2	Prepared amendments to the regulatory framework in accordance with EU legislation	Proposal on amendments to the regulatory framework completed		2023	2025	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 1.7		Official Statistics Improvement					
Performance indicator		Baseline	Target value 2023		Target value 2026		
Negotiations on Chapter 17 (Economic and Monetary Policy) are temporarily closed		Open negotiation chapter 17	Significant progress in meeting Chapter 18 final benchmark		Chapter 17 is temporarily closed/closed		
Negotiations on Chapter 18 (Economic and Monetary Policy) are temporarily closed		Open negotiation chapter 18	Significant progress in meeting Chapter 17 final benchmark		Chapter 18 is temporarily closed/closed		
OPERATIONAL OBJECTIVE 1.7.1		Official Statistics aligned with international standards					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.7.1.1	Improving coordination between the MoF, MONSTAT and the Central Bank by forming working teams and improving data exchange	The Government Finance Statistics prepared in accordance with GFSM and ESA 2010 Methodologies	STATISTICAL OFFICE OF MONTENEGRO	2022	2026	No additional funds are required	MNE Budget Donation
1.7.1.2	Training of statisticians		MINISTRY OF FINANCE	2023	2026	150.0000€	MNE Budget Donation
1.7.1.3	Developing an integrated IT system for collecting, processing, publishing and documenting the results of Official Statistics		CENTRAL BANK	2023	2024		
OPERATIONAL OBJECTIVE 1.7.2		The Government Finance Statistics aligned with ESA 2010 Methodology					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 1.7		Official Statistics Improvement					
1.7.2.1	Producing Government Finance Statistics in accordance with the ESA 2010 Methodology and the Government Finance Statistics Manual (GFSM) requires improvement of data collection procedures	Fiscal notifications for the pre-accession procedure prepared in accordance with the requirements of the ESA 2010 Methodology	STATISTICAL OFFICE OF MONTENEGRO MINISTRY OF FINANCE CENTRAL BANK	2023	2024	700.000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 1.7.3		Improved pre-accession fiscal notifications, i.e. reporting on the excessive deficit procedure					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
1.7.3.1	Capacity building for the professionalization of the financial reporting system, especially fiscal notifications for pre-accession requirements in accordance with the ESA methodology	Amendments to the Law on Official Statistics and the System of Official Statistics in order to define institutional roles in the production of Government Finance Statistics in accordance with best practices	STATISTICAL OFFICE OF MONTENEGRO MINISTRY OF FINANCE CENTRAL BANK	2023	2025	250.000 €	MNE Budget Donation

STRATEGIC OBJECTIVE II

BUDGET EXECUTION

SUBSYSTEM OBJECTIVE 2.1		Improving efficiency in revenue collection					
Performance indicator		Baseline	Target value 2023		Target value 2026		
Harmonizing the legislation in Chapter 16 – Taxation with the EU acquis		Chapter 16 opened	Significant progress in meeting Chapter 16 final benchmark		Chapter 16 is temporarily closed/closed		
Harmonizing the in Chapter 29 - Customs Union with the EU acquis		Chapter 29 opened	Significant progress in meeting Chapter 29 final benchmark		Chapter 29 is temporarily closed/closed		
Strengthening the capacity and development of human resources of the Revenue and Customs Administration in the area of information technology		The officials are not trained	150 customs and 200 tax officials trained		200 customs and 350 tax officials trained		
OPERATIONAL OBJECTIVE 2.1.1		Alignment with the EU acquis in the areas of taxation and customs					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.1.1.1	Continuous compliance with EU directives in the tax field	High compliance with EU directives in the tax field	MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	No additional funds are required	MNE Budget Donation
2.1.1.2	Continuous compliance with EU directives in the customs area	High compliance with EU directives in the customs area	MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	No additional funds are required	MNE Budget Donation
2.1.1.3	Draft Law on the Ratification of the Convention on Common Transit Procedure		MINISTRY OF FINANCE	2023	2026	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 2.1		Improving efficiency in revenue collection					
			REVENUE AND CUSTOMS ADMINISTRATION				
2.1.1.4	Draft Law on the Ratification of the Convention on the Simplification of Formalities in Trade in Goods		MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	2023	2026	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 2.1.2		Improvement of procedures, development and implementation of IT systems in the customs and tax area					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.1.2.1	Developing an integrated Revenue Management System	IRMS system Implemented	REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	10.000.000€	MNE Budget Loan
2.1.2.2	Implementing of the VAT Information Exchange System (VIES)	Implemented VAT information exchange system (VIES)		2024	2026	2.000.000€	MNE Budget Donation
2.1.2.3	Complete NCTS implementation (Phase 5)	NCTS (phase 5) operational		2022	2023	3.300.000 €	MNE Budget Donation
2.1.2.4	Implementing IT systems required for interconnection and electronic data exchange with the EU - especially ITMS, AES, ICS2, NCTS Phase 6 and EMCS, etc.	Other customs IT systems for interconnection and electronic data exchange implemented and operational		2022	2026	9.200.000 €	MNE Budget Donation
2.1.2.5	Reduction of administrative barriers through further implementation of trade facilitation measures in accordance with the Trade Facilitation Strategy 2018-2022. and ERP	Continuous implementation of activities		2022	Continuous	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 2.1		Improving efficiency in revenue collection					
OPERATIONAL OBJECTIVE 2.1.3		Improvement of billing efficiency					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.1.3.1	Strengthening tax risk management through risk profiling, recording tax audit results and collecting information from third parties; in particular risk analysis for the control and processing of VAT refunds	Increasing the % of submitted e-applications on time	REVENUE AND CUSTOMS ADMINISTRATION	2023	Continuous	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 2.1.4		Improvement of voluntary tax discipline and compliance with tax obligations					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.1.4.1	Strengthening external and internal communication through targeted raising of public awareness and taxpayer education programs	Implementation of activities continued.	REVENUE AND CUSTOMS ADMINISTRATION	2023	2024	150.000 €	MNE Budget
OPERATIONAL OBJECTIVE 2.1.5		Development and improvement of human resources					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.1.5.1	Ensure further employment of IT department officials	Training of official conducted	REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	No additional funds are required	MNE Budget
2.1.5.2	Training officials		REVENUE AND CUSTOMS ADMINISTRATION	2023	2026	120.000€	MNE Budget Donation

SUBSYSTEM OBJECTIVE 2.2		Public procurement					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
The actual time of processing complaints in public procurement		23	20		18		
Proportion of contracts subject to formal ex post evaluation		0	0		0		
Share of public procurement appeals challenged in courts		14,28%	13,20%		11,10%		
The number of public procurement complaints in relation to the number of published tender notices		0	0		0		
Average number of bidders per procurement procedure		2.82	2.8		3.00		
Proportion of contracts awarded through competitive procedures		96.4	97		97		
OPERATIONAL OBJECTIVE 2.2.1		Established capacities for the implementation of the new legal framework for Public Procurement and Public-Private Partnership					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.2.1.1	Developing training system for the needs of PP and PPP in the instructor training scheme for different target groups (customers)	- 700 public procurement officers trained - 16 trained trainers	MINISTRY OF FINANCE	2022	2026	No additional funds are required	MNE Budget
2.2.1.2	Improving manuals and instructions on the use of the e-procurement system	The necessary by-laws adopted	MINISTRY OF FINANCE	2022	2023	No additional funds are required	MNE Budget
OPERATIONAL OBJECTIVE 2.2.2		Improving the functionality of the e-procurement system and user training, in order to achieve value for money in public procurement and PPP					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.2.2.1	Increasing the number of business entities that are registered in the e-procurement system	Increased business entities active in the e-procurement system by 10% per year	MINISTRY OF FINANCE	2022	Continuous	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 2.2		Public procurement					
2.2.2.2	User training for the e-procurement system	Increased number of business entities trained in e-procurement 20% per year	MINISTRY OF FINANCE	2023	Continuous	100.000€	MNE Budget Donation
2.2.2.3	Further development of the functionality of the e-procurement system	Information System for public procurement improved	MINISTRY OF FINANCE	2023	Continuous		MNE Budget Donation
2.2.2.4	Establish interoperability of e-procurement with related IT systems and registers	Interface between e-procurement and related IT systems	MINISTRY OF FINANCE	2023	2025	150.000€	MNE Budget Donation
2.2.2.5	Improve the monitoring system by developing an analytical framework for measuring the economy of the e-procurement system	Continuous increase in the number of created analytical reports (profitability)	MINISTRY OF FINANCE	2023	2026		MNE Budget Donation
OPERATIONAL OBJECTIVE 2.2.3		Improvement of Complaints Review System					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.2.3.1	Capacity building of the Commission for the Protection of Rights in Public Procurement Procedures (training, case management system)	Trainings conducted	COMMISSION FOR THE PROTECTION OF RIGHTS IN THE PUBLIC PROCUREMENT PROCEDURES	2023	Continuous	25.000 €	MNE Budget Donation
OPERATIONAL OBJECTIVE 2.2.4		Increasing market competition, especially the participation of SMEs					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.2.4.1	Educational program for encouraging SMEs inclusion in public procurement procedures, especially simple procurements	Annual implementation of trainings encouraging SMEs inclusion in public procurement procedures	MINISTRY OF FINANCE	2023	Continuous	40.000€	MNE Budget

SUBSYSTEM OBJECTIVE 2.3		State Aid Reform					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
Negotiations for Chapter 8 – Competition Policy temporarily closed (in relation to the State Aid benchmark)		Negotiation Chapter – 8 officially open	Significant progress in meeting the final benchmark		Chapter - 8 is conditionally closed/closed		
OPERATIONAL OBJECTIVE 2.3.1		Harmonization of legislation with the EU acquis					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.3.1.1	Drafting and adoption of regulations	Relevant acts adopted	MINISTRY OF FINANCE AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 2.3.2		Strengthening administrative capacities of Agency for Protection of Competition, the Department for State Aid Control and the Council of Agency for Protection of Competition					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.3.2.1	Training of the Sector for State Aid and Councils for the Implementation of Legislation	At least 15 Agency employees trained	AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026	400.000€	MNE Budget
2.3.2.2	Training of judges and prosecutors	At least 50% of the Administrative and Offense Court judges are trained; 50% prosecutors are trained	AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026		MNE Budget
OPERATIONAL OBJECTIVE 2.3.3		Building a set of ex-ante and ex-post control cases and its implementation by the Agency for Protection of Competition					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.3.3.1	Ex officio closure of pending cases (granting the recovery of state aid, depending on the case)	Open cases of state aid resolved	AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 2.3		State Aid Reform					
2.3.3.2	Increasing the number of ex-ante and ex-post controls	100% of proceedings initiated ex officio before 2022 closed	AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026	No additional funds are required	MNE Budget
2.3.3.3	Strengthening compliance monitoring in the field of state aid	Negotiations under Chapter 8 -Competition have progressed, as measured by EU progress reports	AGENCY FOR THE PROTECTION OF COMPETITION	2022	2026	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 2.4		2.4 Calculation System of Earning					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
The comprehensive application of the Centralized calculation of earnings for all users of the state budget is ensured		System of Centralized Calculation of Earnings (SCCoE) started with the implementation in a test environment for pilot institutions	140 institutions use SCCoE		430 SCCoE users and a module for processing classified data is in use		
OPERATIONAL OBJECTIVE 2.4.1		All spending units whose employees' salaries are financed from the State Budget are included in the information System for Centralized Calculation of Earnings					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.4.1.1	Migration of master data on employees from existing to new SCCoE	430 budget users who use the new SCCoE	MINISTRY OF FINANCE	2022	2024	600.000 €	MNE Budget Donation
2.4.1.2	Conducting trainings for employees to use the SCCoE						
2.4.1.3	Adapting the information system to all the specifics of new users						
OPERATIONAL OBJECTIVE 2.4.2		SCCoE maintenance secured					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 2.4		2.4 Calculation System of Earning					
2.4.2.1	Ensuring sustainability of the SCCoE	Support provided for adapting the SCCoE to amendments in legislation in the area of earnings calculation and amendments in the Government's organization Support provided for timely removal of malfunctions and bugs in the application	MINISTRY OF FINANCE	2023	Continuous	740.000 €	MNE Budget
OPERATIONAL OBJECTIVE 2.4.3		Upgrade of the software solution for centralized calculation of earnings for classified data					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.4.3.1	Upgrade the software solution for calculating earnings for institutions and organizational units with classified data with a certain degree of secrecy	Enabled calculation of earnings paid from the State Budget for 5 institutions that use classified data with a certain degree of secrecy	MINISTRY OF FINANCE	2023	2026	50.000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 2.4.4		Upgrade of the software solution for centralized calculation of earnings encompassing of all personal incomes paid from the Budget of Montenegro					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
2.4.4.1	Upgrade the software solution for calculating earnings in the part that covers all personal incomes that are paid from the Budget of Montenegro	Calculation of earnings enabled for the payment of 430 entities included SCCoE	MINISTRY OF FINANCE	2024	2026	150.000 €	MNE Budget Donation

STRATEGIC OBJECTIVE III

ACCOUNTING, MONITORING AND FINANCIAL REPORTING

SUBSYSTEM OBJECTIVE 3.1		Transition to accrual accounting					
Performance Indicator		Baseline 2021			Target value 2023		
Established assumptions for the application of accrual accounting in the public sector		Accrual accounting is not in use			Initiated preparatory activities for the introduction of accrual accounting		
OPERATIONAL OBJECTIVE 3.1.1		Entry into force and application of the Law on Accounting in the Public Sector					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.1.1.1	Adoption of by-laws for the implementation of the Law on Accounting in the Public Sector	Adopted by-laws for the implementation of the Law on Accounting in the Public Sector	MINISTRY OF FINANCE	2024	2026	No additional funds are required	MNE Budget Donation
3.1.1.2	Analysis of the state of local self-government units for the application of the Law on Accounting in the Public Sector	Prepared Analysis of the situation with conclusions and recommendations for local self-government units for the application of the Law on Accounting in the Public Sector	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 3.1.2		Upgrade of the IT system to support accrual accounting					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.1.2.1	Conducting Cost benefit analysis for upgrading the accounting information system	Cost benefit analysis for upgrading the accounting information system conducted	MINISTRY OF FINANCE	2023	2024	20.000€	MNE Budget Donation
3.1.2.2	Developing the Project Terms of Reference for the accounting information system in accordance with the new accounting regulations	Tender procedure started	MINISTRY OF FINANCE	2024	2024	35,000€	MNE Budget Donation
3.1.2.3	Upgrading the IT system to support accrual accounting	Accounting information system functional for	MINISTRY OF FINANCE	2025	2026	1,225,000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 3.1		Transition to accrual accounting					
3.1.2.4	Preparing the test environment	bookkeeping according to the accrual principle	MINISTRY OF FINANCE	2026	2026		
OPERATIONAL OBJECTIVE 3.1.3		Training and certification of accountants in the public sector					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.1.3.1	Train accountants in the public sector in accordance with the Rulebook on the manner of conducting training and taking exams for obtaining accountant certification in the public sector	Number of certified accountants	MINISTRY OF FINANCE	2022	Continuous	100.000€	MNE Budget
3.1.3.2	Drafting analysis of accountants who need to be trained and certified in the coming period	Analysis conducted on the number of accountants who need to be trained and certified in the coming period	MINISTRY OF FINANCE	2023	2023	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 3.2		Management of (non-financial) state assets and cadastre		
Performance Indicator	Baseline	Target value 2023	Target value 2026	
Developing non-financial (state assets) register	Non-financial assets are not depicted	Initiated preparatory activities for the development of non-financial (state assets) register	Non-financial assets (state assets) register developed	
Improved cadastral information system	<p>A procedure for improving the data quality has not been established</p> <p>The strategic document for the development of the cadastral information system is not adopted</p>	Initiated preparatory activities on the creation of: documentation of procedures for improving data quality, documentation for the development of the cadastral information system and tender documentation for the Improvement, i.e. development of the cadastral	The cadastral information system is improved and a new platform is developed	

SUBSYSTEM OBJECTIVE 3.2		Management of (non-financial) state assets and cadastre					
				information system based on the new platform			
OPERATIONAL OBJECTIVE 3.2.1		Completing the establishment of the property register and its update					
Activities		Outcome Indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.2.1.1	Completing the property register of all spending units at the central level with an estimate based on the single method of state property listing at the Cadastre	The ARS IT system for state property management used by all beneficiaries	CADASTRE AND STATE PROPERTY ADMINISTRATION	2022	2025	No additional funds are required	MNE Budget
3.2.1.2	Establishing a control function to assess the quality of registered data	Control function established	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	No additional funds are required	MNE Budget
3.2.1.3	Strengthening the Real Estate Assessment Commission	Amendments to the Law on State Property and relevant by-laws adopted which create prerequisites for more efficient work of the Commission	MINISTRY OF FINANCE CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	No additional funds are required	MNE Budget
3.2.1.4	Staff training in the field of State property in the domain of property register management, collection and exchange of international experiences and best practices	Staff training of the Cadastre and State Property Administration conducted	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2024	30.000€	MNE Budget
OPERATIONAL OBJECTIVE 3.2.2		Upgrading state property management and cadastre relevant IT systems, as well as E-services development					
Activities		Outcome Indicator	Responsible indicator	Start date	End date	Funds	Source of funding

SUBSYSTEM OBJECTIVE 3.2		Management of (non-financial) state assets and cadastre					
3.2.2.1	Improving the IT solutions functionality for state property management and data quality	Information system improved and operational	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	500.000€	MNE Budget
3.2.2.2	Improving the cadastral information system and improvement of data quality	The system based on the new platform, developed and operational		2023	2026	800.000€	MNE Budget Donation
3.2.2.3	Establishing new e-services (connection of notaries with the cadastre for submission of electronic documents)	Services established		2023	2025	100.000€	MNE Budget Donation
3.2.2.4	Establishing interoperability with relevant IT systems	Number of institutions using e-services	MINISTRY OF FINANCE	2023	2026	150.000€	MNE Budget Donation
3.2.2.5	Staff training of the Cadastre and State Property Administration on the IT system utilization	Continuous implementation of management training	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	80.000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 3.2.3		Legislation amendment and strategic documents development to ensure system and data quality					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.2.3.1	Legal framework amendment for the management of state assets (arrangement of one-time submission of data on already acquired assets for registration in the ARS application, as well as for maintaining a up-to-date database in terms of transfer and disposal)	Amendments to the relevant regulations adopted and in process of implementation	MINISTRY OF FINANCE	2023	2026	No additional funds are required	MNE Budget
3.2.3.2	Amendments to the regulatory framework in terms of defining the mandatory norms for submission of electronic documents by notaries		CADASTRE AND STATE PROPERTY ADMINISTRATION			No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 3.2		Management of (non-financial) state assets and cadastre					
3.2.3.3	Improve the Law on State Property	Amendments to the legislation adopted		2024	2024	No additional funds are required	MNE Budget
3.2.3.4	Drafting a strategic document for developing a Cadastral IT system	Strategic document adopted and in the process of implementation		2023	2026	100.000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 3.3		Budget Execution Reporting					
Performance Indicator		Baseline 2021	Target value 2023			Target value 2026	
Annual and periodic reports on budget execution in accordance with the program classification are prepared within the Budget Management Information System - BMIS		Reports are not generated	BMIS being upgraded while enabling the preparation of annual and periodic reports, including gender indicators			Periodic and annual reports improved as a result of BMIS upgrade, including gender indicators	
OPERATIONAL OBJECTIVES 3.3.1		Establishing the process of drafting and publishing transparent annual and periodic reports on budget execution					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.3.1.1	Upgrade BMIS to improve annual and periodic reports on budget execution	Periodic reports on the execution of budget expenditures prepared according to organizational, programmatic, functional and economic classification; Prepared Semi-annual and Annual Budget Performance Reports, including gender indicators	MINISTRY OF FINANCE	2022	2024	34.000 €	MNE Budget
3.3.1.2	Increasing transparency and improved visualization of budget statements – A Citizens Budget	Citizens Budget published on the website of the Ministry of Finance	MINISTRY OF FINANCE	2022	2024		MNE Budget
OPERATIONAL OBJECTIVE 3.3.2		Establishing the process of drafting annual and periodic reports on budget performance					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.3.2.1	Create semi-annual and annual reports on budget performance through BMIS	Performance report prepared in accordance with the Rulebook	MINISTRY OF FINANCE	2022	Continuous	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 3.4		Management and reporting on the use of EU funds					
Performance Indicator		Baseline	Target value 2023			Target value 2026	
Improving the management of EU funds through the development of a unique information system for project management and monitoring - MIS (Management Information System)		The information system does not exist	The preparatory activities for the development of the MIS have begun			MIS developed and in operation	
OPERATIONAL OBJECTIVE 3.4.1		Establishment of MIS for the management of EU funds					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.4.1.1	Analysis of needs and development of technical specifications for MIS	The MIS information system was tested and put into operation.	MINISTRY OF FINANCE MINISTRY OF EUROPEAN AFFAIRS	2023	2024	1.500.000€	MNE Budget Donation
3.4.1.2	Implementation of the public procurement procedure for construction purposes of MIS			2024	2025		
3.4.1.3	MIS implementation			2025	2026		
OPERATIONAL OBJECTIVE 3.4.2		Establishing a process for monitoring EU support programs					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
3.4.2.1	Organizing recording (entry) of data in MIS	The MIS information system was tested and put into operation.	BODIES THAT WILL USE THE MIS SYSTEM (GOVERNING BODY, MANAGEMENT STRUCTURE, INTERMEDIARY BODIES, ETC.)	2025	2026	No additional funds are required	MNE Budget Donation
3.4.2.2	Drafting reports			2025	2026		
3.4.2.3	Strengthen the monitoring function and fulfilling the defined performance indicators			2025	2026		

STRATEGIC OBJECTIVE IV
EFFICIENT FINANCIAL CONTROL

SUBSYSTEM OBJECTIVE 4.1		Public Internal Financial Control (PIFC)					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
% of ministries delegating authority for financial management and internal controls		8,3%	10%		80%		
% of internal audit recommendations related to improving internal controls and achieving value for money		28,60%	32%		40%		
OPERATIONAL OBJECTIVE 4.1.1		Improvement of management responsibility and risk management procedures					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.1.1.1	Analysis of management responsibility in pilot institutions / delegation of decision-making authority, in relation to the program budget, to at least two budget users at the central level	Analysis along with recommendations for improving managerial responsibility prepared	MINISTRY OF FINANCE	2022	2023	20.000 €	MNE Budget Donation
4.1.1.2	Pilot audit of delegation of authority and audit of performance management within ministries ("horizontal audit")	Pilot audits conducted		2022	2023	15.000 €	MNE Budget Donation
4.1.1.3	Development of methodology for internal reporting (in accordance with management responsibility, performance reporting) at the central level	Methodology for internal reporting prepared		2022	2023	10.000 €	MNE Budget Donation
4.1.1.4	Develop methodological guidelines for strategic/key risks	Methodological guidelines for strategic/key risks prepared		2022	2022	No additional funds are required	MNE Budget
4.1.1.5	Assessing the quality of the established system for detecting and handling notifications of suspected irregularities, as well as evaluating and, if necessary, updating the established regulations in this area	Quality review reports prepared		2022	2023	No additional funds are required	MNE Budget

SUBSYSTEM OBJECTIVE 4.1		Public Internal Financial Control (PIFC)					
4.1.1.6	Training of managers and employees on management responsibility, delegation of authority and internal reporting	Number of trained managers and employees		2023	Continuous	No additional funds are required	MNE Budget
OPERATIONAL OBJECTIVE 4.1.2		Strengthening of internal audit and FMC in state enterprises					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.1.2.1	Strengthening the capacity of managers and employees in the field of management and internal control in companies in which the state has a majority share	Trainings for managers and employees in companies in which the state has a majority share are conducted	MINISTRY OF FINANCE	2023	Continuous	150.000 €	MNE Budget
OPERATIONAL OBJECTIVE 4.1.3		Improvement of CHU capacity and internal audit function					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Sources of funds
4.1.3.1	Strengthening the capacity of CHU employees to monitor and improve management and internal control in the public sector (training, workplace support, exchange of experience from EU member states)	Continuous increase in the number of procedures for assessing the quality of management of internal controls and internal audit	MINISTRY OF FINANCE	2022	Continuous	15.000 €	MNE Budget Donation
4.1.3.2	Further development of methodological guidelines for external quality assessment through mutual assessment	Methodological guidelines for external quality assessment prepared	MINISTRY OF FINANCE	2022	2023	5.000 €	MNE Budget Donation
4.1.3.3	Strengthening the capacity of the internal audit function at budget users, among other things for conducting performance audits, risk management audits, IT audits and conducting mutual quality assessments	Trainings for conducting performance audits, risk management audits, IT audits and conducting mutual quality assessment conducted	MINISTRY OF FINANCE	2022	Continuous	15.000 €	MNE Budget Donation
4.1.3.4	Advanced training for developing "soft skills" for managers and employees in internal audit units	Training for the development of "soft skills" for managers and employees in internal audit units	MINISTRY OF FINANCE	2022	2023	5.000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 4.2		External Audit					
Performance Indicator		Baseline	Target value 2023	Target value 2026			
Negotiations on Chapter 32 (Financial Supervision) are temporarily closed		Chapter 32 open	Significant progress in meeting the final benchmark	Negotiations on Chapter 32 (Financial Supervision) temporarily closed			
OPERATIONAL OBJECTIVE 4.2.1		Improve the strategic planning framework					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.2.1.1	Draft the Strategic Plan for the Development of SAI for the period 2024 - 2027 and the Action Plan for the Implementation of the Strategic Plan for the Development of SAI for the Period 2024 – 2027	Strategic Plan 2024 – 2027 with Action Plan drafted Increased degree of implementation of the Strategic Development Plan of SAI	STATE AUDIT INSTITUTION	2023	2026	40.000 €	MNE Budget Donation
4.2.1.2	Draft the SAI Communication Strategy for the period 2025 - 2028 and the Action Plan for the implementation of the SAI Communication Strategy for the period 2025 - 2028	The SAI Communication Strategy for the period 2025 - 2028 and the Action Plan drafted Increased degree of implementation of the SAI Communication Strategy for the period 2025-2028. and Communication Strategy 2025-2028.	STATE AUDIT INSTITUTION	2022	2026	40.000 €	MNE Budget Donation
4.2.1.3	Draft the Human Resources Management Strategy of SAI for the period 2026 - 2029 and the Action Plan for the implementation of the Human Resources Management Strategy of SAI for the period 2026 - 2029	- The SAI Human Resources Management Strategy for the period 2026 - 2029 with an Action Plan is drafted - Increased degree of implementation of the SAI Human Resources Management Strategy of 2026 - 2029.	STATE AUDIT INSTITUTION	2022	2026	40.000 €	MNE Budget Donation
OPERATIONAL OBJECTIVE 4.2.2		Increase the quality of audits					

SUBSYSTEM OBJECTIVE 4.2		External Audit					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.2.2.1	Draft a medium-term audit plan of SAI	Increased degree of implementation of the Mid-Term Plan of Success Audit 2020 – 2024. Medium-Term Financial Audit and Regularity Audit Plan of SAI 2023-2026. drafted and implementation started	STATE AUDIT INSTITUTION	2022	2026	30.000 €	MNE Budget Donation
4.2.2.2	Draft Guidelines for Environmental Protection Audit	Guidelines for environmental auditing drafted	STATE AUDIT INSTITUTION	2022	2023	30.000 €	MNE Budget Donation
4.2.2.3	Strengthen performance review	Increased number of performance audits, number of sectors within SAI for performance audits, number of trainings and parallel performance audits	STATE AUDIT INSTITUTION	2022	2026	30.000 €	MNE Budget Donation
OPERATIONAL OBJECTIVE 4.2.3		Improve the digitization of the audit and the process of monitoring the implementation of audit recommendations					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.2.3.1	Acquiring, developing and implementing a software for managing the SAI audit process	Established AMS system for managing the audit process according to the needs of SAI	STATE AUDIT INSTITUTION	2023	2026	500.000 €	MNE Budget Donation
4.2.1.2	Ensure the full implementation of the Guidelines for the preparation, monitoring and control of the implementation of the recommendations of the State Audit Institution through the Recommendations Registry	Increased number of controlled audit recommendations compared to the number of given recommendations	STATE AUDIT INSTITUTION	2022	2026	50.000 €	MNE Budget Donation

SUBSYSTEM OBJECTIVE 4.3		Anti-Fraud Coordination (AFCOS)					
Performance Indicator		Baseline	Target value 2023	Target value 2026			
Negotiations on Chapter 32 (Financial Supervision) are temporarily closed		Chapter 32 open	Significant progress in meeting the final benchmark	Negotiations on Chapter 32 (Financial Supervision) temporarily closed			
OPERATIONAL OBJECTIVE 4.3.1		Improving the functioning of the AFCOS system					
Activities		Outcome indicator	Responsible institutions	Start date	End date	Funds	Source of funding
4.3.1.1	Establishing a legal basis and improving coordination: amendment of the Law on Budget and Fiscal Responsibility and adoption of by-laws	Regular holding of coordination meetings of the AFCOS system	MINISTRY OF FINANCE	2022	2026	No additional funds are required	MNE Budget Donation
4.3.1.2	Develop procedures for prevention, risk analysis, detection, reporting, coordination and cooperation	Procedures developed	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVE 4.3.2		Improving the work of bodies within the AFCOS network in the area of management of irregularities					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.3.2.1	Development and adoption of the Communication Strategy and Communication Procedures between the authorities of the AFCOS system and the public	Communication Strategy adopted	MINISTRY OF FINANCE	2023	2024	500.000€	MNE Budget Donation
4.3.2.2	Establish a Case Management System for irregularities and fraud in the context of IPA funds	The number of officers trained to manage irregularities increased		2023	2024		
OPERATIONAL OBJECTIVE 4.3.3		Strengthening the administrative capacity of the AFCOS system					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.3.3.1	Training needs analysis and drafting a training plan	Reduced % of irregularity reports returned to implementing	MINISTRY OF FINANCE	2023	2024	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 4.3		Anti-Fraud Coordination (AFCOS)					
4.3.3.2	Training on irregularity management and reporting for authorities using pre-accession funds	agencies for review and correction		2023	Continuous	No additional funds are required	
4.3.3.3	Improving irregularity reporting			2023	2024	No additional funds are required	
4.3.3.4	Training on fraud, corruption and other irregularities in the system (AFCOS network) and protection of whistle-blowers	Continuous implementation of trainings		2023	Continuous	No additional funds are required	
OPERATIONAL OBJECTIVE 4.3.4		Improving the protection of EU financial interests					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.3.4.1	Drafting and adopting the Strategy for Combating Fraud and the Management of Irregularities in order to protect the financial interests of the EU for the period 2023-2026, along with the Action Plan	Strategy for Combating Fraud and Managing irregularities adopted	MINISTRY OF FINANCE DEPARTMENT FOR COMBATING IRREGULARITIES AND FRAUD (AFCOS OFFICE)	2023	2025	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 4.4		Improving the Audit Authority efficiency					
Performance Indicator		Baseline	Target value 2023	Target value 2026			
Negotiations on Chapter 32 (Financial Supervision) are temporarily closed		Chapter 32 open	Significant progress in meeting the final benchmark	Negotiations on Chapter 32 (Financial Supervision) temporarily closed			
OPERATIONAL OBJECTIVE 4.4.1		Improvement of the legislative framework					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.4.1.1	Alignment of the Law on the Audit of EU Funds and its by-laws with audit standards and future EU requirements	Number of harmonized/new legal acts related to the audit of EU funds	AUDIT AUTHORITY OF MONTENEGRO	2023	2026	200.000€	MNE Budget Donation
OPERATIONAL OBJECTIVE 4.4.2		Strengthening capacity and increasing the efficiency of conducting audits					
Activities		Outcome indicator	Responsible institution	Start date	End date	Funds	Source of funding
4.4.2.1	Training of auditors on the closure of the IPA II program and novelties related to the IPA III program period	Number of auditors trained	AUDIT AUTHORITY OF MONTENEGRO	2022	2026	No additional funds are required	MNE Budget Donation

SUBSYSTEM OBJECTIVE 4.5		Operationalization of the budget inspection function					
Performance Indicator		Baseline	Target value 2023		Target value 2026		
Negotiations on Chapter 32 (Financial Supervision) are temporarily closed		Chapter 32 open	Significant progress in meeting the final benchmark		Negotiations on Chapter 32 (Financial Supervision) temporarily closed		
OPERATIONAL OBJECTIVE 4.5.1		Establishing the legislative framework					
Activities		Outcome indicator	Responsible institutional	Start date	End date	Funds	Source of funding
4.5.1.1	A regulatory and methodological framework drafted	Drafting of the Budget Inspection Development Strategy and Budget Inspection Work Methodology	MINISTRY OF FINANCE	2022	2026	No additional funds are required	MNE Budget Donation
OPERATIONAL OBJECTIVES 4.5.2		Capacity building					
Activities		Outcome Indicator	Responsible institutions	Start date	End date	Funds	Source of funding
4.5.2.1	Staff recruitment and training	Increasing the number of inspectors and the number of trainings	MINISTRY OF FINANCE	2022	2026	No additional funds are required	MNE Budget
4.5.2.2	Establishment, development and maintenance of IT systems for detection and reporting of irregularities in the public sector, and training for the same			2023	2026	500.000€	MNE Budget