


MINISTRY OF FINANCE

July - September 2014

BULLETIN XXXIII

MINISTRY OF FINANCE OF MONTENEGRO
Bulletin XXXIII
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Ph.D. Radoje Žugić

It is necessary to integrate domestic with international markets through healthy competition, as the only source of the accumulation of new value. Otherwise, there is a great chance that weaknesses of such an option will overwhelm the benefits and create even bigger problems for the policy makers and the reform of the system.

EDITORIAL:

FISCAL INCENTIVES AS A PREREQUISITE FOR ECONOMIC DEVELOPMENT

Introducing Euroisation as the official monetary regime in Montenegro meant a permanent orientation of economic policy makers towards the goals aimed at macroeconomic stability and competitive business environment.

The Central Bank, without emission features and through passive monetary policy, directed the focus of the Montenegrin economic policy towards fiscal instruments. Monetary policy remained as a safeguard to the financial system stability, while fiscal policy gained a mandate for countercyclical adjustment to economic opportunities. In such an institutional framework, fiscal policy plays a crucial role in the creation of long-term stability and is the most important segment of economic policy.

On the other hand, Montenegro has abundant economic resources not adequately valorised. Due to the urgent need of their valuation, and to halt the negative demographic trends that characterize certain parts of our country, the country has an expressed need for a more dynamic economic growth. Higher growth rates in Montenegro are necessary

also to minimize the basic economic vulnerabilities primarily manifested through the negative balance of payments in the exchange of goods with foreign countries. Should such a state persist, it may cause a reduction in the money supply, which could produce the recession effects, so it is clear that the country needs promptly respond. It is necessary to integrate domestic with international markets through healthy competition, as the only source of the accumulation of new value. Otherwise, there is a great chance that weaknesses of such an option will overwhelm the benefits and create even bigger problems for the policy makers and the reform of the system.

Bearing in mind the above, the Ministry of Finance is actively engaged in fiscal policy, which, through a process of consolidation of the revenue and expenditure side of the budget and appropriate incentives, should contribute to healthy public finances and boost economic growth.

Therefore, the activities were undertaken to define a document which would create a mid-term strategy



for the implementation of fiscal policy, consistent with the principles of predictability and accountability, as well as the fiscal rules stipulated by the budget and fiscal responsibility. The main objective in the creation and implementation of this strategy is to restore the public debt to a sustainable level and to create fiscal space for additional investment spending, keeping in mind the needs in the field of infrastructure and other development priorities.

In order to ensure adequate valuation of our resources, and to make gradual changes in economic structure and development model, the measures proposed within the strategy are aimed to create prerequisites for active sectoral policies, so as to improve the competitiveness of the local economy and boost exports, i.e. the share of tradable goods, which will further positively impact on the balance of payments in the exchange of goods with foreign countries. To this end, the Strategy is to propose appropriate fiscal incentives for sectoral priorities, and, above all, for tourism, energy, agriculture and metal industry, where care would be certainly taken not to disturb the existing fiscal position of the country.

A model of tax reform, which will be proposed, provides for changes in the taxation structure, involving transfer to taxes with less negative impact on the economic growth, while reducing the tax burden on profits and income. This would create the potential for growth, which, along with the accompanying reforms in other areas, would undoubtedly contribute to a more efficient evaluation of our vast resources, and faster achievement of the basic objectives of the economic policy of Montenegro - strengthening the competitiveness of the economy, achieving higher rates of economic growth and higher living standard of the population.

Ph.D. Radoje Žugić
Minister of Finance



Milica Vuletić

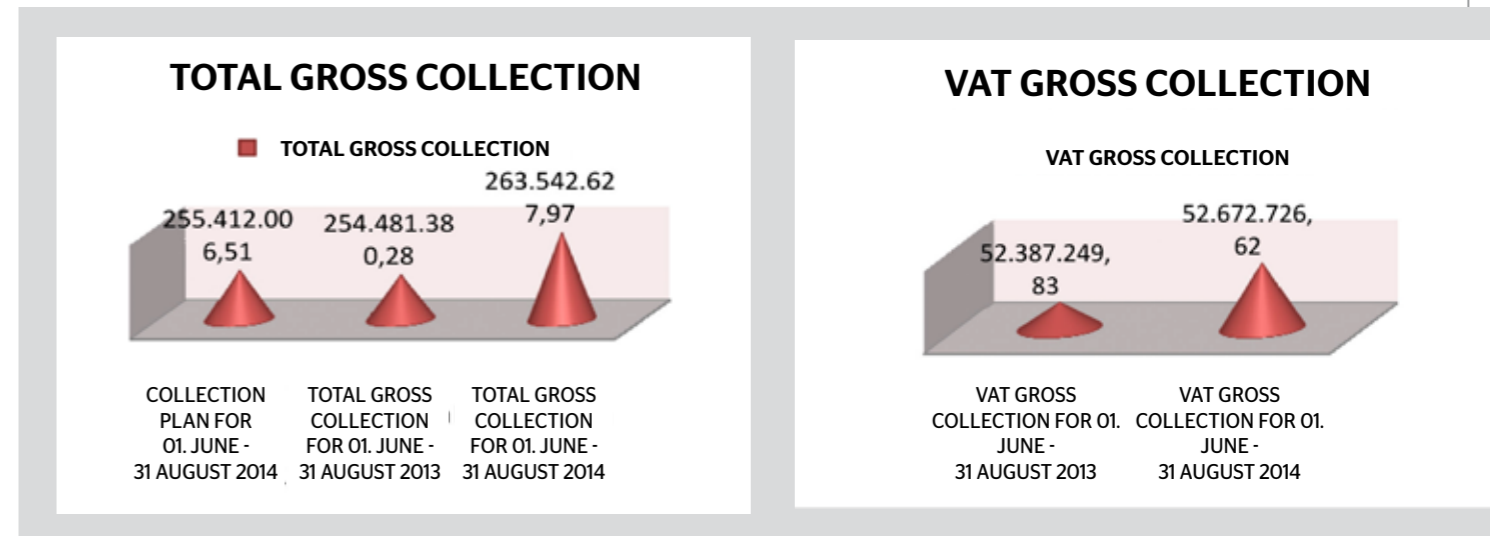
Summer season monitoring effects of the Tax Administration

Preparations for the season and intense activities of Tax Administration auditors began on 1 May, and during the peak tourist season, a larger number of inspectors was engaged in coastal municipalities, as well as in the northern region, and in all places that are part of the tourist offer of Montenegro. In this way the monitoring of traffic in the entire country was established, with special focus on municipalities in which the volume of business in the service and catering industry was increased.

Activities of inspectors were directed towards checking the regularity of operation in the field of issuing fiscal receipts and possession of business licenses, with sharp sanctions in case of establishing irregularities. Also, special attention in the control process was devoted to checking regularity of accounting, reporting and payment of taxes and contributions on personal income, not only in the service and catering industry, but also in other sectors.

The measures taken were aimed at establishing a long-term fiscal compliance and elimination of unfair competition, as well as raising awareness of importance of regular operation for development of a favorable business environment.

The main tourist season 2014 (June-August): tax audit results					
The number of checks performed	The number of irregularities discovered	The number of misdemeanor warrants issued	The value of fines imposed	The number of requests for criminal proceedings	The total amount of taxes by additionally submitted IOPPD forms
5.520	1.050	1.115	2.304.550,00€	89	4.048.054,34€



During this period the measure of closure of business facilities was issued to 48 taxpayers and measure of temporary cease of business license to 20 persons.

The growth of tax collection of taxes and provision of budget revenues represent one of the most important indicators of effectiveness in combating the gray economy, and in this regard the following information should be noted:

Gross tax collection for the period June-August (traditionally implying the main tourist season) in the amount of EUR 263,542,627.97, exceeding the budget plan for EUR 8,130,621.46 and the comparative period of 2013 for EUR 9,061,247,69.

Value added tax collection in the amount of EUR 52,672,726.62.

Implementation of activities during the summer season was also contributed by the project “Be responsible. It’s up to you. Grey Economy 0%”, allowing a direct communication of citizens with the Tax Administration, for the purpose of reporting irregularities, inter alia, in the field of issuing fiscal receipts and irregularities on beaches. After six months of very successful project implementation, another foreign partner, the British Embassy in Podgorica, in addition to the Government of Montenegro, Electro-technical faculty and UNDP joined the Project, which has been extended until 31 December 2014.

During the three months of the peak tourist season, the Tax Administration received 637 complaints on irregularities in the work of taxpayers, out of which 133 through the Call Center, and 504 through the website www.budiodgovoran.me. The Tax Administration proceeded by the submitted complaints, and on that basis 80 misdemeanor warrants of EUR 192,940 in total were issued and the measure of cease of business license was issues in four facilities.

Analyzing these results, we can conclude that the Tax Administration realized the tourist season monitoring plan successfully, both from the aspect of tax audit and sanctioning of irregularities, as well as from the aspect of collection of budget revenues. Since the activities of this authority are implemented in continuity, these activities have been also continued upon the end of the tourist season.

Milica Vuletić
Public Education Unit within the Tax Administration



Stoja Roćenović

Acquisition and Improvement of knowledge and skills of Internal Auditors in the Municipalities

The internal audit activity is an independent, objective assurance and advisory activity designed with the aim to add value and improve an entity’s business operations. It helps an economic entity accomplish its objectives by bringing a systematic, disciplined approach to assessing and improving the effectiveness of risk management, control and governance processes” (IIA).

The internal audits are conducted by internal auditors, who must possess the knowledge, skills and other abilities necessary to perform their duties. Key to the success of the internal audit are competent and skilled internal auditors.

Knowledge, skills and other abilities are terms referring to the professional expertise that is required from internal auditors to effectively carry out their professional duties. The audits must be carried out professionally and with due professional care. Personal abilities and skills are just as important as education and experience. Personal abilities and skills include:

- analytical skills for understanding and rapid assessment of system, and control and commonsense reasoning,
- determination to investigate to the logical conclusions and to use judgment to decide, imaginative approach to work,
- the ability of gaining the trust and cooperation of the staff and associates
- the ability of oral and written communication,

- the ability to “not derogate” and effectively defend their findings, conclusions and recommendations, the art of negotiation,
- the skill of solving problems and finding practical solutions
- tact and diplomacy and
- personal integrity.

Internal auditors should respond to these challenges and provide support to management through effective and useful recommendations.

Central Harmonization Unit, from 2011 to the present, pay special attention to the strengthening of the capacity of internal audit at central and local level, through the organization and maintenance of theoretical and practical training of internal auditors and certification under a national and international program.

Internal audit in the public sector in Montenegro is a new profession. The largest number of internal auditors were appointed in the second half of 2011, and at the central level, so in that period, the activity on organizing and conducting training for 21 internal auditors at central, and three auditors at the local level started. Appointed internal auditors have undergone theoretical and practical training, which was organized and implemented by the Central Harmonization Unit with the assistance of experts of the IPA 2009, who are trained to perform individual audits, according to the methodology based on the revision of the system.

From a total of 59 internal auditors deployed at central and local level, 34 auditors have acquired certificate for a certified internal auditor in the public sector (21 of them acquired international and 11 national certificate), or 58 percent, while 11 auditors are in the process of acquiring the certificate. 6 of 34 auditors have received both national and international certification.

With certificate		In the process of acquiring the certificate		Without certificate
International	National	International	National	
21	11	2	9	14

Internal audit in the municipalities is still at an early stage of development. It has begun to intensively develop since 2012, when the largest number of internal auditors were appointed. By October of the current year 23 internal auditors were appointed.

Overview of the number of internal auditors by year

Year	2011	2012	2013	2014
Total number of auditors	3	10	16	23

The capital city of Podgorica, the royal capital Cetinje and 13 municipalities are required to establish a separate organizational unit for internal audit - Office of Internal Audit and execute the deployment of internal auditors in accordance with the act on internal organization and systematization of Service.

The capital city of Podgorica, the royal capital Cetinje and seven municipalities have organisationally established Office of Internal Audit, passed the act on internal organization and appointed managers of Service and determine the number of internal auditors. Four municipalities have organizationally set up the Internal Audit Department, but have not appointed the managers of the Service and passed the act on systematization, as a

condition for the deployment of internal auditors. Two municipalities have not taken actions to establish the internal audit function.

Overview of the number of auditors in municipalities

Name	Systematized	Deployed	%
The capital Podgorica	4	3	
The royal capital Cetinje	5	2	
Municipality Nikšić	4	3	
Municipality Bijelo Polje	3	2	
Municipality Pljevlja	3	3	
Municipality Berane	4	3	
Municipality Herceg Novi	4	2	
Municipality Rožaje	5	4	
Municipality Danilovgrad	3	1	
Total	32	23	72%

A number of internal auditors who were deployed in 2011, 2012 and 2013 have passed the theoretical part, practical training and training for performing individual audits during 2013 and 2014.

One of the prescribed conditions for conducting internal audits is obtaining certification for certified internal auditor in the public sector. From 23 internal auditors at the local level, 14 have acquired an international or national certification or are in the process of acquiring.

Overview of the certified auditors in municipalities

With certificate		In the process of acquiring certificate		Without certificate
Međunarodni	Nacionalni	Međunarodni	Nacionalni	
7	2	5	-	9

In order to enhance the knowledge and skills of internal auditors, significant efforts are made to train internal auditors through theoretical training. However, providing theoretical training by itself does not increase the competence of internal auditors - training must be accompanied by practical work and application and development of new skills or knowledge in the performance of individual audits.

In this regard, the Central Harmonization Unit of the Ministry of Finance with the assistance of the EU-funded project “Strengthening the Capacity of EU Funds Management and General Administrative Capacity”, planned to organize practical training for internal auditors in municipalities during 2014 and 2015. In addition, the project is planned and the three-day workshop for newly appointed internal auditors was planned within the project, on the topic “Review of the System”.

Practical training of internal auditors will be implemented in four pilot audits, as follows: in the capital city Podgorica and Niksic municipality in November and December 2014, in the municipality of Pljevlja and Bijelo Polje in March and April 2015. For each pilot audit a number of auditors from other municipalities will be



appointed and, together with the auditors of the pilot municipalities, they will form a training group, which will be coordinated by a representative of the CHU and a project expert.

The pilot audits will apply the methodology based on the revision of the system, as prescribed in the Manual of Internal Audit of the Ministry of Finance, which comprises the steps of: audit planning, system recording, system evaluation, testing, formulating conclusions of the audit report, reporting and action plan for implementing the recommendations. All the auditors are expected to be fully familiar with the contents of the Internal Audit Manual and use these proceedings in their work.

In order to timely and efficiently prepare the implementation of practical training, on September 19th, 2014, the first workshop with internal auditors who would be involved in practical training in the pilot municipalities was held, on the topic “Introduction to pilot audits in municipalities.”

Pilot audit is a very effective way of practical training of internal auditors in order to increase the understanding and trust of managers and employees in the performance of the review of the system and improvement of valuable work of internal audit. Therefore, the main purpose of pilot audits in municipalities is training of internal auditors and building the trust of local government employees, which represents a significant step in the development of internal audit at the local level, while managers in the pilot municipalities will provide a clear understanding of what the internal audit is and how it can help in achieving the established objectives, through evaluation of the effectiveness of risk management, control and governance processes.

Conclusion

International Standards for the Professional Practice of Internal Audit emphasizes that internal auditors must possess the knowledge, skills and other personal and professional abilities that are necessary for the fulfillment of individual duties. This implies that the internal auditor should possess more than professional competence. Only adequately trained, competent and independent internal auditors with personal and professional integrity can fulfill tasks that are expected of internal audit and contribute to achieving the objectives of the audit and therefore the objectives of the organization.

Stoja Rocenovic
Head of the Directorate for Harmonization in the Internal Audit



Kana Tomašević

Cohesion policy and Structural Funds in Germany with special reference to the use of Resources of the European Regional Development fund (ERDF) in Berlin

Introduction: Cohesion policy and Structural funds

In addition to the Common agricultural policy and Financial and Budgetary policy, EU Cohesion policy is one of the special and highly important policies of the European Union. Despite the established and functional regional policies of individual member States, the EU Cohesion policy is designed within the framework of the Union to implement measures and tackle numerous and obvious economic and social gaps among various European regions.

Structural and Cohesion funds are intended for the implementation of EU Cohesion policy. Cohesion policy, also referred to as the policy of solidarity in the EU jargon, provides funding for the less developed regions

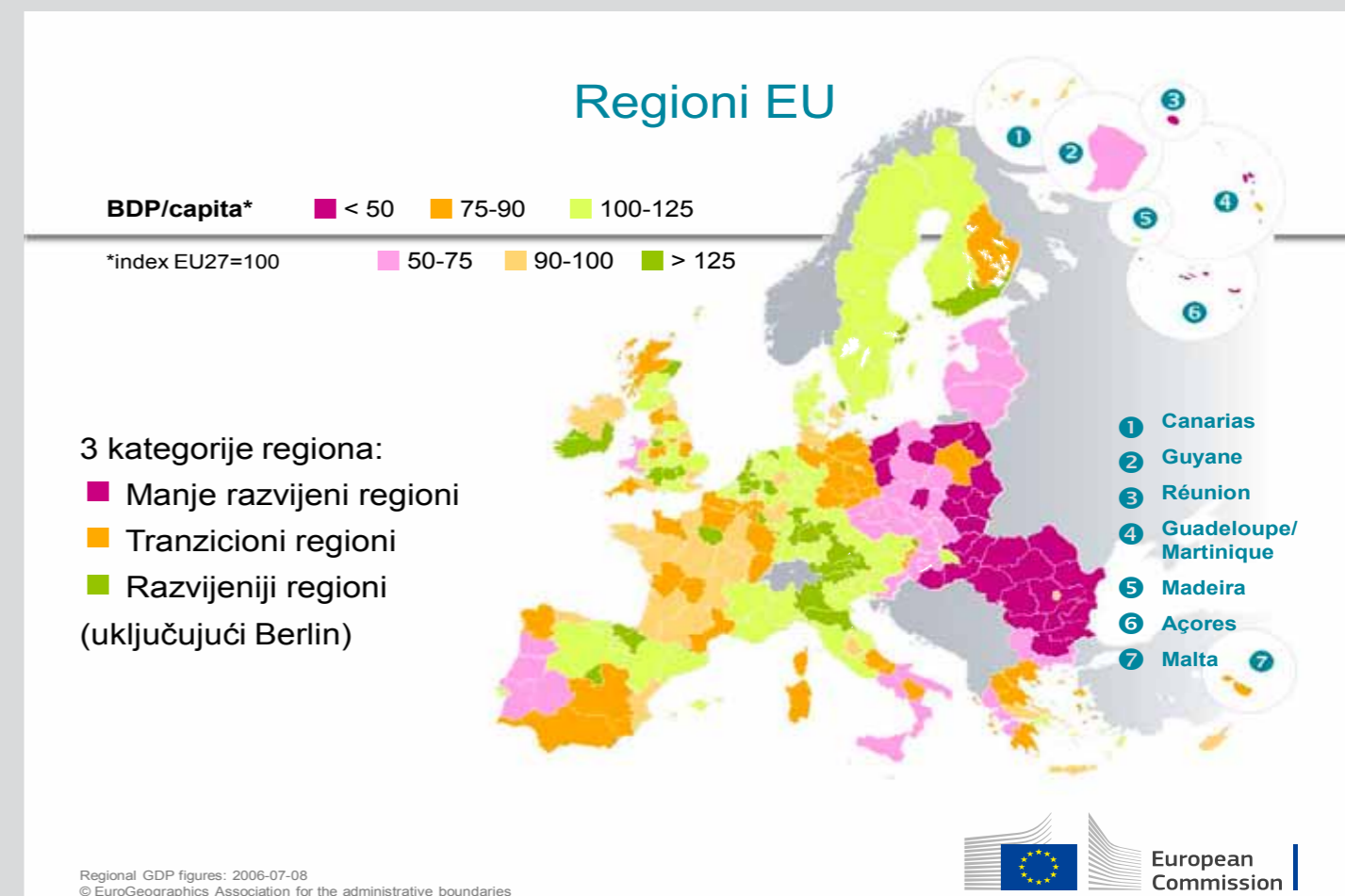
and member States, with the aim of reducing socio-economic disparities within the EU. Funding for the implementation of cohesion policy in the funding period 2007-2013 amounted to about 308 billion euros of the total EU budget for that period. The budget of the new funding period 2014 - 2020 has envisaged further increase in resources for cohesion policy to even 325 billion.

Cohesion policy is implemented through the Structural funds, including the European Social Fund (ESF) and European Regional Development Fund (ERDF), as well as the Cohesion Fund.

The objective of the European Social Fund (ESF) is to improve employment opportunities, promote social inclusion and combat any kind of discrimination, as well as to stimulate investments in human capital.

The objective of the ERDF is to help investments aimed at reinforcing economic and social cohesion by redressing regional imbalances in EU, or differences among specific social groups.

The purpose of the Cohesion Fund, the last, but not the least of the three, is to grant financing to major infrastructure projects, whose value exceeds 50 million euros.



Cohesion Policy in Germany 2014-2020

According to the new funding period, Germany has been allocated 19.2 billion euros intended for the implementation of cohesion policy, with 9.7 billion allocated for funding transition regions (mainly in East Germany), and 8.6 billion allocated for more developed regions. 10.8 billion of the total budget has been allocated for the European Regional Development Fund (ERDF), and 7.5 billion for the European Social Fund (ESF). The rest of the budget for cohesion policy, amounting to 0.9 billion, will be used for the implementation of the European territorial cooperation. In addition to these funds, Germany has been allocated 8.3 billion for rural development from the EU budget for agriculture and rural development.

The following priorities have been specified for funding in Germany:

- Support regional competitiveness and development by increasing research, technological growth and innovation investment, as well as improved competitiveness of small and medium-sized enterprises (SMEs);
- Support reduction of carbon-dioxide emission (CO₂) in all economic sectors;
- Better use of labour market potentials, increasing social inclusion and strengthening educational potential;
- Support transformation of energy system.

The management of the structural and cohesion funds in Germany has been coordinated at the national and regional level. The key institutions at the national level are the following:

- Ministry of Economic Affairs and Energy: responsible for coordinating the overall EU structural policy and administering the resources of European Regional Development Fund (ERDF);
- Ministry of Labour and Social Affairs: responsible for coordinating resources of the European Social Fund (ESF);
- The Ministry of Food and Agriculture: responsible for rural development and the agricultural budget funds;
- Ministry of Finance: responsible for financial management and control, for all the Funds.

In addition to those most important national-leveled institutions in Germany dealing with EU funds, there are also Federal Foreign Office, the Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, the Ministry of Family Affairs, Senior Citizens, Women and Youth, as well as the Ministry of Education and Research.

The coordination of EU funds at the regional level is under responsibility of the so-called regional governments (Lander Governments), which establish Managing authorities, Budgetary authorities, Audit authorities and Monitoring committees responsible for overseeing the use of structural and cohesion funds.

Structural funds in Berlin: A Review of the use of ERDF funds in funding period 2007-2013

The city of Berlin is the capital and the largest German city, as well as one of the 16 German regions. The Senate of Berlin is the executive body governing the city of Berlin, comprising of the Mayor and eight Senators with the ministerial status.

In the previous financial period (2007-2013), Berlin was allocated about 1.2 billion euros of the cohesion policy funds, including 875.6 million of the ERDF funds and 335.7 million of the ESF funds.

In addition to EU and national strategic documents and for the purpose of using EU funds in Berlin, the Senat developed the Strategy for growth and employment, as well as the Operational Programme Berlin for the ERDF and ESF funds.

As the text emphasizes the use of funds allocated from the European Regional Development Fund (ERDF), we can talk about the four priorities for funding, as follows: stimulating entrepreneurship and competitive capacities (31%), innovation and knowledge-based economy (36%), integrated urban development (20%) and the environment (9%). In addition to these priorities, a small portion of funds (4%) was intended for the technical support to institutions and beneficiaries, in order to achieve the objectives defined in other priorities.

We can specify distinctive examples of successful projects and efficient use of resources within each priority, such as: KMU Fonds (financial instrument that provides loans and micro-loans to small and medium-sized enterprises), VC Fonds Berlin (capital funds for small and medium-sized enterprises in technology sector), VC Fonds Creative (capital funds for small and medium-sized enterprises in the creative industry), Helleum (establishment of a children's research center for play-based learning), then Umweltentlastungs- Programm II (a program designed for financing energy efficiency and environmental protection) and many others. The fund beneficiaries are small and medium-sized enterprises, research institutions, universities and citizens of Berlin.



The use of ERDF funds in Berlin in the period 2007-2013 was very successful, and the results of the ERDF Operational Programme can be seen in the following figures (until June 2013):

- 206 million euros were allocated for enterprises;
- small and medium-sized enterprises were approved 1760 loans, amounting to 55 million euros;
- 1744 loans approved for establishing a business;
- 991 research and development projects were financed, totaling 47 million euros;
- 3086 urban development projects were funded;
- carbon dioxide emission was reduced by 5095 tonnes;
- 3611 new posts were opened and 6,087 of existing ones were guaranteed.

Structural funds in Berlin: The use of ERDF funds in the funding period 2014-2020

In the new funding period (2014-2020), the amount of funds intended for the implementation of cohesion policy has been significantly reduced compared to the previous period, and totals 850.3 million, i.e. 635.2 million of the ERDF funds and 215.1 million of ESF funds. Within the Operational Programme for the period 2014 to 2020, the European Regional Development Fund (ERDF) has defined the priorities for funding. Priorities and specific goals for Berlin are presented in the following table:

PRIORITY	SPECIFIC GOAL
Priority 1: Strengthening research, technological development and innovation	Intensifying and increasing the number of research activities in Berlin economy
Priority 2: Investments and establishing new SMEs	Reinforcing investment activity in establishing SMEs
Priority 3: Reduction of carbon-dioxide emission	Reduction of carbon-dioxide emission in all sectors
Priority 4: Sustainable urban development	Enhancing social integration, especially in difficult rural areas, facilitating the inclusion of all the groups into the society and improving the quality of life in these areas

The European Commission has been delivered the ERDF Operational Programme Berlin in June of the current year, while the beginning of financing is expected early next year.

Conclusion

Between the two extremely opposed interpretations of reality and the effects of the EU cohesion policy, one thing is confirmed: the European Union, (which identifies development opportunities and directs and implements balanced development of all its regions by a comprehensive and unique framework of cohesion policy) and Germany as a state (which has a clearly defined development priorities, with its state administration that infallibly manages projects financed by the EU structural funds), ensure positive effects of cohesion policy of the European Union, the competitiveness of the region and appropriate living standard and quality of life for all the citizens.

Although in the pre-accession period, through the IPA funds Montenegro has the opportunity to finance projects similar to those funded by the aforementioned funds, (but in considerably less volume), thus acquiring valuable experiences that will contribute to the efficient spending of funds allocated from the structural and cohesion funds in the near future.

Kana Tomašević
First level Controller for transnational programmes
Directorate for Finance and Contracting of the EU Assistance Funds



Marija Goranović

Activities of the Minister of finance - 1st July - 30th september 2014



01/07/2014 – Continued social dialogue with the Trade Unions

Mr. Radoje Žugić, PhD, the Minister of Finance and his associates held a meeting with Mr Srdja Kekovic and Mr Marko Nikcevic, the two Secretaries General of the Union of Free Trade Unions and the Confederation of Trade Unions of Montenegro. The meeting was also attended by Mr Goran Jovetic, the Advisor in the Cabinet of the Deputy Prime Minister. In order to be able to make their contribution

to the drafting of this document, the representatives of the Union were delivered a working version of the Law on Salaries of Civil Servants and State Employees, and the social partners determined the basic concept of the further cooperation related hereto. Minister Žugić used this opportunity to emphasize that the new law does not imply a reduction in earnings, but the introduction of fairness, rationality and strict discipline in the system of personal earnings, which will ensure adequacy and initiate progress, especially in socially vulnerable categories of the population. During the meeting, the partners continued the discussion on the initiatives of the Trade Union to increase salaries in the public sector, and the relevant ministries, which the aforementioned requirements were addressed to, were invited to enter a dialogue on open issues with the representative trade unions and discuss actively all the aspects of the above initiatives and objective possibilities in details, particularly on the ground of the principle of public finance sustainability, as a foundation for long-term stability. The participants

agreed on establishing a Working team, including not only the representatives of the Tax Administration and two relevant Trade Union head offices, but also the representatives of the Labour Inspectorate in accordance with the conclusion of the Commission for combatting gray economy, in order to make a joint effort aimed at reduction of illegal business, i.e. the violation of basic rights of employees in the field of calculation and payment of salaries and fringe benefits based on labor, as well as payment of taxes and contributions.



04/07/2014 – Minister Žugić awarded the “Best Minister“

At the 30th Ceremony for awarding the Best Managers and the Best Companies in the region of Southeast and Central Europe, Mr. Radoje Žugić, PhD, the Minister of Finance in the Government of Montenegro, was awarded the “Best Minister“. This prestigious and traditional award is presented to those ministers whose activities contributed to and promoted stimulating environment for economical and business development in the region of the Southeast and Central Europe. During the award ceremony, Minister Žugić emphasized that the award presented a recognition of the Government of Montenegro as a whole, for the contribution made by our country on the recovery of the economy in the region, as well as the overall regional cooperation. Hundreds of experts in the fields of business and state administration from 14 European countries were nominated for the awards of Best Managers and Best Companies of the South East and Central Europe. The Minister of Finance Radoje Žugić and other award winners were ho-

sted by the Chairman of the Presidency of Bosnia and Herzegovina, Mr. Bakir Isetbegović. At the business conference held in Sarajevo before the award ceremony, titled “Business in the Region“, Minister Žugić, as a key introductory speaker, was talking about the need for developing regional cooperation aimed at improving competitiveness. Underlining the historical connection between the countries in the region and their similarity regarding the lines of economical and industrial development, Minister Žugić stressed that the regional integrations were considered a necessity on the way towards economic prosperity and integration into the family of European countries.



10/07/2014 – Mr Radoje Žugić, PhD, Minister of Finance, made a Statement after the Government session held on laying down the Bill on Consensual Debt Restructuring to financial institutions

“... The Law on Consensual Financial Restructuring of non-performing loans appeared as a necessity in addressing vulnerabilities of the monetary sector, as well as reversing the negative trends of fiscal parameters in the real economy. We believe that the implementation of this Law will result in multiple positive effects, as follows: for the banks – which will improve the soundness of their clients by performing certain restructuring; the benefits for the Central Bank will be reflected in a more stable and sound banking system; the industry will develop interaction among recovered companies - which will contribute to economic recovery and to a more dynamic economic growth, while the State will get

taxpayers which can make a significant contribution to the overall process of fiscal consolidation, ie have a positive impact to the budget revenue. The Law has also defined certain tax reliefs. Specifically, a creditor who concludes a financial restructuring agreement with the debtor on repurchasing debts or signs a receivables purchase agreement, is relieved from taxation in respect of VAT tax rate in the specified segment. As a stimulating measure, in determining the base for corporate income taxation of the legal entity it is also very important that the amount of debt impairment, executed in accordance with this Law, is recognized as an expense, thus reducing the base for corporate income taxation. The Law also provides stimuli for debtors, because the Tax Administration undertakes to reschedule all debts in the amount of one hundred thousand to six months, and those over one hundred thousand to 12 months. And finally, commercial banks are also stimulated to enter the process of restructuring, using the possibility of creating a new classification of their assets and recognizing the restructured loan as a new one in this part, which allows them to reduce their allocations for reserves against potential credit losses. We believe that this Law will be very useful in several fields and ensure both, direct and indirect benefits to our economy“



10/07/2014 – Turkish investors interested to invest in Montenegro

Mr. Radoje Žugić, PhD, Minister of Finance met Mr. Okan Hemsinliogluom, an attorney and legal advisor of the Turkish Consortium Vergiate Gro-

up, which is one of the leaders in the field of iron and steel industry in this country. Mr. Hemsinlioglu communicated the interest of Vergiate Group for investing in Montenegro and not only in the area of industry, as their core business, but also in the energy sector, tourism and banking. Minister Žugić expressed his gratitude for the interest of Turkish companies to invest in our country and emphasized that the Ministry of Finance will provide the necessary support to investors in accordance with its powers. “The banking market in Montenegro needs a new impulse, i.e. new subjects that would contribute to reinforcing credit activity;“ said the Minister, adding that “in this area there is considerable scope for cooperation.“ The Minister said that Montenegro was characterized by a competitive tax system and the Government had plans for further business facilitating for both, domestic and foreign entrepreneurs. Further communication between the representatives of Turkish investors and the Ministry of Finance was agreed in order to specify particular future steps.



23/07/2014 – Dialogue with the Trade Unions’ representatives continued

Mr. Radoje Žugić, PhD, the Minister of Finance and his associates held a meeting with Mr. Srdja Keković and Mr. Marko Nikčević, the two Secretaries General of the Union of Free Trade Unions and the Confederation of Trade Unions of Montenegro. The meeting was also attended by the representatives of the Trade Union of Education, Trade Union of Public Administration and Judiciary, Mr. Zvon-

ko Pavićević and Mr. Duško Zarubica. The meeting was an opportunity to continue a dialogue on current issues of mutual interest, related to the improvement of living standards of all the employees in the public sector of Montenegro, and, above all, through an adequate, transparent and efficient regulation of the labor market and a more rational and responsible spending of budgetary funds. Consequently, during the discussion particular focus was put on defining priority principles of action of the Working team in charge of combating the gray economy in the labor market. It was agreed that the Working team continuously and effectively controls and undertakes severe sanctions towards those who violate basic employment rights, to prepare reports which will timely and regularly inform the Commission for combatting gray economy on the achieved effects of their activities, in order to pay special and full attention to this issue. It was also agreed to continue the work on harmonization of the text of the Law on Salaries of Civil Servants and State Employees within a special Working group, comprising of the Government and Unions' representatives, who will complete the draft Law and submit it to the Social council, and then to the Government for consideration and adoption. A part of the meeting was also dedicated to demands given by the Trade Unions to increase salaries and change the salary policy in the public sector, in the context of creating a more equitable system through the aforementioned Law on Salaries of Civil Servants and State Employees, as well as through internal and budgetary reserves. The parties agreed on the following: the issue of salaries policy must be the focus of all line ministries, given the fact that the budget consumers act as policymakers in the line ministry they are responsible for, and they adjust the scope of rights arising from regulations with the available budgets, while the Ministry of Finance acts as a servicing authority in the overall procedure of state budgeting, with an obligation to introduce limitations and fiscal rules defined by the valid regulation to budget users.



29/07/2014 – Successful cooperation between Hypo Alpe-Adria-Bank and the Ministry of Finance

Mr. Radoje Žugić, PhD, the Minister of Finance met the representatives of Hypo Alpe-Adria-Bank AD Podgorica, Mr. Christoph Schoen, Chief Executive Officer and Mr. Željko Djukanovic, Executive director of risk management operations. Representatives of Hypo Alpe-Adria-Bank informed Minister Žugić on their financial results of operations in the first half of the current year, which are positive and indicate stronger recovery and a successful perspective for this bank in the forthcoming period. Minister Žugić commended the results of Hypo Alpe-Adria-Bank, especially in the field of risk management and reducing the level of non-performing loans (NPL), also known as “bad loans“ and pointed out that the Ministry of Finance and the Government of Montenegro are committed to activities aimed at supporting further recovery of the banking sector and strengthening legal safety in the financial market. In this part, Minister Žugić confirmed the forthcoming adoption of the Law on Consensual Financial Restructuring of debts to financial institutions and expressed expectations on its full application by the banking sector, respecting the principle of non-selectivity. Representatives of Hypo Alpe-Adria-Group expressed a positive attitude toward the new legislative solutions in this segment and pointed out that they will contribute to their implementation, which will result in increased quality of the banks' credit portfolio. It was jointly concluded that we have a very good cooperation which should be furtherly enriched by new contents in the future.



18/09/2014 – Chinese EXIM Bank has approved funding for the highway construction, final confirmation from the Government of PR China is expected

Mr. Radoje Žugić, PhD, the Minister of Finance and Mr. Ivan Brajovic, Minister of Transport and Maritime with their associates met with the representatives of Chinese EXIM Bank and Companies CRBC and Poly Technologies. The meeting was attended by the representatives of the Embassy of the People's Republic of China in Montenegro, Li Hong, as well as the representatives of “Crnogorska plovidba“. The topics of the meeting were related to the preparations for the start up of highway project implementation and cooperation in the field of reconstruction Montenegrin fleet in cooperation with the company Poly Technologies, for the purpose of “Crnogorska plovidba“ and “Barska plovidba“. The attendees agreed on the positive assessment of the cooperation between Montenegro and the People's Republic of China regarding the implementation of the said projects and confirmed that both parties are willing to furtherly intensify their cooperation. The meeting also discussed the status of the construction project of priority section of the highway. Representatives of the EXIM Bank confirmed completion of the internal procedures of approving the arrangement, the bank accepted to finance the project, and the documentation was submitted to the Ministry of Commerce of PR China for final approval. After that, the draft Loan agreement would be sent to the Montenegrin party, thus creating conditions for the conclusion of the Loan agreement, parliamentary procedure and commencement of work by the end of this year. It was conclu-

ded that the reported progress proved successful cooperation and confirmed commitment of both sides to the implementation of this most important infrastructure project, which will bring numerous benefits to Montenegro, not only in terms of finance, infrastructure, safety and integration, but also as a contribution to valorization of all the various Montenegrin natural resources, and will have direct and indirect impacts on gross domestic product. As for the cooperation in the field of construction and exploitation of ships, the representatives of “Crnogorska plovidba“ expressed their satisfaction with the cooperation with Poly Technologies, expecting that the complete project would be successfully implemented and that the company would continue to regularly fulfil obligations to the Chinese bank.



23/09/2014 – Turkish Gulsen interested in implementation of infrastructural projects in Montenegro

Mr. Radoje Žugić, PhD, the Minister of Finance and Mr. Ivan Brajovic, Minister of Transport and Maritime Affairs with their associates met with the representatives of Turkish Gulsen company, Mr. Mek Akov and Mr. Nizanzetin Derbil. The meeting has been an opportunity to consider the possibility of future cooperation in the implementation of infrastructure projects, as well as the models of their funding. In this regard, Minister Žugić has stated the necessity of the Montenegrin Government to direct its support towards the projects of accentuated development component in this moment, which at the same time do not require the issuance of Government guarantees, i.e. do not affect the

increase in public debt. Gulsan company representatives confirmed their strong interest in establishing cooperation with Montenegro, and both parties agreed to intensify negotiations in the following period in order to find solutions regarding mutual cooperation acceptable to both sides.



24/09/2014 – Discussed possibilities for Montenegro to join Europe Re system

Mr. Radoje Žugić, PhD, the Minister of Finance and his associates met the representatives of the World Bank, Mr. Raymod Bourdeaux and Mr. Joaquin Toro, responsible for implementation of the project “South East and Central Europe Catastrophe Risk Insurance Facility (SECE CRIF).“ The subject of the meeting was related to the continued dialogue on the possibility for Montenegro to join the above Project. The insurance company EuropaeRe, situated in Switzerland, has already been founded within the mentioned mechanism, with the task to establish a regional system of insurance against natural disasters, implemented with the support of the World Bank. Joining the mechanism, i.e. the company Europe Re, would require a certain State participation in the equity of the company itself. The project has been designed with the intention to provide complete financial protection or insurance against natural disasters to farmers, entrepreneurs, homeowners, states, as well as all interested entities. The implementation of this type of insurance would require the active participation of national insurance companies, which would be used to place products into the market, with the possibility of re-insurance. Intensified communication was agreed in the forthcoming period in order to examine all aspects of potential cooperation and de-

fine the duties, which will be imposed on all the partners in case of joining the Project. In this regard, it is necessary to consider issues related to the manner of state participation in the company, the interest of domestic insurance companies and to examine the legislation and regulatory framework, which would create the conditions for the implementation of the Project in Montenegro.

25/09/2014 – Discussion about incentives for the development of metal processing

Mr. Radoje Žugić, PhD, the Minister of Finance and his associates met the representatives of the Japanese company Daido Metal Group, Mr. Yoshihiro Sano, Mr. Yasushi Shibuy and Mr. Filip Moštrokol, Deputy Executive Director and representative of the company in Kotor. The subject of the meeting has been related to the consideration of the potential expansion of cooperation with Japanese partners in the field of metal processing, which has so far proved to be very successful. Minister Žugić has emphasized that in the next period, the Government of Montenegro is determined to primarily stimulate those aspects of development that will have a direct positive impact on economic growth, by creating a stable and predictable business environment. In addition to tourism, agriculture, energy and infrastructure, metal processing is another industry that could help the valorization of the vast resources available in Montenegro, and not having been properly utilized. In this regard, the Government is willing to offer certain economic preferences for investors, thus encouraging development of metal processing industry and supporting economic recovery. The company Daido Metal Group has been recognized as a serious partner and the company that has been successfully operating in our country for years, and as it has been concluded, the continued cooperation would be mutually satisfactory.

Marija Goranović
Department for Public Relations and Free Access
to Information



Durja Nelević

Activities planned for Financing through IPA Component IV

The human resources development component (IPA Component IV) shall contribute to strengthening economic and social cohesion as well as to the priorities of the European Employment Strategy in the field of employment, education and training and social inclusion.

Each IPA beneficiary country has economic and social specificities which affects the identification of priority areas for use of funds within IPA Component IV.

Activities eligible for use of funds within IPA Component IV are the following:

- increase adaptability of workers, enterprises and entrepreneurs, with a view to improving the anticipation and positive management of economic change, in particular by promoting: lifelong learning and increased investment in human resources by enter-

prises and workers and design and dissemination of innovative and more productive forms of work organisation;

- decrease of unemployment rate, in particular long term and youth unemployment, especially with the modernisation and strengthening of labour market institutions and implementing active and preventive measures ensuring early identification of needs;
- reinforce social inclusion and integration of people at a disadvantage, and combat all forms of discrimination in the labour market

- expand and enhance investment in human capital, in particular by promoting reforms in education, development of human potential in research and innovation;

- strengthening institutional capacity and the efficiency of public administrations and public services at national, regional and local level and, where relevant, the social partners and non-governmental organisati-

ons with a view to reforms and good governance in the employment, education and training, as well as social fields.

The Government of Montenegro has agreed with the European Commission the areas and activities planned for implementation, which will be financed by IPA Component IV resources, by adoption of Operational Programme for Human Resources Development 2012-2013. The Operational Programme for Human Resources Development 2012-2013 has been officially adopted by the European Commission on 18 October 2012 (Decision EC no. C(2012)7202).

Operational Programme contains:

- Assessment of medium term needs and objectives;
- Overview of consultations of relevant socio-economic partners and, where applicable, of representatives of civil society;
- Description of chosen strategic priorities, measures and their specific goals;
- Defined end-users;
- Financial table providing income for each year covered by multi-annual indicative financial frameworks, for each priority axis and indicatively, for each measure, and the total amount of EU contribution and national income, by marking other external contributions where applicable;
- Proposed indicators and modalities for evaluation and monitoring, including indicative activities and assessment planning;
- Description of relevant structures and bodies for management and control of operational programme

Priorities and measures defined by the Operational Programme of Human Resources Development (2012-2013)

Priority Axis 1: Efficient and inclusive active employment policy measures

The aim of this priority is to increase the effectiveness of active labour market policy in order to improve employability and remain employed.

Starting from the high concentration of all measures in several key institutions, as well as the simultaneous implementation of measures on all three priority axes, the implementation of this priority will be done through the implementation of measure Support to implementation of the most effective labour market measures on the quality of the labour force and employment. The aim of this measure is to increase the employability of unemployed and inactive persons, particularly long-term unemployed women and young persons.

Projects that will be developed within this measure will focus on optimization of active employment measures in terms of focusing on the target groups and on training of employees within Employment Agency of Montenegro, which will be focused on improvement of their skills for development, assessment, implementation, monitoring, evaluation of active employment measures.

Eligible applicants (applicants of project proposals) are:

- Employers;
- licensed training organizers;
- Non-governmental organizations/associations;
- Municipalities;
- Chamber of commerce;
- Social partners.

Priority Axis 2: Enhancing Skills, Knowledge and Competences for Employability and Competitiveness

The aim of this priority is to improve the system of education and research that would achieve better linkages with economy.

The implementation of this priority will be realized through two measures that will support the improvement of conditions for development of qualifications in vocational education and training and innovative capacities in higher education, research and economy.

Support the improvement of conditions for the de-



velopment of qualifications in vocational education and training measure aims to modernize educational programs for all levels of professional education that will suit the real needs of the labour market and facilitate their implementation and strengthening of professional skills of teachers in vocational education and training.

The aim of activities to be founded through this measure will be to support the modernization of educational programs for all levels of professional education, equipping schools for vocational education and strengthening the professional skills of teachers in vocational education and training.

Activities planned under this measure are intended for the following target groups:

- Centre for Vocational Education;
- Students;
- Teachers;
- Schools and other organizers of education;
- Unemployed persons and employees;
- Social partners (unions and employers).

Support the advancement of innovative capacities of higher education, research and economy measure aims to develop skills for innovations of students, professors and researchers, and to exchange knowledge and develop skills for innovations in enterprises.

Activities which may be founded through this measure are aimed to support the development of skills for innovations of students, professors and researchers, and to support exchange of knowledge and development of skills for innovations in enterprises.

Target groups of this measure are:

- Professors;
- Researchers;
- Students;
- Employees;
- Employers.

Priority Axis 3: Enhancing Social Inclusion

The aim of this priority is to increase the access to the labour market to socially disadvantaged minorities through increased employability.

This priority will be implemented through the Support the greater access to the labour market by disabled people and RAE population measure. The measure aims at improving the social inclusion of persons with disabilities and RAE population, who are disadvantaged, a better integration in the labour market.

Target groups:

- Disabled persons
- RAE population.

Priority Axis 4: Technical Assistance

The priority aims to support during the implementation of Operational Programme of Human Resources Development 2012-2013, that is support to Operating structure in implementation of Operational Programme.

The priority will be implemented through two measures:

- Support to the development project pipeline measure aims to prepare all activities and measures and to ensure a sufficient number of "mature projects".
- Support to Operating structure in implementation of Operational Programme measure aims to ensure efficient and effective management of Operational Programme and to build institutional capacities of Operating structure for management and use of IPA funds for Component IV.

Bodies responsible for implementing the Operational Programme

- Key competent bodies (persons) and structures (bodies) are appointed and established by the documents adopted by the Government of Montenegro:
- Competent accrediting officer (CAO);
- National IPA Coordinator (NIPAC);
- Strategic Coordinator for Components of Regional Development and Human Resources (SC);
- National Authorising Officer (NAO);

- National Fund (NF);
- Head of Operating Structure (HOS) for IPA IV OP Regional Development;
- Operating Structure (OS) for IPA IV OP Regional Development;
- Audit body.

General role in implementation of the program has the Operating Structure consisting of the following:

- The Ministry of Labour and Social Welfare, as Body Responsible for Operational Programme (BROP) and Body Responsible for Priority/ Measure (BRPM) in field of labour market, employment and social inclusion;
- Ministry of Education, as Body Responsible for Priority/ Measure (BRPM) in field of education;
- Ministry of Science, Body Responsible for Priority/ Measure (BRPM) in field of research and innovations;
- Ministry of Finance, Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), as implementing body.

General competences of the structure are preparation of Operational Programme, monitoring of programme implementation, preparation of sectorial reports and final reports on implementation, organization of tender procedures, ensuring that the National Fund and the National Authorizing Officer receive all necessary information on the procedures and verifications carried out in relation to expenditure; Carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct.

Dunja Nelević,
Head of the National Fund
within the Directorate for State Treasury



Tamara Marković

Strategic projects within IPA Adriatic Cross-Border Cooperation Programme

INTRODUCTION

Through the Instrument of Pre-Accession Assistance (IPA), in the framework of financial perspective 2007-2013, Montenegro is participating in the IPA Adriatic Cross-Border Cooperation Programme. This programme covers the territories of eight countries located in the Adriatic region, four of them being EU members (Italy, Greece, Slovenia and Croatia), and other four countries are candidates and potential candidates for membership (Montenegro, Serbia, Albania, Bosnia and Herzegovina).

The IPA Adriatic Cross-Border Cooperation Programme is the result of joint work and cooperation carried out by the relevant participating countries in the Adriatic area. Taking into consideration geographical, cultural, historical, as well as social and economic connection of the relevant participating countries, the Adriatic area has been taken as an area of significance for implementation of projects.

Priorities and Measures of the call for Strategic projects and features of Strategic projects within IPA Adriatic Cross-Border Cooperation Programme

The call for submission of projects' proposals, within which current strategic projects of IPA Adriatic Cross-Border Cooperation Programme are being implemented now, covered in total eight strategic subjects, within three priorities, as follows:

Priority 1. Economic, Social and Institutional Cooperation:

Subject: Innovation as a key to economic development in the Adriatic region

Priority 2. Natural and cultural resources and risk prevention:

Subject: Improvement of coastal environment, environment of river banks and deltas, through joint management in the Adriatic region

Subject: Protection of the Adriatic sea against pollution by ballast water

Subject: Integrated and sustainable management of drinking water resources in the Adriatic area

Subject: Protection and prevention of natural disasters in the Adriatic area with special emphasis on risk of fire

Subject: Tourism, with special emphasis on sustainable management and marketing of natural and cultural heritage in the Adriatic area

Priority 3. Accessibility and Networks

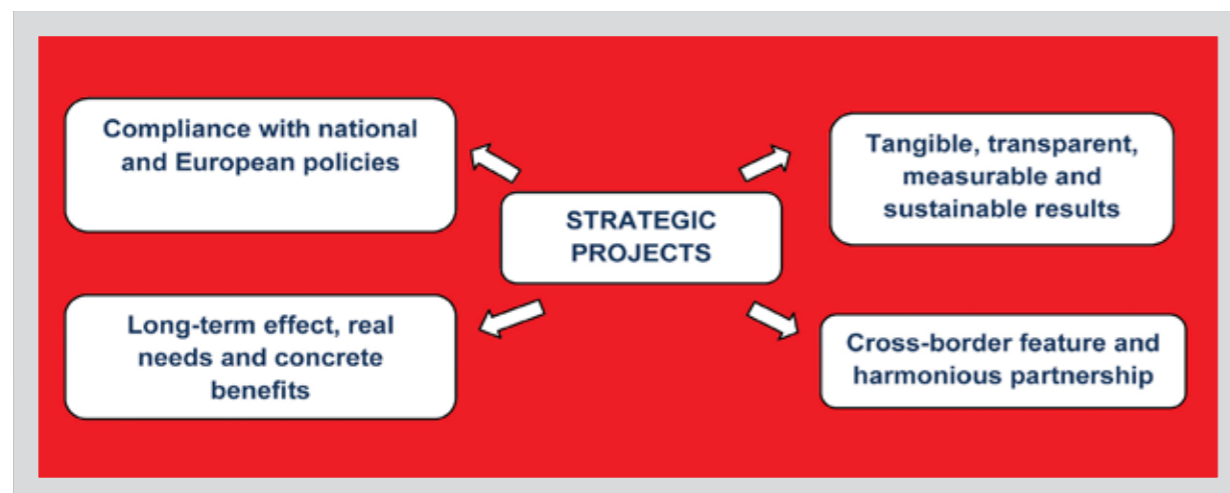
Subject: Promotion and joint models for sustainable services in the traffic sector, with the purpose to improve network in the Adriatic region, including improvement of port systems, airport systems and related services

Subject: Upgrade of integrated plans with objective to track multi-modality solutions, with special emphasis on development of relations between coastal systems and systems in the hinterland of the Adriatic sea, including improvement of port systems, airport systems and related services

As illustrated in Table 1, the Montenegrin institutions participate in projects addressing all three priorities. Out of total eleven approved projects, five projects address the priority 1, while priorities 2 and 3 are addressed each by three projects.

Before presenting strategic projects in which Montenegrin users are participating, some of their basic features will be illustrated here in short.

Picture 1. Features of strategic projects



One of the features of strategic projects are tangible and visible results, implying that a project has to generate visible and measurable results and concrete benefits for related territory and group which it addresses. Achieved results must be sustainable, which means that strategic projects define measures and strategies to ensure financial, institutional and political sustainability after completion of the project.

What is essential for each strategic project is to reach a significant and long-lasting effect on the concerned area of cooperation, which implies greater geographical coverage, highest possible involvement of appropriate partners from the participating countries, as well as permanent collaboration between partners and local interested parties, all with the objective to maintain and spread benefits generated by the project. To achieve planned objectives of the project and realisation of envisaged results, which will produce concrete benefits for the target group, very high importance has a harmonious partnership, which implies a close connection between objectives, themes, technical, administrative and institutional capacities of the partner, enabling a successful joint designing, implementation and financing of activities.

Strategic projects should always deal with real needs of involved territories, while simultaneously being consistent with their local, regional, national and European policies. They have a cross-border character regarding that they, through their joint activities in the area of selected strategic themes, promote and strengthen collaboration between partner institutions, and boost economic integration between EU member states and candidate countries and potential candidates.

Implementation of strategic projects by Montenegrin users

Within the call for submission of projects' proposals for strategic projects within IPA Adriatic Cross-Border Cooperation Programme for financing, eleven projects were approved in whose implementation fourteen Montenegrin institutions participate in the capacity of partner (state institution, state enterprises, scientific and educational institutions etc.). Total value of projects following this call is around EUR 73,8 million, of which around EUR 4,2 million is allocated for the Montenegrin institutions, that is 5,6% of the budget.¹

Implementation of strategic projects is underway, and their completion is planned until the end of March 2016. Below is given a short overview of approved projects and a list of the Montenegrin partners, which participate in their implementation.

¹ - <http://www.mvpei.gov.me/rubrike/GD-za-koordinaciju-programa-pomoci-EU/Aktuelno/?pagerIndex=2>

Table 1. Strategic projects in which Montenegrin institutions are participating

Strategic theme (priority, measure)	Acronym Project title	Montenegrin partner
1.1	SMART INNO - Smart network and cluster of sustainable innovations	Directorate for development of small and medium enterprises
1.1	PACINNO - Platform for trans academic cooperation and innovation	Faculty of Economy Podgorica
1.1	ADRIATInn - Adriatic network for development of advanced research and innovation	Economic Chamber of Montenegro
		Faculty of Electrician Engineering
		Directorate for development of small and medium enterprises
2.1	BALMAS - Ballast water management system for Adriatic sea protection	University of Montenegro Maritime Safety Department of Montenegro
2.1	DeFishGear - System of management of derelict fishing gear in the Adriatic region	Institute for Marine Biology
2.2	HOLISTIC - Overall protection of the Adriatic area against forest fire	Montenegrin Academy of Sciences and Arts (CANU)
2.2	DRINKADRIA - Network for supply of the Adriatic region with drinking water	Public enterprise „Vodovod i kanalizacija Nikšić“
2.2	HERA - Sustainable development of tourism of the Adriatic cultural heritage	Ministry of Sustainable Development and Tourism
3.1	EA SEA-WAY - European - Adriatic sea way	AD Port of Bar
3.2	EASY CONNECTING - Adriatic maritime transportation	Ministry of Traffic and Tourism
3.2	AdriHealthMob - Adriatic model of sustainable mobility in the health sector	Ministry of Health

Implementation of the aforementioned projects is of high importance, not only for upgrade of capacities of implementing institutions, but for the Adriatic region in general, considering that the joint approach and focusing of all participating countries acting as partners on joint objectives, which are achieved through implementation of approved projects, directly influence on strengthening of sustainable development of the overall Adriatic region, through the following²:

- Facilitating research and innovations, with the aim to improve competitiveness and better development of the Adriatic region through economic, social and institutional cooperation;

- Promotion, improvement and protection of natural and cultural resources, through the joint management of technological and natural risks with the objective to, not only protect and facilitate these resources, but also to jointly maximise their use;

- Strengthening and integration of existing infrastructure network and development of traffic, informational and communications services, which will not only contribute to upgrade of the economy of the overall Adriatic region, but also facilitate exchange outside it.

Below are given basic objectives which should be reached through implementation of currently active strategic projects, which are implemented by the Montenegrin institutions in cooperation with participating countries.

Table 2. Objectives of strategic projects in which Montenegrin institutions are participating³

Project Akronym	Objectives of projects
PACINNO	Facilitate research and innovation capacities, and strengthen innovation of small and medium enterprises through joint activities for increase of competitiveness of the Adriatic region
SMART INNO	Establishing „smart“ networking system, for monitoring and fostering research and innovative capacities of small and medium enterprises of the Adriatic region with the aim to increase competitiveness and their sustainable development through strengthening of investments
ADRIATInn	Facilitate research and innovative capacities, and support of innovation in the sector of small and medium enterprises, through strengthening of sustainable, cross-border eco-system for small and medium enterprises in bio-economy and energy sector
BALMAS	Creation of joint, cross-border system with the objective to avoid harmful risks for people and environment, through control and management of ships ballast water and sediments
DeFishGear	Drawing of the strategy for reduction of pollution by solid waste at the Adriatic sea
HOLISTIC	Prevention and reduction of natural risks with special focus on uncontrolled forest fire, through improvement, promotion and strengthening of institutional capacities in implementation of policies, procedures and coordination of mechanism
DRINKADRIA	Optimisation of integrated management of water supply with special emphasis on long-term needs for water and efficiency of the system from the angle of climatic changes and socio-economic factors of the Adriatic region
HERA	Development of the joint cross-border platform of the Adriatic region for management and promotion of development of sustainable development, which is based on the joint cultural heritage
EA SEA-WAY	Improvement of accessibility and mobility of passengers in the Adriatic and the hinterland, through development of new cross-border, sustainable and integrated transportation services and through improvement of necessary physical infrastructure
EASY CONNECTING	Defining and testing of the joint IPA initiative of innovative solutions, through connecting representatives of all levels of the public and private sector
AdriHealthMob	Development of cross border model of sustainable and efficient transportation services with the aim to improve accessibility of health services

² - http://www.adriaticipacbc.org/download/PROGRAMME_DOCUMENTS/IPA_OP_amended_20112013.pdf

³ - Information on objectives of strategic projects are available in the Application of project forms, as well as in the Management information System, developed at the project level.

In order to implement strategic projects according to the plan and within envisaged timeframes and for the project to achieve its objective and purpose, of high importance is an efficient reporting system on realised results, then, an efficient control system of spent budget, as well as compensation procedure of recorded amounts of expenditure. Related to that, the obligation of the First Level Control Office is to conduct, within deadlines set by programme rules, all administrative checks and on situ checks, in order to evaluate justification of expenditures reported by the Montenegrin users of the projects and to issue Declaration on expenditure approval, on the basis of which the users can request refundation of finances.

Implementation of strategic projects has started at the beginning of the current year and the First Level Control Office received in total twenty one progress reports by the Montenegrin institutions, participating in implementation of the aforementioned strategic projects. Submitted reports are reviewed within envisaged deadlines and Declaration on acceptance of expenditures have been issued. On the basis of recently reviewed reports of institutions that submitted them to the First Level Control Office, we can conclude that the initial activities of certain projects, envisaged by the plan of that project, were successfully implemented. Implementation of activities, which are intended to reach planned results, consistent with the aforementioned objectives, are expected during 2015, when is planned the largest consumption of resources which are allocated for implementation of strategic projects.

CONCLUSION

A successful cooperation and results achieved so far through joint implementation of projects by participating countries presents a good ground for the future collaboration of participating countries, as well as for the further development of the Adriatic region. Focusing on reaching joint objectives, which are realised by implementation of approved projects, contribute to stronger and better territorial, economic and institutional cooperation, which undoubtedly lead to creation of new and useful forms of integration and relations between countries of the Adriatic region.

Experience that the Montenegrin institutions gain through cooperation with the participating countries and by actively participating in implementation of projects is of great importance for the future use of resources from structural funds, which will be accessible to Montenegro after becoming a full EU member. It is certain that the gained experience will facilitate the future implementation of projects financed by EU funds and thereby ensure more prolific and efficient use of resources which will be at the disposal of Montenegro.

Ms Tamara Marković, MSc
Financial Controller for IPA Adriatic Cross-Border Cooperation Programme
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)



Marija Radenović

„Be Responsible” Campaign Wins Second Prize of the Open Government Partnership

The ‘Be responsible. It is up to you. Zero grey economy’ campaign, jointly developed by the Government of Montenegro and the Faculty of Electrical Engineering in Podgorica, with significant support from the United Nations Development Programme (UNDP), the British Embassy in Montenegro and NGOs, won the second prize of the Open Government Partnership’s international initiative, competing with the best projects from 33 countries that promote citizen involvement in implementing public policy.

Open Government Partnership is a multilateral initiative aiming to secure concrete commitments from the governments to promote transparency, strengthen the role of the public in the decision-making process, fight corruption and harness new technologies to develop democracy. Montenegro is one of the first countries to have joined this initiative, which today brings together 64 countries of the world.

At the awarding ceremony held on September 24, 2014 in New York, on the sidelines of the UN Gene-

ral Assembly, the prestigious award was granted to the Montenegrin campaign for its contribution to the promotion of cooperation between civil society and the public sector and the active involvement of citizens in implementing public policy.

First Prize at the Open Government Awards went to the project from Denmark, while third ranked project came from the Philippines. Among the top 10 were also projects from Italy, the Netherlands, Mexico, United Kingdom, Peru, the United States and France.

According to the President of Montenegro, Mr. Filip Vujanovic, who received the award in New York, this project would not have been possible without advanced academic knowledge of the representatives of the Faculty of Electrical Engineering in Podgorica, without the significant support of UNDP and the British Embassy in Podgorica, the dedicated work of the inspection services, and the vision and leadership of the Ministry of Finance.



Ružica Bajčeta

Decree on Procedures of Reconciliation of Financial Obligations in Commercial Transactions

Be Responsible campaign was launched in December 2013, with an invitation to citizens to report the failure in issuing fiscal receipts, the unreported employment or the violation of consumer rights, and thereby help the country fight the informal economy. Six months after the launch, the project has been expanded to allow citizens report another type of underground economy - irregularities in the bathing areas relating to the issue of the receipts, work without authorization and failure to free half of a beach from the beach equipment.

Previously, the Government of Montenegro adopted the decision to invest half the revenues from any fines resulting from citizens' reports in the course of the campaign, in socially useful projects, proposed by the citizens themselves. The campaign is aimed at raising awareness about the informal economy having a negative impact on the state budget, and therefore citizens who are the direct beneficiaries of the budget. The same is an additional 'tool' in the fight against the informal economy, to which the Ministry of Finance is absolutely devoted and which, during the previous two years, had excellent results and contributed to the creation of fairer and

better business conditions for all responsible enterprises in Montenegro.

The present results of the campaign confirm the readiness and the responsibility of citizens to contribute to achieving one of the key objectives of the Ministry of Finance, through their active involvement - improving fiscal discipline of all taxpayers.

In addition to prestigious prize from New York, this campaign was also presented with two major international awards in the past. At the Summit of the Open Government Partnership last fall in London, the project was declared one of the seven best examples of open governance, while in June this year the U.S. National Association of Government Communicators awarded public campaign 'Be Responsible' with the first prize in the category of Mobile communications within the Blue Pencil & Gold Screen Awards competition.

Marija Radenovic,
Head of the Department of Public Relations and
Free Access to Information

In order to improve the liquidity of the economic system, increase the transparency in business and timely collect receivables in the public sector and between economic entities, the Parliament of Montenegro adopted the Law on the Terms of Settlement of Financial Obligations ("Official Gazette of Montenegro", No. 28/14), which has been applying since 12 July 2014.

This law, among other things, regulates the matters governed by the EU Directive 2011/7 of 16th February 2011 on the Prevention of Late Payments in Commercial Transactions, which was adopted in order to ensure the proper functioning of the internal market and thus boost the competitiveness of the economy (especially small and medium-sized enterprises).

Further, the above-mentioned law defines the terms of settlement of financial obligations in all

contractual transactions between economic entities, and between the public sector and economic entities related to the delivery of goods and/or services for a fee, including investment (construction) works (commercial transactions).

Contractual payment obligations in commercial transactions for economic entities, i.e. the public sector, are due for payment within 30 days after the occurrence of debtor-creditor relationship. Contract of debtor-creditor relationships can establish other term, but it cannot be longer than 60 days. Also, the agreement on commercial transactions, according to draft legislation, may provide a period longer than 60 days, with respect to the conditions prescribed by law.

In addition, the provisions of the aforementioned Law stipulates the obligation of the enumeration of all outstanding and unpaid obligations, as well



MA Žana Jovanović

as the development of a plan for their settlement, which must be submitted to the administrative body responsible for assessment, collection and control of taxes, within the prescribed period.

Provisions of the said Law provide that the methods and procedures for control of the tax authority in commercial transactions between economic entities or between economic entities and public sector, in the case of a failure to fulfill financial obligations, shall be prescribed by the Government of Montenegro.

In this regard, the Government of Montenegro adopted, on 31st July 2014, the Regulation on the procedure of exercising control of the settlement of financial obligations in commercial transactions ("Official Gazette of Montenegro", No. 36/14), which has been in force since 22nd August 2014.

In the case of a failure to fulfill financial obligations in commercial transactions, economic entity, which is a creditor in the debtor-creditor relationships, submit notice to the relevant tax authority. Present regulation provides that the notice is submitted in writing and specifically contains information on:

- Creditor (name, address, taxpayer identification number (TIN), identification number, etc..)
- A commercial transaction (identification of the

parties, the subject of the contract, the amount of contractual obligations, the number and date of the contract, the date and amount of the invoice or other request for payment, etc..)

- The terms of settlement of financial obligations in commercial transactions, in accordance with the Law (the date of receipt of the invoice or other request for payment, the date on which the creditor has fulfilled its obligation, the date of expiry of the case review responsibilities, etc..)
- The date of maturities of financial obligations;
- Specification of periodical payments, if periodical payments are agreed in commercial transactions.

Also, with the notice, the creditor shall submit a certified copy of proof of the existence of the another ground for the creation of a financial obligation, invoices or other demands for payment, and is responsible for the accuracy and credibility.

The tax authority initiate misdemeanor proceedings before the competent authority after the receipt of the final decision on enforcement of financial obligations, or notice from the entity which is a creditor of monetary claims.

Ružica Bajčeta
Independent consultant I in
Directorate for Tax and Customs System

IPA PORTAL

The use and self-management of European Union pre-accession assistance funds requires commitment and determination of all the bodies and individuals involved in this process. In this regard, Montenegro has taken significant steps on its way to establish self-management of the funds under the Instrument for Pre-Accession Assistance (IPA funds) in order to set up an efficient system of managing the funds, while the increasing number of tasks and obligations in the forthcoming period is considered an additional challenge for the future progress and improvement.

Given that the information technology is an integral part of our everyday life and routine, over the last period, along with the establishment of self-management of IPA funds, we have been working on development of an adequate and efficient information system, primarily intended for the management of the IPA documentation. The so-called IPA portal has been created with the purpose of ensuring appropriate exchange of documentation, as well as its availability to all the persons and bodies under the IPA programmes.

Basically, the purpose of the IPA portal is sharing documents (Manuals of procedures, the relevant nati-

onal and EU documents, notes, memos, etc.) and processing back-up thereof. In fact, the main idea is to set up an internet portal with a certain degree of security, which would allow free access to the relevant documents for all the employees within IPA, while a certain number of designated, authorized persons in the structure would have a permit to modify, i.e. manage or update the final versions of documents.

In order to develop the IPA Portal, the relevant bodies, primarily the National Fund and the Ministry of Finance - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), as well as other bodies involved in the system of self-management of IPA funds, engaged the company MONTEX-ELEKTRONIKA Ltd. from Podgorica.

The process of developing the IPA Portal was completed by the procurement of the server, its installation, start up process and its connection with the relevant Government information systems, along with the intensified cooperation among MONTEX-ELEKTRONIKA, the Ministry for Information Society and Telecommunications and the representatives of the bodies involved in the IPA. Conceptual solution, i.e. the Portal homepage design, is presented below.



Antoaneta Krivokapić

Law Amending the Law on used Motor Vehicles, Vessels and Aircrafts

General Features of the Portal

About 150 civil servants from all the state bodies, who participate in the system for self-management of IPA funds, will have the access to the IPA portal.

The portal has been designed in such a way that all the employees within IPA have access to the relevant documents, such as Manuals on procedures, the Regulation of decentralized management, national and EU documents, IPA Regulations and similar. In addition to the possibility of accessing the documents and storing them directly from the portal, this Portal also contains a part intended for keeping the IPA officers informed. There are notifications and the so-called Forum, whose main goal is timely exchange of information and news in the fastest possible way. Furthermore, the Portal represents an electronic archive, meaning that each IPA body within the portal is going to have its documents archived, which is also a kind of a back-up process. The transparency will be ensured this way and document sharing within a particular body will be facilitated.

Having in mind that the Montenegrin state administration bodies use the Government Information Network, which the IPA portal has just been connected to, it should be stressed that accessing the portal will be possible not only within the domain, i.e. within

the Government network and official computers, but also via private computers, from home, from abroad, etc.. This will have a significant impact on efficiency and improved quality of work, taking into account the availability of necessary documents at any time and any place.

A contemporary society depends on information systems. Consequently, the business world of the XXI century is changing the operational concept and appreciation of work, since the competence in information technologies and the existence of adequate information systems are major preconditions for the improvement of knowledge, skills and capacities. IPA Portal, as a step forward into the extensive application of information technology, has been created to meet the needs of the modern age and the communication revolution.

Ms Žana Jovanović, MA
Independent Advisor II
Directorate for Finance and Contracting of the EU
Assistance Funds (CFCU)

In early 2003, the Law on Sales of Used Motor Vehicles, Vessels and Aircrafts ("Official Gazette of RM" No. 55/03), which introduced the obligation to pay sales tax in cases of purchase or acquisition of used motor vehicles, vessels and aircrafts by individuals and legal entities. The sales tax is, according to this law, payable when the supply or acquisition of these products is not subjected to value added tax, and a payer of this tax is the buyer or acquirer of these products.

The tax base of the sales tax on used motor vehicles, vessels and aircrafts is the market value of the product at the time of the occurrence of tax liability, or at the time of purchase or acquisition of these products. The market value of these products is determined by the tax authority according to documents on the acquisition, and if it is determined that it is

not real value, it shall be determined on the basis of the assessment.

Sales tax on listed products shall be paid at the rate of 5% of their market value within 15 days from the date of the occurrence of tax liability. Tax exemptions are extremely reduced and are related to inheritance and gifts in the first line of succession. The said law stipulates fines for legal persons (from 550 to 11,000 euros), the responsible person of the legal entity, tax intermediaries and individual (55 to 550 euros) and entrepreneurs (from 150 to 6,000 euros), for not reporting the newly occurred tax liability or not paying the specified tax amount within the prescribed period.

The main reasons for amending the existing Law is conditioned by the need for closer definition of the



Mladen Vlahović

New Accounting Regulation in EU – main characteristics

used motor vehicle, vessel and aircraft, bearing in mind that the tax treatment of the above mentioned products in practice caused a lot of doubt on whether the taxation of these types of transactions should be conducted pursuant to this Law or the Law on Value Added Tax.

In order to eliminate these concerns, and clearly demarcate the obligation to pay VAT in this part, the Law on Amendments to the Law on Sale of Used Motor Vehicles, Vessels and Aircrafts (“Official Gazette of Montenegro”, 34/14), which defines the terms used motor vehicle, vessel and aircraft as a passenger or any other motor vehicle, boat or aircraft that is at least once registered in Montenegro, in accordance with special law and for which the seller or transferor was not entitled to deduct input VAT on purchases.

Determination regarding payment of sales tax (at a rate of 5%), is caused by the circumstance that the vehicle, vessel, aircraft or spacecraft was at least once registered in Montenegro, and for which the seller or transferor is not entitled to deduct input VAT during the acquisition.

On the other hand, sales of the products, which, during the acquisition, exercised the right to deduct input VAT, would be taxed under the provisions of the Law on Value Added Tax (at the rate of 19%).

Precise definition of the object of taxation creates the conditions for a more efficient administrative operation of the tax authorities in determining the tax liability on the sale of used motor vehicles, vessels and aircrafts, and hence better servicing of taxpayers.

Also, according to the commitment of the Government of Montenegro to combat the gray economy, the above amendments revised the penal policy and increased amounts of fines if taxpayers do not report the tax liability or do not pay the tax specified within the prescribed period, as follows: the legal entity (from 550 to 11,000 euros), the responsible person of the legal entity, tax intermediaries and individuals (55 to 550 euros), and entrepreneurs (from 150 to 6,000 euros). This will also create the conditions for greater fiscal discipline of taxpayers and regular settlement of liabilities, which will be subsequently reflected in the increase of public revenues.

Antoaneta Krivokapic
Independent Consultant in
Direktorate for Tax and Customs Systems

One of the last steps including measures for modernization of the accounting legal system of EU was the adoption of the Directive 2013/34/EU of the European Parliament and Council of June the 26th 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC 1. Thus, after more than 30 years, the outdated accounting directives have been replaced.

Main characteristics of the Directive 2013/34/EU

The purpose of accounting statements is to provide information about the financial position of the company, which would be useful to a wide range of stakeholders in their decision making. Therefore, accounting information must be understandable, reliable and comparable. The information and data provided

1 - <http://eur-lex.europa.eu/legal-content/HR/TXT/?qid=1412344366357&uri=CELEX:32013L0034>

by the accounting statements must be prepared on the basis of fundamental principles (rules) of accounting.

Annual financial statements pursue various objectives and do not merely provide information for investors in capital markets but also give an account of past transactions and enhance corporate governance.

One of the aims of the Directive is also to establish an appropriate balance between the interests of external users of accounting statements and the interests of companies that don't want to be unnecessarily burdened with requirements in purpose of reporting.

Annual accounting statements therefore must be thoughtfully prepared and must true and fair present the assets and liabilities, financial position and business outcome of company. Accounting Directive should thus ensure that also the requirements to small businesses are substantially harmonized throughout the EU, since it has to be based on the principle “first

think of the interests of small ones”. In order to avoid a disproportionate burden on management of these companies, Member States could, in addition to the obligatory explanation to the accounting statements, ask for just few additional data in the form of explanations.

In a uniform reporting system, in some cases Member States can seek a limited number of additional data, when these are explicitly requested by the national tax legislation and when are necessary for the purpose of tax collection. When the Directive allows Member States to impose additional requirements, eg. to small businesses, this means that Member States can exploit this option in a whole or only in part, so they require less of what this possibility allows them. On the same way, Member States may, when the directive allows to them, use the exemption in relation to, for example small businesses, in a way that will exempt a small business from the requirements, in whole or in part.

Scope of application, definitions of terms and categories of undertaking and groups

The directive defines for which types (forms) of the company in which Member States is applied. Thus, for each EU Member State, given types of companies that Directive applies are attached to it. Very significant is also definition of terms: public-interest entities, stake in equity, related parties, the purchase price, the parent (controlling) company, subsidiary, affiliated undertakings, joint ventures, investment undertakings, financial holding undertakings.

Defining and distinguishing of small, medium-sized and large undertakings is significant in terms of mode and scope of reporting, and for preparation and publication of financial statements, as well as for the statutory revision thereof. The Directive, differently than in the past, stipulates that undertakings are classified according to the size of individual benchmarks (average number of employees during the financial year, balance sheet total, net turnover). Undertakings shall be classified in a particular cate-

gory (micro, small, medium, large) if, on the balance sheet satisfies two of the three listed criteria.

Legal persons	Number of employees	Balance Sheet	Net Turnover
Micro	up to 10	up to 350.000	up to 700.000
Small	up to 50	up to 4.000.000	up to 8.000.000
Medium	up to 250	up to 20.000.000	up to 40.000.000
Large	above 250	above 20.000.000	above 40.000.000

The novelty of the Directive is the fact that it also regulates the size of groups. Control and dependent undertakings that will be included in the consolidation are classified in particular groups (small, medium, large) if it, at the balance sheet of the controlling undertaking on consolidated basis, meets the two of three criteria (average number of employees during the financial year, balance sheet, net turnover):

Groups	Number of employees	Balance Sheet	Net Turnover
Small	Up to 50	Up to 4.000.000	Up to 8.000.000
Medium	Up to 250	Up to 20.000.000	Up to 40.000.000
Large	Above 250	above 20.000.000	above 40.000.000

Directive also allows the possibility that criteria are not determined on consolidate, but on basic aggregate basis, and in that case, the listed criteria for assigning groups by size (only balance sheet and net turnover) are being increased by 20%.

When an undertaking or group on the day of its balance sheet exceeds or ceases to exceed the criteria chosen for their previous classification by size, an appropriate exchange of classifying of undertakings or groups shall be performed, but only if it occurs in two consecutive financial years.

General provisions and principles

Teams presented in the annual and consolidated financial statements shall be recognized and measured in Accordance with the following general

principles: continuous operation (going concern); caution; occurrence of business events; consistent application of accounting principles and the basis of assessment from one to another fiscal year; individual assessment of component parts of assets and liabilities items; prohibition of offsetting between assets and liabilities items or between revenue and expensis items; calculation and preview of items in the balance sheet and income statement in accordance with the contents of the concerned transaction or contract; purchase price (the original value) or production costs (cost price); materiality and others. Regardless of the prescribed evaluation of assets at cost (original) value, the directive allows the possibility (an alternative basis of assessment) that Member States permit the revalorization (re-evaluation in order to strengthen) the fixed assets. The effect of revalorization formed the revaluation reserve as a separate item of equity.

Regardless of the prescribed use of assessment funds at historic cost, the directive still allows for the possibility (an alternative basis of assessment) that Member States permit or require the evaluation of financial instruments, including derivative financial instruments, at fair value, and that all companies or particular types of companies permit or require them assessing certain types of assets that are not financial instruments at amounts determined on the basis of fair value.

However, evaluation with the fair value is not allowed for unexecuted financial instruments held to maturity, loans and receivables of companies that are traded, shares in subsidiaries, associates and joint enterprises, equity instruments issued by the company, contracts on conditioned fees at business association and other financial instruments that have special characteristics which determine that, in accordance with the generally accepted rules, are accounted for differently from other financial instruments.

Directive also allows the possibility for Member States to permit or require the recognition, evaluation and disclosure of financial instruments in accordan-

ce with IAS. The Directive provides that the purchase value is the basic principle of assessment and evaluation of items in the accounting statements. The use of fair value is divided into fixed assets, for which Member States may prescribe the use of initial values and the ensuing formation of revaluation reserves and financial instruments (not all) that can be evaluated and measured at fair value, practically in the same way as IAS provide.

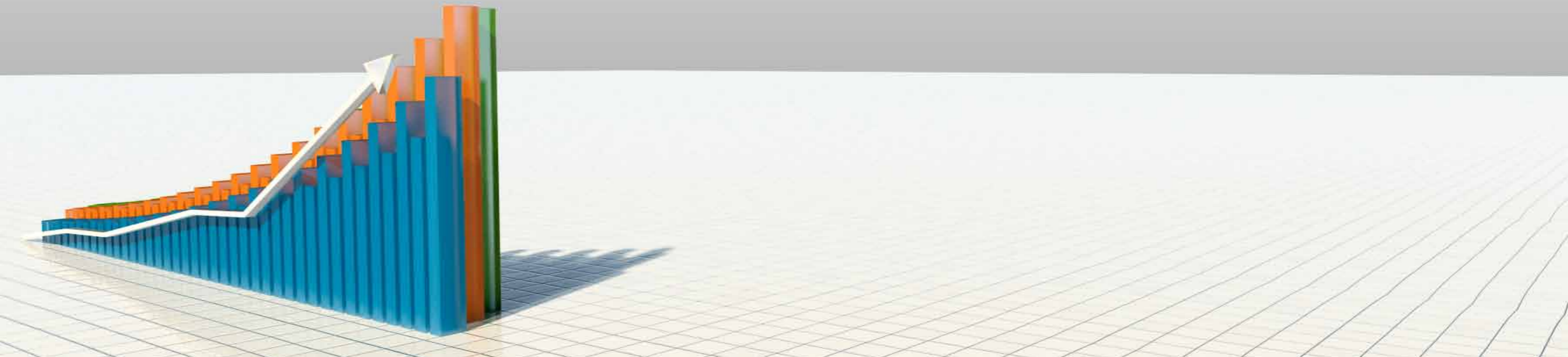
Balance Sheet and Income Statement

The Directive stipulates articulate of the balance sheet (statement of financial position) and income statement (statement of comprehensive income), so that member states can only exceptionally prescribe tolerances, which in these cases must be disclosed in the explanatory notes to the accounting statements. Member States may permit or require adjustment in articulate of the balance sheet and balance in order to include the allocation of profit and loss coverage for the same.

However, the directive makes significant news relating treatment of equity stake. Member States, in fact, may permit or require that equity stake are settled with participation method. Member States may permit or require that a part of the business results that can be attributed to the share in equity, to be recognized in the statement of business results only up to the amount of already paid dividends and dividend payments which may be required, and that part of a recognized gain above these dividends, which can increase the shares in the equity, to be inserted in the reserves which can't be distributed to investors.

Of two variants directive allowed in articulate of the balance sheet, the Member States may prescribe one or both, and if prescribed both, allows companies that independently decide which to use.

The Directive also prescribes some exceptions in assessing a part of the content of certain balance sheet positions. Thus, for example, the Directive stipulates the following:



- Rights to immovables and other similar rights as defined by national law shall be shown under “Land and buildings“
- Member States may permit or require value adjustments to be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date;
- Value adjustments to fixed assets, regardless of whether their lifetime use was limited or not, re-evaluate to a lower value that will be valid at the balance sheet if it is expected that the decrease of their value will be permanent (devaluation of assets);
- Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date.
- Member States may permit or require that interest on capital borrowed to finance the production of fixed or current assets be included within production costs, to the extent that it relates to the period of production.
- Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices, on the basis of the „first in, first out” (FIFO) method, the “last in, first out” (LIFO) method, or a

- method reflecting generally accepted best practice.
- Intangible assets shall be written off over the useful economic life of the intangible asset.
- In exceptional cases where the useful life of goodwill and development costs cannot be reliably estimated, such assets shall be written off within a maximum period set by the Member State. That maximum period shall not be shorter than five years and shall not exceed 10 years.
- Where national law authorises the inclusion of costs of development under “Assets“ and the costs of development have not been completely written off, Member States shall require that no distribution of profits take place unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of the costs not written off.
- Provisions shall cover liabilities the nature of which is clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise.
- For a statement of business results of the Member State, they prescribe whether both variants of articulate are prescribed by directive and allow to small and medium-sized companies to compose abridged statements of business results with the prescribed limits.

Directive prescribed variants of the balance sheet and the statement of business results substantially don't differ from those ones from the old directive. Certainly should be greeted the possibility that Member States may permit or require that the shares in the equity of other companies also to be evaluated in the individual accounting statements by the participation method. Facilitating the use of this method resolved many professional problems of assessment and prevented the possibility that companies overestimate the value of the shares based on the evaluation of another value. In addition, also has been achieved that the financial investment in the individual and consolidated accounting statements can be expressed by the same values.

Notes on the accounting statements

Notes on the accounting statements should be displayed in the order in which they presented the position of the balance sheet and income statement. Explanations to the accounting statements of all undertaking should disclose the following information:

- accounting policies adopted;
- Where fixed assets are measured at revalued amounts, a table showing: movements in the revaluation reserve in the financial year, with an explanation of the tax treatment of items therein, and the carrying

- amount in the balance sheet that would have been recognised had the fixed assets not been revalued;
 - where financial instruments and/or assets other than financial instruments are measured at fair value: a table showing the significant assumptions underlying the valuation models and techniques and a table showing movements in fair value reserves during the financial year;
 - the total amount of any financial commitments, guarantees or contingencies that are not included in the balance sheet, and an indication of the nature and form of any valuable security;
 - The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies;
 - The amount and nature of individual items of income or expenditure which are of exceptional size or incidence;
 - amounts owed by the undertaking becoming due and payable after more than five years, as well as the undertaking's entire debts covered by valuable security furnished by the undertaking, with an indication of the nature and form of the security
- However, for medium and large undertakings as well as for the public interest entities, the Directive provides a number of additional disclosures. Required explanations for all undertakings, above all, include clearly defined requirements with respect to disclosures relating

to the use of permitted alternative basis for assessing the fixed assets of revaluation amounts and the use of alternative basis for estimating fair value.

Business report

In the business report should be properly represented the development and performance of the company as well as its position, together with a description of significant risks and dilemmas that the company faces. The analysis must, in the scope necessary for an understanding of the development and performance of the company and its financial position, contains key accounting, financial, and if necessary, other indicators, also including information related to environmental protection and employees. The management report shall also give an indication of:

- The undertaking's likely future development;
- Activities in the field of research and development;
- the information concerning acquisitions of own shares
- The existence of branches of the undertaking;
- in relation to the undertaking's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss: the undertaking's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the undertaking's exposure to price risk, credit risk, liquidity risk and cash flow risk.

Member States may exempt small undertakings from the obligation to prepare management reports, if information on the acquisition of own shares are stated in the explanatory notes to the accounting statements. Small and medium-sized enterprises, also, may be exempted from reporting on certain non-financial information.

Companies that are the subjects of public interest and which transferable securities are admitted in circulation on a regulated market of any Member State, banks, insurance companies and companies that, as such, are set by the Member State, must include in a business report a statement of the enterprise ma-

agement. This statement must be included as a separate chapter of the business report and also can be given in the form of a separate report published together with the business report or a public document published on the website of the company and must contain at least the directive required data and information on management of the company.

Business report complements the data and information provided by the accounting statements and notes to the accounting statements. Form of the business report is not regulated. The Company individually decides how to draw-up it so it's kind of a statement of management. It presents activities of the management, their successes, failures, success of business and, above all, a vision of the future, which the accounting information and data don't show. In the business reports, the company must pay great attention to, primarily, non-accounting indicators of information.

Report on extractive industries

In order to provide for enhanced transparency of payments made to governments, large undertakings and public-interest entities which are active in the extractive industry or logging of primary forests² should disclose material payments made to governments in the countries in which they operate in a separate report, on an annual basis.

Such undertakings are active in countries rich in natural resources, in particular minerals, oil, natural gas and primary forests. The report should include types of payments comparable to those disclosed by an undertaking participating in the Extractive Industries Transparency Initiative (EITI). The report should serve to help governments of resource-rich countries to implement the EITI principles and criteria and account to their citizens for payments such governments receive from undertakings active in the extractive industry or loggers of primary forests operating within their jurisdiction.

² - Defined by the Directive 2009/28/EC as "primary forest and other wooded land, namely forest and other wooded land of native species, where there is no clearly visible indication of human activity and the ecological processes are not significantly disturbed"

Any payment, whether made as a single payment or as a series of related payments, need not be taken into account in the report if it is below EUR 100 000 within a financial year. This means that, in the case of any arrangement providing for periodic payments or instalments (e.g. rental fees), the undertaking must consider the aggregate amount of the related periodic payments or instalments of the related payments in determining whether the threshold has been met for that series of payments, and accordingly, whether disclosure is required.

Consolidated financial statements and reports

Consolidated financial statements show the assets, liabilities, financial condition and operating results of undertakings included in the consolidation, as if they were a single undertaking. The Member State shall for all companies to which it applies its national law prescribe the obligation of preparation of consolidated accounting statements, and statements of operations if such a company has:

- has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking);
- has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking;
- has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions.
- is a shareholder in or member of an undertaking,
- a majority of the members of the administrative, management or supervisory bodies of that undertaking (a subsidiary undertaking) who have held office during the financial year, during the preceding financial year and up to the time when the consolidated financial statements are drawn up, have been appo-

inted solely as a result of the exercise of its voting rights (there may be determined the requirement that the voting rights reach 20% of the total); or

- Controls alone, pursuant to an agreement with other shareholders in or members of that undertaking (a subsidiary undertaking), a majority of shareholders' or members' voting rights in that undertaking.

Small groups should be exempt from the obligation to prepare consolidated financial statements and consolidated report on business, except when one of the undertakings is a public-interest entity.

Member States should be able to exempt medium-sized groups from the obligation to prepare consolidated financial statements on the same cost/benefit grounds unless any of the affiliated undertakings is a public-interest entity.

Conclusion

Montenegro, as a candidate for EU membership, will have to consider the legal system of the European Union and to change its legislation so as it is in accordance with the provisions of EU directives. In the field of accounting Montenegro will have to harmonize its legislation (Law on Accounting and Auditing, and other laws and bylaws) with the provisions of the new Accounting Directive. It is a very complex procedure of harmonization of national legislation with EU requirement with a need for serious professional considerations, especially in those provisions where the directive provides that the member state (in case of Montenegro, it is a candidate country for EU membership) may require or allow some requirements.

Mladen Vlahović,
Independent Advisor III within Directorate
for Central Harmonization



Ivona Mihajlović



Info web activities of the Ministry of Finance for period from 1 July to 30 September 2014



2 July 2014 - Seminar on “de minimis”

The Ministry of Finance and Project “SAM” (State Aid Management - strengthening of management capacities in state aid), have organized a seminar on “Concept de minimis aid” (small amount of aid). The aim of seminar was to help the participants to learn basic principles of state aid policy, and general concept of

“de minimis aid”, including principle of accumulation. De minimis aid (small amount of aid) is used in order to describe small amounts of state aid that do not require compliance with any rule in terms of the maximum intensity of aid or eligible costs. The seminar was opened by the Leader of the Project “SAM”, Daig Lagzdin, and in addition to the theoretical part of the training, Dace Berklode and Ester Hargita have organized practical exercises within working groups. The seminar, organized with the intention to improving the level of awareness of institutions that are providers of state aid on the adoption of principle de minimis aid with focus on current regulations, procedural requirements, and limitations that must be respected, is one of series of seminars designed as a part of the “SAM” Project, co-financed by the European Union and implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH).



3 July 2014 - The second round of negotiation for signing Double Taxation Avoidance Agreement between Montenegro and Portugal was held

During the period from 1st to 3rd July 2014, in Podgorica was held second round of negotiations between delegations of Montenegro and Portugal Republic for the conclusion of Agreement on Avoidance of Double Taxation between Montenegro and Portugal Republic, as well as on the prevention of tax evasion on income. During negotiations, agreement was reach on tax issues that remained open after first round of negotiations, except in part that relates to the protection of personal data. Both delegations expressed their readiness to immediately come to the conclusion of the contract, which would ensure the elimination of double taxation of income of a resident of both Contracting States, the removal of tax barriers to foreign investment, applying the principle of equal tax treatment of natural and legal persons of the Contracting States, the promotion of scientific, cultural and sports cooperation, as well as the political relations of the Contracting States.



22 July 2014 - Ministry of Finance published Bulletin XXXII



24 July 2014 - Statement by the spokesperson of the Ministry of Finance, Marija Radenović after Government Session on the occasion of the adoption of information on the implementation and effects of measures under the Action Plan to combat the grey economy for period from January to June 2014 and the Decision on the Allocation of Conditional Grants to Municipality for 2014

„...In 2014 we continued with significant activities in fight against the grey economy, primarily through

the work of the Commission for Combatting the Grey Economy and through the work of more operational teams, formed with the aim of focusing the activities on those segments in which the degree of perception of grey economy is the highest, such as: labour market, market of excisable products, issuance of fiscal receipts and the like. These activities are defined in the Action Plan for Combatting the Grey Economy and are divided into two major groups: operational and legislative activities. Those activities were also followed by strong media campaign, aimed at raising awareness of the citizens on harmful effects of the grey economy within which was realized Project “Be responsible“, which allowed the participation of civil society in fight against the grey economy.... All these implemented activities had significant effects on the economic growth which, according to preliminary data from the Ministry of Finance, in the first half of the year, reflected in income amounting EUR 574.7 million, which is EUR 30 million more than planned and EUR 56.1 million more comparing to the same period of the last year. These data suggest that this systematic approach in the fight against the grey economy is justified, because in addition to increasing budget revenues other two objectives are being achieved: improving fiscal discipline and creating fair conditions for business ... The Government has also adopted a Decision on the allocation of conditional grants that represent transfers by the state to local governments for implementation of infrastructure projects and co-financing of certain development projects, which are mostly funded by donations.

Montenegro is currently implementing the inter-municipal development grant program, which is intended for all municipalities and which includes the implementation of the five joint projects with a total value, according to one estimate value, EUR 2.6 million. Most of the funds is provided by the funds of the European Union, the IPA funds, while the obligation of the state was to co-finance the amount of EUR 0.44 million. This obligation partly conducted by the state last year when the budget allocated EUR 200 thousand, and by the current decision, which was adopted by the Government, for this purpose there has been allocated EUR 198 thousand to be paid by the end of the year, while the remaining part of the funds will be

provided through the budget for 2015. Completion of these projects is expected by September 2015, and their implementation will improve infrastructure, inter-municipal cooperation, and their implementation will increase the competitiveness of local governments and ultimately improve the living conditions of the local population. “

8 August 2014 - Large quantity of tobacco seized

Joint effort of the Tax Administration inspectors and staff of the Centre for Security Bar conducted a successful action of sequestration of 1,783 cartons of illegal cigarettes (partially without excise stamps and partially with markings of various production companies from Montenegro and Serbia), 30 pounds of cut tobacco, and 3 packs of bulk cigarettes in pack. In a fact, during the inspection of the green market in the Bar, the inspectors encountered a locked stall without an owner, after which opening they found large amounts of illegal tobacco products. The specified action is one of a series that will be implemented in the following period, with the aim of detecting and eliminating illicit channels of supply of tobacco products. Since the market of tobacco products is recognized as particularly sensitive in terms of the black economy, Tax Administration officials have intensified their control on the field to monitor the situation on a daily basis and adequately respond to perceived irregularities.

8 August 2014 - Continued intensive controls of tax payers

Within the fight in suppression of grey economy, tax auditors from the Department of Public Revenues continued the intensive control on spot. In the period from 28 July to 4 August 2014 tax auditors have carried out 562 checks of regularities of taxpayer's business activities.

In 110 out of them irregularities were found, because of which were issued 113 fines, with total amount of EUR 202.330, as well as 17 orders for criminal proceedings.

In addition, the measures imposed prohibition of acti-

vities to six persons, or sealing the four facilities. The focus of the inspectors of the Tax Administration was directed to the taxpayers in the northern municipalities: Berane, Plav and Gusinje, where within the inspections, 02 and 03 August, observed numerous irregularities in accordance with the law imposed adequate measures.



14 August 2014 - Campaign “Be Responsible” was promoted in Podgorica, on the coast and at the border crossings- Police Department of the Ministry of Interior Affairs

Campaign “Be responsible. It's up to you. Grey Economy 0%“ was promoted in Podgorica, on the coast and at the border crossings, through distribution of leaflets, putting up the posters and citizen surveys on the subject of proposing socially useful projects where should be invested half of the amount of fines imposed by the reporting of citizens. The campaign was supported by numerous companies and institutions. With a great support of the Police Department of the Ministry of Interior Affairs, the campaign was also promoted at the busiest border crossings: Sukobin, Dobrakovo i Ranče.

Tourists who enter the country received bilingual leaflets in order to learn how they can react if there is an irregularity in the bathing areas, avoidance of issuing fiscal receipts or violation of consumer rights. Promotional materials is also available at the airports in Podgorica and Tivat, and in ports of Kotor and Bar. During the citizen surveys a large number of projects of social importance was collected. Since the beginning of Phase II of the Campaign there was collected 117,000 EUR for new projects.



15 September 2014 - Seminar on “State Aid and Structural Funds“

In cooperation between the Ministry of Finance of Montenegro and SAM Project (Strengthening of institutional capacities of Montenegrin state aid authorities “State Aid Management in Montenegro“), was held seminar “State Aid and Structural Funds“.

Since Member States of the European Union cannot grant state aid, the Treaty on the Functioning of the European Union “provides certain exceptions from this Rule, thus the state aid, in cases where it is permitted by the European Union law, may be granted only under strictly defined conditions. Despite the fact that the state aid is allocated from the budget of the Member States, it is necessary to take into account that the state aid rules apply only when projects are financed by EU structural funds. Therefore, in such cases it is necessary to conduct a detailed examination of the implications of state aid. Full use of structural funds for Montenegrin administration and the companies will be possible after the accession of Montenegro to the European Union. Correct application of EU state aid rules for financing of the pre-accession funds (IPA) is of a great importance. The aim of the seminar was to raise the awareness of the implications of state aid in the process of IPA funding.

17 September 2014 - Seminar on “State Aid - Much Ado About Nothing“

Seminar was intended for media representatives with the aim of improving existing and acquiring the new knowledge in the field of European legislation in field of state aid, given that its harmonization is one of the pillars of Montenegro's accession to the European Union.

Bearing in mind that the proper awareness of media representatives is one of the general preconditions for quality and accurate information of the general public, seminar for journalists was an opportunity to learn about the law regulating state aid, which makes a part of Competition Law. This Law actually refers to the undertakings and Member States of the European Union and establishes common rules for the allocation of state aid in the internal market.



18 September 2014 - Campaign Be Responsible: Short list of proposals of the citizens regarding reallocation of the funds from grey economy to socially useful purposes was published - 17 projects on the list

Based on the large number of proposals of citizens and civil sector representatives in the framework of campaign “Be responsible. It’s up to you. Grey Economy 0%”, there has been established a list of investment proposals of general public importance, for which, in continuation of the campaign, the applicants may vote via mobile application and web site “Be responsible (www.budiodgovoran.me), as well via call-centre of Department of Public Revenues (19707) and Directorate for Inspection Affairs (080 555 555).

In accordance with the rules of the project, a short list of initiatives of citizens is determined based on

the following criteria: general social importance (it’s required that the project involves an investment in the field of general interest), sustainability (it is essential that the relevant public institution, which is able to ensure sustainability of the proposed initiative, confirms its readiness to support and realize the proposed investment according to clearly defined deadlines and within the planned budget) and equal regional representation (final list of proposed projects was prepared by taking into account the equal regional representation of projects).

The list, prepared according to the above criteria was unanimously determined by the Representatives of Montenegrin Government, Faculty of Electrical Engineering in Podgorica and UNDP Montenegro and contains the following projects: Supply of medical equipment for resuscitation of infants; Supply of apparatus for mechanical ventilation (respirator) for infants; Construction and equipping of a part of the Special Hospital for Psychiatry “Dobrota”, in Kotor; Equipping the city parks and day care centres with mobiliaria for children with disabilities; Procurement of equipment allowing employment of persons with disabilities; Equipping the Day Care centres for children and youth with disabilities in Bijelo Polje, Mojkovac and Ulcinj; Procurement of sound traffic lights for persons with visual impairment; Support of old persons on the territory of Old Royal Capital Cetinje; Project “Safe pensions”; Line of credit for start-up of businesses for women and youth in less developed areas; Supply of vessels composting household waste in Montenegro; Establishment of an educational centre for waste management in Podgorica; Project “Let’s clean up Montenegro”; Establishment of Youth Centre in Podgorica; Renovating and equipping of parks and playgrounds in Nikšić; Reconstruction of sports and recreation fields in Berane; Construction of shelters for abandoned animals and pet pensions.

Citizens who, during the period from 18 September to 15 December 2014 report the irregularities regarding fiscal accounts, moonlighting, violation of consumer rights or irregularities in the bathing areas, will have the opportunity to vote for investment proposals and thus reallocate funds from the grey economy to the particular socially useful purposes.



19 September 2014- Seminar “Pilot audits in municipalities”

The Ministry of Finance held training for internal auditors at local and central level, on “Pilot audits in municipalities“. The training was organized in collaboration with Project „Strengthening the Management of EU Funds and General Administrative Procedures“. The aim of the training was to familiarize the internal auditors with the planned pilot audits, and with the activities necessary to be carried out before the commencement of practical training of internal auditors in the pilot audits in municipalities. Pilot audits in Capital Podgorica and Nikšić Municipality were planned for November and December this year and in Bijelo Polje and Pljevlja for the first quarter of the next year.



25 September 2014 - Statement by Director of Directorate for Economic Policy and Development within the Ministry of Finance, Iva Vuković after the Government’s session regarding the adoption of Projections of macroeconomic and fiscal indicators for the period from 2014 to 2018

“... The Ministry of Finance twice annually updates macroeconomic projections, which is in line with the environment and fluctuations in the economy, both in

Montenegro and in the environment and these projections represent a starting point for drafting the Budget Law for 2015. In 2013 Montenegro’s economy, according to official figures of MONSTAT, achieved real growth of 3.3%, while unofficial evidence shows that in the first quarter of 2014, the economy recorded a real growth of 1.5%, while in the second quarter, the growth was 0.3%. The positive results, as expected, came from the construction sector, retail, real estate business, as well as a good collection of taxes, while the dominant negative effect made the production of electricity due to the high base and record production in the previous year. Projections of the Ministry of Finance is that the Montenegrin economy in 2014 will have a real growth of 2.5%, due to the expected good results in the tourism sector in August, the start of production of the Aluminium Plant and good prices on the world market. Ministry of Finance projections for the following medium-term period are that the Montenegrin economy in 2015 will grow by rate of 3.5%, based on the assumption of begging of investment activities with the involvement of local resources, primarily in the construction sector, as well as the implementation of the structural reforms which are planned in the following period...”



25 September 2014 - “Be responsible” campaign wins Open Government Partnership’s second prize in New York

In competition of the best projects in 33 countries around the world that promote citizen involvement in implementing public policy, the campaign „Be responsible. It’s up to you. Grey Economy 0%“ has won the second prize of the Open Government Partnership’s international initiative, at a ceremony held in New York.



The prestigious award was given to the Montenegrin campaign due to its contribution to boosting cooperation between civil and public sectors, and active involvement of citizens in implementing public policy.

“The Be Responsible campaign teaches us an important lesson – namely, that meaningful and effective collaboration with citizens can provide public authorities with the resources, skills and credibility they need to implement policies more successfully,” Mr Vujanović pointed out. He stated that this project would not have been possible without advanced academic knowledge of representatives of the Faculty for Electrical Engineering in Podgorica, significant support from the UNDP Montenegro and the British Embassy in Podgorica, dedicated work of inspection services, vision and leadership of the Finance Ministry.

Also, President of Montenegro thanked responsible citizens and media for their continued support for the campaign “Be Responsible“, as well as non-government organisations, the Centre for Democratic Transition, Institute Alternative, Citizens’ Alliance, Environmental Movement Ozone and NGO Green Home, which supported Montenegro’s candidacy for this prestigious international award.

29 September 2014 - AFCOS seminar

Delegation of the Ministry of Finance, members of AFCOS network, participated the AFCOS seminar

held in Sofia, Bulgaria from 24 to 26 September 2014. During the seminar which is organized annually by the European Anti-Fraud Office (OLAF), the participants had the opportunity to familiarize themselves with the organizational structure and functioning of AFCOS Member States and candidate countries of the EU. During the seminar there were held group discussions in which participants were exchanging their experience which represented a good opportunity to promote cooperation between countries when it comes to the protection of EU’s financial interests, which is main task of this network.

Impact of current legal initiatives on protection of the EU’s financial interests, cooperation between OLAF and competent national authorities, Anti-fraud Strategy aimed at protection of financial interests, and current challenges regarding irregularity reporting were some of the topics of working groups.

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Department for Public Relations
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Bojana Kaluderović



Trilateral program Italy-Albania-Montenegro

In addition to programs that existed during the period 2007-2013, new financial perspectives brought Montenegro new programs. Montenegro will participate in the four bilateral programs (Montenegro - Kosovo, Albania - Montenegro, Serbia - Montenegro and Bosnia and Herzegovina - Montenegro), tri-lateral programs (Italy - Albania - Montenegro and Croatia - Bosnia and Herzegovina - Montenegro) as well as three transnational programs (MED program, the Adriatic-Ionian and Danube transnational program) in the period 2014-2020 .

Trilateral programs are characteristic for the new financial perspective and are characterized by the participation of a member state of the European Union (EU) and the accession countries. Program Italy - Albania - Montenegro is a program that is funded from two sources, given that its participants are Italy, as a member of the EU, Albania and Montenegro, as candidate countries for the accession to the EU, and therefore part of the funding is provided through the European regional Development Fund (ERDF), and part through IPA II.

This program should contribute to the achievement of the goals set by the Strategy EU 2020, Strategy

for South East Europe 2020 and the Adriatic-Ionian strategy.

The program area covers a total area of 66,365 km² with a total of 7,805,809 residents of the three countries. 50% of the population live in the area of Puglia, which is also the most densely populated territory, with four times greater density than the Montenegrin territory, which is considered acceptable for this program. 40% of the territory of Albania is considered acceptable for participation in this program, so Albania covers the largest part of the program territory.

Regulation (EU) No. 1299/2013 of the European Parliament and the Council of 17th November 2013 on special provisions for the support from the European Regional Development Fund “European territorial cooperation” predicted priorities to be focused on within the territorial cooperation and thus a certain framework was created within which all the programs need to be prepared. In this sense, the trilateral program focuses on four priorities:

- The competitiveness of small and medium-sized enterprises and co-operation practice;

- Good management of natural and cultural resources for sustainable tourism and attractiveness of the program territory;
- Environmental protection, risk management and low-carbon strategy;
- Cross-border sustainable network.

Through each priority it is necessary to achieve certain objectives.

Priority 1:

Objective 1.1 - Improve the framework conditions for the development of cross-border market of small and medium enterprises.

Priority 2:

Objective 2.1 - Increase the attractiveness of specific natural and cultural resources for improvement of Sustainable Economic Development.

Objective 2.2 - Strengthen the creative potential for increase of tourist attractiveness of the program territory.

Priority 3:

Objective 3.1 - Improved coordination of environmental management and risk prevention.

Objective 3.2 - Improved implementation of innovative practices and tools for reducing carbon emissions and promoting of energy efficiency in the public sector.

Objective 3.3 - Improved implementation of systems and plans that improve water management.

Priority 4:

Objective 4.1 - Increased coordination with relevant stakeholders in order to promote sustainable relationships in the program area.

The total program value is 80 million euros, which clearly indicates that the major infrastructure pro-

jects will not be in the focus.

This program will be managed through a common management, as one of the countries that are participating in the program is a member country. There will be a Managing Authority, which will be located in Puglia (Italy).

In order to make funds available and enable the announcement of the first call for proposals, it is essential that the European Commission (EC) give positive opinion on the OP's whose draft has already been prepared by a joint working group, consisting of representatives of the countries participating in the program, and then approach the signing of the Financing Agreement. It is planned for the funds to be available in 2015.

Montenegrin municipalities that are eligible for funding under this program are: Bar, Budva, Cetinje, Crikvenica, Herceg Novi, Kotor, Niksic, Podgorica, Tivat and Ulcinj. In addition to these municipalities, there are municipalities considered to be associated territory: Pljevlja, Bijelo Polje, Berane, Plav, Andrejevica, Kolasin, Mojkovac, Savnik, Zabljak, Plužine and Petnjica.

However, despite the great attractiveness of this program and already established partnerships through programs that have existed so far, there is still a risk in the process of finding a partner. In addition to this risk, the provision of funds is also a problem, due to the fact that this program works on the principle of reimbursement, which means that timely planning of funds from potential participants may be of particular importance.

Bojana Kaluđerović
Head of the Directorate for the Quality Control
of Directorate for Finance and Contracting
of EU Assistance Funds



Ivana Maksimović

RISK MANAGEMENT POLICY IN PRE-ACCESSION FUNDS

Adoption of the Decision on accreditation of Decentralized Implementation System is a significant step in convergence of Montenegro to the European Union, and it is a proof that Montenegrin administration holds a capacity to manage funds independently. In order to successfully implement the process, the Manual of Procedures was developed. The Manual is a document that horizontally addresses all managerial levels and it is intended for both components available in Montenegro. The Manual represents the basis for the work of each individual DIS structure and as such, it comprises several chapters related to different areas.

One of the areas from the Manual, which establishment is a condition for obtaining the Decentralized Implementation System accreditation, is the risk management.

Many entities both from the public administration i.e. operational structure and third persons are involved in implementation of the projects. The higher the number of entities involved in implementation,

the greater are the possibilities of undesired situations that may affect the finalization deadline, requiring additional investments of funds, undertaking of corrective measures, etc. all aforementioned situations require intervention, in financial sense and cause the excessive spending of budget and payment of unjustified expenses by the beneficiary user, therefore it is of high priority to have established risk management procedures for.

What is the risk and how it can be defined?

Using a custom definition of the Guidelines for the implementation of risk management, developed by the European Commission, the risk may be defined as "any event or problem that may arise and significantly affect or jeopardize the fulfillment of political, strategic and operational objectives of the IPA structure. Missed opportunities may also be considered risk".

The risk may be interpreted as a potential threat, event (or group of events), activity (or group of acti-



vities) or non-activities that may produce the loss of funds and that may jeopardize successful fulfillment of the tasks of organization.

Understanding or knowledge of the position of organization on the different levels and types of risks is the first step in the organization of risk management policy. More specifically, if the assessment ensures that assessment of the risk control effectively planned and implemented, the benefits arising from a clear definition of risk management policy are:

- Awareness of the significant risks with determination of their priorities, which helps the efficient planning of resources;
 - Emphasis on the needs assessment of internal audit and planning;
 - Recognition of responsibility;
 - Assistance in strategic planning;
 - Identification of new opportunities;
 - Action plan for effective management of significant risks.
- Main purpose of risk management is the reduction of risks to acceptable levels through implementation of measures that will decrease the probability of risk

occurrence, the reduction of impact of risk realization, or both at the same time/ However, even well designed and operational risk management cannot provide assurance that objectives will be fully achieved.

Risk management is cyclic, continuous process that includes different activities such as identification, evaluation, setting priorities, planning, implementation and review of actions aimed at mitigating or correcting the risk, and planning in advance.

Simple five steps of general model of risk management tend to provide a general approach to risk management:

- Identification of objectives and underlying risks;
- Assessment of the identified risks;
- Selection of risk responses;
- Implementation of risk response;
- Monitoring and reporting.

The risk analysis can provide a reasonable assurance that the objective will be fulfilled, if the level of risk acceptability is defined. Setting criteria and appraising each criterion, it is easy to obtain the risk asse-

ssment of the project, which in practice means that it can give priority to the most risky project. Risk assessment should not have an absolute value, but should, on the basis of criteria, present the risk of a particular project. The most common criteria are probability of risk and impact of risk on the observed project.

The figure shows method of assessing risk, using two basic criteria: the likelihood that there will be some risk materialization and influence that is the consequence resulting from materialization of certain risk:

PROBABILITY			
High	3	6	9
Medium	2	4	6
Low	1	2	3
	Low	Medium	High
	IMPACT		

Source: Manual of Procedures for IPA I-IV components - Chapter „Risk Management”

Impact assessment and interpretation of results:

- Low - In the case of risk occurrence, works in progress and planned activities haven't been or are minimally affected, without the need for additional funds.
- Medium - In the case of risk occurrence, activities are significantly affected, with the possible need for additional resources for reaching the objectives.
- High - In the case of risk occurrence, activities are significantly affected, requiring significant additional resources to achieve the objective. Alternatively, this category should be used in situation when it is not possible to achieve the objectives.

Interpretation of probability assessment results:

- Low - The risk occurrence is practically impossible or there are some cases of a similar occurrence or knowledge of the situation.
- Medium - The likelihood of risk occurrence is supported by previous evidence or knowledge of the situation.
- High - The likelihood of risk occurrence is supported by clear and frequent evidence or knowledge of the situation.

Having established the existence of risk and its impact assessment, a response or a corrective measure shall be selected. In this regard, the risks may be: avoided, transferred, reduced or accepted.

It is important to note that each action which reduces or eliminates the risks carries certain expenses, thus it is important to make a realistic assessment between the risk assessment and resources invested in the action.

The implementation of the response to the risk means the adoption of appropriate measures in terms of achieving a reduction of probability and impact of risk events in direction of zero.

Action plans that are consistent with the chosen response to the risk should be adopted in order to ensure concrete measures for risk reduction.

In certain cases where risk may be identified immediately or within a short period of time, no elaborated action plan is required. However, management of other risks may require significant exertions and expenditures for a longer period. In such cases, an action plan shall be prepared as a separate project and shall require extra organization and planning,

Risk management activities at any level of the IPA structure and management shall be implemented through:

- Preventive actions;
- Administrative controls;
- Controls on the spot;
- Any other action that may reduce the identified risks.

Example - risk management of IPA funds:

Main risk group		Areas that should be considered when identifying potential risks
external	Risk referring to the environment outside the IPA structure	Macro risks of the environment (political, economic, natural...) Political decisions and priorities outside the IPA External partners
	Risks referring to the planning, processes and systems	Strategy, planning and policy (policy decisions) Operational processes Financial processes and budget allocation IT and other supporting systems
Internal	Risks referring to the human resources and institutions	Human resources Building and equipment Internal organization
	Risks referring to the legality and regulatory aspects Risks referring to communication and information	Accuracy, adequacy and compliance of applicable laws and regulations
	Risks relating to communication and information	Methods of communication and communication channels Quality and timeliness of information

There are two different, but mutually complementary perspectives on the risk management process: the management level (IPA institutional risk management, as an integral part of management control) and the project level (Project risk management).

It is important to note that these two risk analysis are not opposed, but they complement each other and represent an enhanced alternative view on the management of EU funds, and the on the project implementation process. This is exactly the right way, because in terms of the management of EU funds and implementation of projects the different authorities in IPA structures have different roles and different views on risk factors.

IPA operative structure for components III and IV in Montenegro are: The Body Responsible for Operational Programme (BROP), Bodies Responsible for Priorities/Measures (BRPM) and Implementing Body (IB). Therefore, risk management shall exist at every level of IPA structure:

- IPA system level – NAO/NF;
- Operative structure level (managers of operating structures on individual components);
- Entity level (BROP, BRPM, IB);
- Project level (IB).

Therefore, it is necessary that each body involved in implementation of IPA project appoints its officers for risk management (risk manager). Risk managers are responsible for filling out/collecting the Forms for warning on the risk, and to ensure that they are properly completed. Also, their duty is to fill out the relevant risk register of IPA body involved, to submit a copy of Forms to a risk management coordinator, as well as to participate in meetings of the Risk Management Council and discusses the risks associated with the IPA bodies involved.

It is common that the risk coordinator is the risk manager in the National Fund. The risk coordinator is required to collect the risk register from the IPA bodies and to prepare the final information for the review at the meeting of the Council for risk management. The Council is obliged to inform the National Authorizing Officer (NAO) on the decisions taken, which will depend on the importance of risk, as well as tolerance in managing the risk and size of risk (the risks may be accepted, others rejected or accepted to a certain extend). The person responsible for reporting on the risks to the European Commission is the NAO. The NAO is on the top of the hierarchy of reporting throughout the whole management process. It should be noted that the decision whether the risk will be avoided, mitigated or accepted is exclusively the responsibility of NAO.

As it may be concluded, the process of establishing the risk management structure is comprehensive and it must include officers who, though their objectivity and professionalism will be able to recognize situations at risk. Since the risk management is just one of the chapters of the Manual of Procedures, it is clear that the huge task is put forward before the state administration, which must prove that it is eligible to adjust itself to the rules, manner of work, etc., and therefore the ability to assume the decision making ability.

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Independent Advisor I within the Directorate for State Treasury



MA Snežana Mugoša

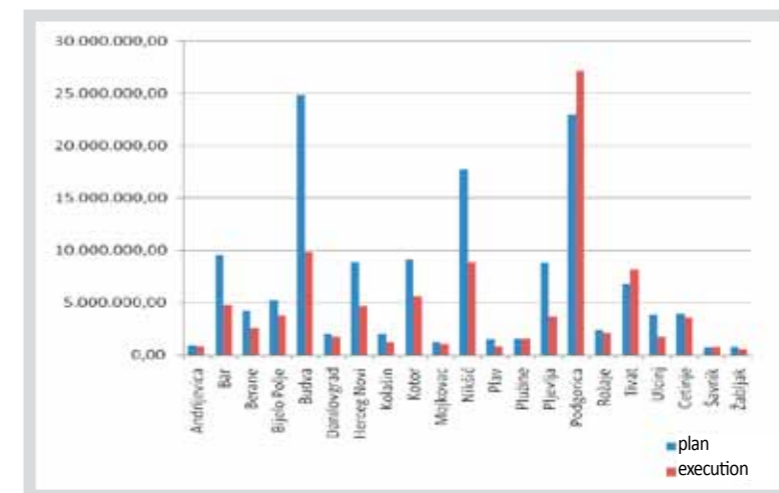
Public Expenditure at the Local Level in the second quarter of 2014

I - Actual Receipts

The following table provides an overview of planned and actual municipal budget receipts for the period January-June 2014:

Municipality	Local self-government receipts in 2nd quarter of 2014		
	Planned	Actual	% of realization
Andrijevica	0,90	0,82	91,37
Bar	9,53	4,81	50,44
Berane	4,18	2,56	61,23
Bijelo Polje	5,27	3,74	70,94
Budva	24,87	9,88	39,74
Danilovgrad	2,03	1,77	86,95
Herceg Novi	8,85	4,68	52,87
Kolašin	2,04	1,22	59,97
Kotor	9,12	5,58	61,11
Mojkovac	1,24	1,07	86,08
Nikšić	17,79	8,85	49,74
Plav	1,49	0,86	57,75
Plužine	1,61	1,58	98,17
Pljevlja	8,85	3,72	41,99
Podgorica	23,00	27,18	118,21
Rožaje	2,37	2,11	89,02
Tivat	6,77	8,13	120,09
Ulcinj	3,87	1,81	46,75
Cetinje	3,95	3,63	91,91
Šavnik	0,70	0,76	108,46
Žabljak	0,77	0,54	69,80
TOTAL	139,19	95,28	68,45

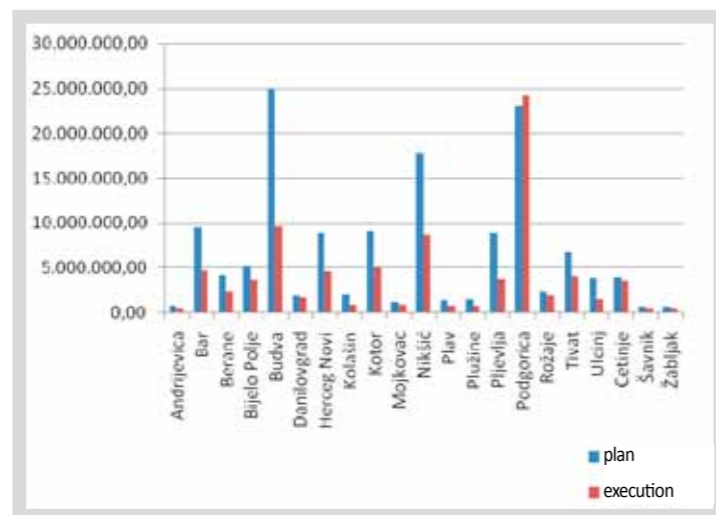
Total local self-government receipts for the first six months of 2014 were planned in the amount of 139.19 million, while the actual realization totaled 95.28 million, or 68.45% of the plan for the stated period.



II - Execution of Expenditures

Total expenditures of the local self-government for the period January - June 2014 were estimated in the amount of 139.00 million, while the total execution of the municipal budgets for the same period amounted to 84.94 million, accounting for 61.11% of execution compared to the plan for the same period.

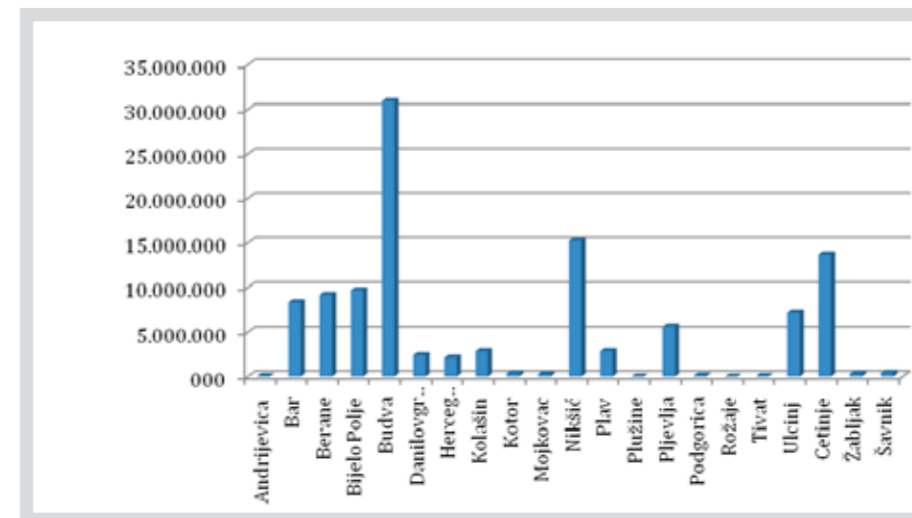
Municipality	Local self-governments expenditures in 2nd quarter of 2014		
	Planned	Executed	% of execution
Andrijevica	0,79	0,54	69,03
Bar	9,53	4,71	49,44
Berane	4,18	2,45	58,58
Bijelo Polje	5,27	3,68	69,85
Budva	24,87	9,65	38,80
Danilovgrad	2,03	1,73	85,01
Herceg Novi	8,85	4,59	51,87
Kolašin	2,04	0,91	44,65
Kotor	9,12	4,97	54,48
Mojkovac	1,22	0,92	75,38
Nikšić	17,74	8,70	49,07
Plav	1,49	0,84	56,36
Plužine	1,61	0,85	52,58
Pljevlja	8,85	3,81	43,03
Podgorica	23,00	24,27	105,54
Rožaje	2,37	2,02	85,53
Tivat	6,77	4,11	60,71
Ulcinj	3,87	1,57	40,52
Cetinje	3,95	3,59	90,80
Šavnik	0,70	0,54	77,30
Žabljak	0,77	0,50	64,78
TOTAL	139,00	84,94	61,11



III - Outstanding Liabilities

According to the data provided by the municipalities and submitted to the Ministry of Finance, the total outstanding liabilities of the local self-governments on 30/06/2014 amounted to 111.68 million euros.

Outstanding liabilities of the local self-governments on 30/06/2014 (in mill €)	
Andrijevica	0.06
Bar	8.35
Berane	9.19
Bijelo Polje	9.70
Budva	30.92
Danilovgrad	2.39
Herceg Novi	2.10
Kolašin	2.82
Kotor	0.36
Mojkovac	0.26
Nikšić	15.26
Plav	2.83
Plužine	0.00
Pločivlja	5.64
Podgorica	0.11
Rožaje	0.00
Tivat	0.06
Ulcinj	7.16
Cetinje	13.73
Žabljak	0.32
Šavnik	0.41
TOTAL	111.68



Ms Snežana Mugoša, MA
 Head of the Directorate for monitoring budgets of local governments,
 regulatory agencies and public companies and other implicit budgetary commitments



MA Tatjana Bošković

Law on Hydrocarbon Tax

Introduction

In the mid-2012, the Government of Montenegro adopted the Hydrocarbon Upstream Industry Fiscal Policy which defined fiscal policy for generation of hydrocarbons (upstream industry), with the goal of creating a sound fiscal system which includes a stable and transparent tax policy in the long run.

Montenegro has, by the adoption of the Law on exploration and production of hydrocarbons (“Official Gazette of Montenegro”, No. 41/10, 40/11 and 62/13) opted for the so-called Tax/Royalty regime, which consists of two main elements, namely:

royalty (fee for produced hydrocarbons) and an extra tax on profits for the oil companies. According to the above law, the hydrocarbons are all kinds of hydrocarbons which can be found in a natural state below the surface of the ground or seabed, in a liquid or gaseous state, as well as crude mineral oil, natural gasoline, natural gases and other substances that can be removed with them from the deposit. Hydrocarbons are, among other things, oil and gas. Oil is a hydrocarbon which, after the excavation out of the deposit remains in a liquid state at normal atmospheric pressure and temperature, and a gas is a hydrocarbon which is free or bound natural gas in its natural form in the earth’s crust.

A key problem faced by all models of taxation of hydrocarbon production in the upstream industry is a time mismatch of industry taxation, where the limiting factor is a high amount of irreversible costs and long production cycles. In addition, a good resources taxation system should include all phases of production of resources, including research phase.

In accordance with the fundamental principles as defined by the Fiscal policy, the Law on Hydrocarbon Tax is prepared, which is adopted by the Parliament of Montenegro in July 16, 2014, and published in the “Official Gazette of Montenegro”, No. 31/14.

This Law imposes a new tax levy and creates profit tax policy from carrying out upstream operations relating to: the extraction of hydrocarbons (oil, gas, etc.) from the deposit, construction, use of plants and related equipment for the production and supply of hydrocarbons, transport of oil and gas and other activities associated with upstream operations.

Pursuant to the Law on exploration and production of hydrocarbons, activities in research and production of hydrocarbons can be performed by a company, legal entity or natural person on the basis of the concession agreement concluded in accordance with this Law. Right to explore and produce hydrocarbons can be given to one or more companies, legal entities or natural persons, according to the concession agreement, as well as to a company in

which the State holds a majority share, and to a legal entity established by the State.

Production of hydrocarbons can be performed only on the basis of the concession agreement for the production of hydrocarbons. Public call for submission of bids for the allocation of rights for production and conclusion of the concession agreement for the production in one or more blocks shall be published by the Ministry of Economy, with the prior approval of the Government of Montenegro, and a decision on the award of the concession agreement for the production shall be adopted by the Parliament of Montenegro.

The content and the basic characteristics of the Law on Hydrocarbon Tax

The Law on Hydrocarbon Tax defines the basic elements of the taxation of the profits of companies engaged in exploration and exploitation of oil and gas in the underwater of Montenegro, in the neighboring waters, outside the territory of Montenegro and within the boundaries of the land territory, internal waters and territorial sea of Montenegro.

The Law is based on the model of the extra taxation on the profit earned from the performance of upstream operations, while the gain, realized from the exercise of other activities that are not directly related to upstream operations, including capital gains and profits from capital, will be taxed under the provisions of the Law on Corporate Revenue Tax.



Upstream operations relating to hydrocarbons are considered to be activities related to the extraction of hydrocarbons from deposits, construction and use of plants and related equipment for the production and supply of hydrocarbons, including exploration, drilling, production, transportation and use of oil and gas for the production of hydrocarbons and other activities associated with upstream operations, except the transport of hydrocarbons in huge quantities by rail, aircraft, road vehicles or vessels.

Taxpayer - hydrocarbons taxpayer is a company or part of a foreign company that carries out upstream operations on the basis of a concession agreement for production of hydrocarbons. These persons have the status of a large taxpayer, in accordance with the Law on Tax Administration.

Taxable base - taxable base is the difference between the revenue generated from the upstream operations and expenses recognized in accordance with the Law. Starting from the specificity of performing the hydrocarbon production for the proper determination of taxable base, revenue and expenditure recognized for tax purposes are closer defined.

Revenues from upstream operations – Revenues from upstream operations include: revenues generated on the basis of production, transportation, processing and/or sale, or realization of hydrocarbons; interest revenues and other revenues from investments, foreign exchanges and financial gains from upstream operations; revenues from realization of fixed assets acquired for use in activities related to the upstream operations; market value of the fixed asset which is not using any more for upstream operations; funds remained in the special account for dismantling after completing the plant dismantling process in accordance with the Law on hydrocarbon exploration and hydrocarbon stocks value. Revenues from upstream operations are determined on the basis of the agreed price or tax reference price, if agreed price deviates from the reference price. The reference price is the price at which hydrocarbons are traded between independent entities in a free market, and it will be quarterly determined over by the Ministry of Eco-

nommy, with the prior approval of the Government of Montenegro. The amount of the quarterly reference prices will be published in the “Official Gazette of Montenegro”.

Expenses from upstream operations - Expenses from upstream operations are divided into: capital costs, operating costs, the funds paid into the fund for dismantling and financing costs.

Capital costs are costs incurred by purchasing or acquiring of plants for production or transport of hydrocarbons, including installations or structures such as platforms, underwater installations and plants, terminals, facilities and pipelines, underwater cables for power supply of plants (electricity, hydraulics, etc.), chemicals and remote controls, necessary ancillary equipment and other movable property that is a part of or connected with these plants, as well as the costs for exploration, which are recognized in accordance with the concession agreement for the production of hydrocarbons.

Operating costs are the costs of employees' salaries and other forms of work engagement in relation to upstream operations, costs of supplies, service charges, and other costs which are recognized in accordance with the concession agreement for the production of hydrocarbons.

The funds paid into a fund for dismantling are the funds paid for future expenses for dismantling of plants for production, processing, refining or transportation of hydrocarbons.

Financing costs are net financial costs for execution of the upstream operations, arising from the debt with interest and they include interest expenses, as well as the difference between positive and negative exchange differences on borrowings.

In order to precisely distinguish revenue and expenses, the Law provides an adoption of special act by the Ministry of Finance, which will regulate this area.

Tax rate - Since exploitation of natural resources, which are also non-renewable resources, is per-

formed and bearing in mind the experience of countries that have adopted this type of taxation, the tax rate on revenue from upstream operations is 54%. Revenues from other activities realized by the taxpayer, which are not covered by this Law, capital gains, including the transfer or assignment of the corresponding share of the concession agreement for the production of hydrocarbons and capital revenues, shall be taxed in accordance with the law governing the taxation of legal entities, i.e. at the rate of 9%.

Temporal separation of expenses, recognition and transmission of losses - Considering the amount, range and complexity of capital expenses, the law stipulates a time separation of these costs, so they are deferred for five years and recognized at a rate of 20% per annum. The first year of the time separation of the capital costs is the year in which the expense is incurred. In addition, the Ministry of Finance is authorized to pass a bylaw that will closely regulate the manner of time separation of these expenses.

Operating costs, the funds paid into the fund for dismantling and financing costs are recognized in the year in which they are incurred.

Losses from upstream operations arising from recognized expenses may be transferred to the gains from future accounting periods, within a period no longer than 10 years and with no accrued interest on the balance that exists at the end of the tax period.

Calculation and payment of tax on hydrocarbons - The tax authority determines, by decision, a yearly and advance tax liability, and a taxpayer shall quarterly pay during a year a tax liability in the form of advance payments, based on estimates of revenues from upstream activities. Tax on hydrocarbons is calculated after the end of the financial year or other period for determination of tax, according to the tax base realized in that period.

The taxpayer shall file an annual tax return to a tax authority, for the period for which the tax on

hydrocarbons is calculated. The application shall be submitted no later than four months from the expiration of the period for which the tax is calculated. With a tax return, the taxpayer shall submit financial statements that are audited in accordance with the law governing accounting and auditing.

Based on available data, the tax authority, by decision, determines an amount of annual taxes on hydrocarbons within 45 days from the expiry of the above deadline for filing annual returns.

The taxpayer shall, during the year, quarterly pay tax on hydrocarbons in the form of advance payments, based on the decision of the tax authority. The advance payments shall be paid until 15th of the month following the end of each quarter and the advance paid tax shall be considered as a loan in relation to the liability for the annual tax return.

Qualification of revenues from the tax on hydrocarbons – Revenues from tax on hydrocarbons belong to the Budget of Montenegro and the Fund for hydrocarbons, in the ratio 15:85. The functioning of the Fund for hydrocarbons will be regulated by a special law, which adoption is planned for no later than December 31st of the current year.

Penalties for violations - This law creates a penal policy primarily in terms of fiscal capacity of taxpayers and their treatment as large taxpayers and, in this regard, maximum amounts of fines are proposed, ranging from 10,000 to 40,000 Euros.

Conclusion

Implementation of new solutions continues with the creation of an efficient fiscal system which includes a stable, predictable and transparent fiscal policy in the long run and at the same time creates the conditions for a reliable and attractive environment for investment in exploration and production of hydrocarbons in Montenegro.

Tatjana Bošković, MSc
Independent Advisor I
Directorate for Tax and Customs System



Nikolina Radojičić



Maša Vučinić

“De minimis” - a little aid of great importance Rules for low values aids

Efforts for simplification and better organization of a complex policy for granting state aid are constant challenge of the European Union bodies dealing with this policy. Such efforts, among other things, resulted in the creation of rules on de minimis aid, or so called low value aids, which are adopted by the European Union in order to reduce the number of cases with low amounts of state aid. Mentioned rules are defined by the Commission Regulation No. 1407/2013, on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis state aid.

Following a good European practice and striving toward best harmonization of national legislation with the EU acquis, the Government of Montenegro has decided to introduce the rules for granting de minimis state aid into the Montenegrin legal framework. The Ministry of Finance has initiated direct introduction of these rules, and the same has become part of national legislation, in accordance with Article 3a of the Regulations on detailed criteria, terms

and manner of granting state aid (‘Official Gazette of Montenegro, No. 27/10, 34/11 and 16/14), and by the adoption of the Ordinance on the list of state aid rules (‘Official Gazette of Montenegro, No. 35/14).

The abovementioned rules on aid for companies as potential beneficiaries of state aid are defined to recognize the concept of a participant in the market, and their legal status and economic relations. In this context, the company is one that has the majority of voting rights of shareholders or members of the other company, has the right to appoint or dismiss members of the governing body of another company, to exercise a dominant influence over another company in accordance with the Articles of Association, as well as to control majority of voting rights of the shareholders or members in accordance with an agreement with other shareholders or members of the company.

De minimis rules do not apply to the fisheries and aquaculture sector, primary production, or the ran-

king of agricultural products. Exceptions are possible only if the aid is determined based on the price or quantity of such products purchased from primary manufacturers, as well as in the case when the aid is conditioned to be partially or fully transferred to the primary manufacturers. Also, the de minimis state aid is not granted for the export activities towards third countries or Member States or for activities for favoring the use of local in comparison to imported goods.

The main determinant of the rule de minimis aid, regardless of the type of state aid, is that the aid may be granted only when aid, which was granted to the company in the current and previous two fiscal years, does not exceed the acceptable value thresholds of 200,000 Euros or 100,000 Euros for road freight transport. Regardless of whether the aid is awarded as individual state aid or according to the approved state aid scheme, a company which is the potential user of de minimis state aid proves that the allocation of the same is justified in terms of the allowed value thresholds by submitting, beside an application for the state aid, a statement (which includes all state aids allocated for a period of 3 years). This is important to emphasize because if the defined limit is exceeded by allocation of new de minimis aids, no part of this aid could be granted in accordance with abovementioned Regulations, Annex 7. Namely, that aid would have to be granted on the basis of some other rules for which the user would have to meet specific criteria. Grantors of the state aid are required to keep records and store data on state aid for at least 10 years.

For the purpose of transparency, equal treatment and effective supervision, a low value aid is granted only to the transparent instruments of state aid, for which a grantor of the state aid may previously accurately calculate its gross monetary value without the need for risk assessment. Such precise calculation is possible for grants, interest rate subsidies, limited tax benefits or other instruments which provide an upper limit.

De minimis aid is considered to be granted at the time of the existence of legal basis (legal rights) for

granting of the aid to the company, i.e. by the date of signing the contract with the company, regardless of the date of payment of de minimis aid to the company.

When the de minimis aid is granted in the form of loans or guarantees, then special rules come into effect. The first step for conformity assessment of submitted application with the rules of de minimis state aid refers to determination whether a potential user is subjected to collective proceedings in the case of insolvency and whether his credit rating is at least B-.

De minimis aid can be granted only if the loan is secured by collateral that covers at least 50% of the loan and where the loan amounts to 1,000,000 Euros (or 500,000 Euros, in the case of companies engaged in road freight traffic) for a period of five years or the aid element is calculated based on the applicable reference rate.

When it comes to the allocation of de minimis aid in the form of guarantees, for amount of the guarantee of 1,500,000 Euros (i.e. 750,000 Euros for companies engaged in road freight transport) the warranty period is 5 years, and for amount of the guarantee of 750,000 Euros (or 375,000 Euros for companies engaged in road freight transport) the warranty period is 10 years. In the case of guarantees, a guarantee as a state aid may not exceed 80% of the loan.

In the event where the company, which has submitted an application for state aid, is purchased or merged with another company, it is necessary to take into account all previously granted state aids to any of the companies involved in the merger, in order to assess whether the new allocation of de minimis aid exceeds the relevant value thresholds of the new or merged company. On the other hand, if the company splits into two or more new companies, previously granted aid will be allocated to emerging companies in accordance with the activities taken over by the separation. If it is not possible to allocate aid according to activities, de minimis aid shall be allocated in proportion to the book value of equity of new companies on the date of separation.



Jelena Jovetić

Leasing Market of Montenegro - Report for the period 01 January - 30 June 2014 -

During the allocation of state aid it is necessary to pay extra attention to the question of cumulation, which usually occurs when some state aid grantors plan to grant aid for the same projects. In the case of de minimis aid, the question of cumulation is examined at the level of the company, rather than at the project level. If de minimis aid is cumulated with other categories of state aid for the same eligible costs, in assessing the compatibility of the rules applicable for other aids (for example, intensities of aids, requirements for own funds), de minimis aid is also taken into account. Contrary to the above, a state aid which is not granted for the same eligible costs, and which cannot be attributed to specific eligible costs, can be cumulated with other state aid.

Looking at all the characteristics of the de minimis rule it can be stated that the introduction of low value aid into the Montenegrin legal framework is not only an important step in strengthening the state aid rules, but greatly contributes to the development of a competitive market, which is one of the preconditions for a healthy and stable economy.

Having in mind that state aid rules, which are the basis of competition policy, are characterized by a high degree of interdependence on other economic policies, including tax policy, and all because of the tendency for harmonization of the Monte-

negrin with the European legal system, the Ministry of Finance has, in cooperation with European experts in the subject area, found that harmonization of certain cross-cutting policies are necessary. Amendments to tax laws in accordance with the rules of state aid, primarily the Law on Corporate Income Tax and the Law on Personal Income Tax, will result in significant involvement of companies and entrepreneurs from the north of Montenegro, encouraging in that way not only their activities as potential beneficiaries of state aid, but also a more equitable distribution of funds. In addition, such a systematic approach of the Ministry of Finance to the problem of introduction of state aid rules into the Montenegrin legal framework provides better planning of funds, as well as effective control of budget funds.

Bearing in mind the potentials of Montenegro and the strength of economic actors in the Montenegrin market, it can be concluded that, by using a low value aid, invaluable benefit will have companies which can solve some of their own current problems and thereby contribute to the quality of the overall system.

Nikolina Radojičić, Independent Advisor III
Maša Vučinić, Independent Advisor III
Department for State Aid

Market participants

In the period from 01 January to 30 June 2014 the leasing market of Montenegro was not subject to the amendments to the regulatory framework. In the reporting period, leasing services on the leasing market of Montenegro were provided by the following six leasing providers, four of them are leasing companies having the legal status and two banks: S-Leasing, Porsche Leasing, NLB Leasing, Hypo Alpe Adria Leasing, as well as Hypo Alpe Adria bank and Prva banka Crne Gore funded in 1901. On the other side, Hypo Alpe Adria Leasing and Prva banka Crne Gore funded in 1901 were not active on the leasing market, related to the approval of new investments during 2014.

Investment structure

In the reporting period, the Montenegrin leasing market recorded 588 newly concluded contracts, in the total amount of EUR 8 388 208.39.

During the second quarter of 2014, the leasing market has recorded the total of 377 of newly concluded contracts, the value of which amounted at EUR 5 417 983.56 EUR, while at the end of the first part of the year the total number of active contracts amounted at 5,751, the value of which amounted at EUR 138 518 954,34.

1 - Prva banka Crne Gore founded in 1901, during 2011, as well as during the first quarter of 2012 operated only on collection of on the basis of earlier contracts.

Table 1. Number of active and newly concluded contracts

Active and newly concluded contracts	Newly concluded contracts period 30 March - 30 June 2014		Active contracts as of 30 June 2014	
	Number	Value	Number	Value
TOTAL	377	5 417 983.56	5 751	138 518 954.34

Leasing users

In the second quarter of 2014, the number of newly concluded contracts was 78,67% higher than the number of contracts concluded in the first quarter of 2014. On the other hand, the number of newly concluded contracts in the second quarter of 2014 in comparison to 2013 was by 2,68% lower, while their value was by 8,7% lower.

Regarding the structure of leasing users, the share of legal entities is significantly higher than the share of physical entities in the total number of contracts.

Table 2: Newly concluded contracts per leasing users in the period of the second quarter of 2014

Leasing users	Newly concluded contracts in the period of the first quarter of 2014		Newly concluded contracts in the period of the second quarter of 2014		Growth rate of contract number
	Number of contracts	%	Number of contracts	%	
Legal entities	140	66.35	289	76.66	106.43
Physical persons	71	33.65	87	23.08	22.54
Entrepreneurs	0	0.00	1	0.27	/
Total	211	100.00	377	100.00	78.67

Table 3: Active contracts by leasing users

Leasing users	Active contracts as of 30 March 2014		Active contracts as of 30 June 2014		Growth rate of contract number
	Contact number	%	Contact number	%	
Legal entities	2.813	48.68	2.951	51.31	4.91
Physical persons	2.944	50.95	2.777	48.29	-5.67
Entrepreneurs	21	0.36	23	0.40	9.52
Total	5.778	100.00	5.751	100.00	-0.47

Growth number of concluded contracts in the second quarter in relation to the previous result is a feature of the Montenegrin economy, i.e. the fact that the tourism as an economic activity has a significant participation in the total economy. Therefore, the recorded growth is a consequence of the growth of activities in terms of preparation of tourism season.

Out of the total number of active contracts, about 51% relate to contracts entered into with legal entities. The data are similar to the comparative overview from the previous quarter, indicating a continued policy of leasing companies to direct their business strategy approximately equally to physical persons as well as to legal entities in order to diversify risk and ensure optimal structure of clients. On the other hand, the value of active contracts as of 30 June 2014 is by 1,6% higher than the value of active contracts recorded on 31 March 2014.

Value and number of concluded contracts by leasing type

As it was the case in previous years, continuing in 2014, the financial leasing operations have had a significant share both in the total number and the total value of concluded contracts.

Table 4: Newly concluded contracts by leasing type

Leasing type	Newly concluded contracts in the period of the first quarter of 2014				Newly concluded contracts in the period of the second quarter of 2014				Growth rate (number) (3)/(1)	Growth rate (value) (4)/(2)
	Value of concluded contracts (1)	%	Value of concluded contracts (2)	%	Value of concluded contracts (3)	%	Value of concluded contracts (4)	%		
Operational leasing	9	4.46	91.625,22	9	66	21.22	741.861,47	15.86	633.33	709.67
Financial leasing	202	95.73	2.878.599,61	202	311	82.49	4.676.122,79	86.31	53.96	62.44
Total:	211	100	2.970.224,83	211	377	100	5.417.984,26	100	78.67	82.41

During the second quarter of 2014, the value of newly concluded contracts amounted at EUR 5 417 984.26, representing the increase at around 82,4% compared to the previous quarter of this year. Out of the total number of concluded contracts, around 86% or EUR 4 676 122.79 EUR refers to the financial, while the rest is the operating leasing. It is important to note that the aforementioned contract values are expressed as a net investment value, representing the total value of contracts reduced by the value of client's share.

Subject of leasing

Based on the structure of the total number of concluded contracts per leasing subject, it is evident that the passengers' cars have the highest share of around 88,3% in the total amount of leasing investments.

Table 5: Structure of the number of newly concluded investments based on the subject of leasing

Leasing subject	Newly concluded contracts				
	Number of newly concluded contracts in the period of the first quarter of 2014 (1)	%	Number of newly concluded contracts in the period of the second quarter of 2014 (2)	%	Growth/fall rate (2)/(1)
Passengers cars	178	84.36	333	88.33	87.08
Commercial vehicles	16	7.58	32	8.49	100.00
Construction machinery and equipment	16	7.58	11	2.92	-31.25
Ships	1	0.47	1	0.27	0.00
Real estate					
Other					
Total	211	100.00	377	100.00	78.67

The share of the commercial vehicles in the total number of concluded contracts amounts to around 8,5%, while the share of construction machinery and equipment is around 2,9%.

Table 6: Structure of the number of newly concluded investments based on the subject of leasing

Leasing subject	Value of newly concluded contracts (€) in the period:				
	Number of newly concluded contracts in the period of the first quarter of 2014 (1)	%	Number of newly concluded contracts in the period of the second quarter of 2014 (2)	%	Growth/fall rate (2)/(1)
Passengers cars	1.863.641,56	62,74	4.198.267,23	77,49	125,27
Commercial vehicles	395.430,03	13,31	737.158,75	13,61	86,42
Construction machinery and equipment	665.773,41	22,41	426.865,69	7,88	-35,88
Ships	45.379,83	1,53	55.692,59	1,03	22,73
Real estate					
Other					
Total	2.970.224,83	100,00	5.417.984,26	100,00	82,41

Passengers cars shows the highest share also in the total value of newly concluded contracts of around 77,5%, while the share of commercial vehicles is around 13,6%, and leasing of construction machinery and equipment is around 7,9%.

If we analyse active contracts as on 30 June 2014, it is evident that the passengers cars category has the highest share of around 79,9% regarding the number of contracts, while in terms of the value, the highest share is in the real estate category of 49,9%.

Table 7: Structure of the number of active investments per leasing subject

Leasing subject	Number of active contracts				
	Active contracts as on 30 March 2014 (1)	%	Active contracts as on 30 jun 2014 (2)	%	Growth/fall rate (2)/(1)
Passengers cars	4598	79,58	4597	79,93	-0,02
Commercial vehicles	690	11,94	674	11,72	-2,32
Construction machinery and equipment	262	4,53	261	4,54	-0,38
Ships	21	0,36	21	0,37	0,00
Real estate	204	3,53	195	3,39	-4,41
Other	3	0,05	3	0,05	0,00
Total	5778	100	5751	100	-0,47

Sectoral structure

Considering the sectoral structure of investments concluded in the second quarter of 2014, predominant are contracts within the trade sector.

Table 8. Sectoral structure of newly concluded contracts

Sector	Number of newly concluded contracts				
	The first quarter of 2014 (1)	%	The second quarter of 2014 (2)	%	growth/fall rate (2)/(1)
Agriculture, Forestry and Fishery	4	2,86	1	0,35	-75,00
Construction	14	10,00	9	3,11	-35,71
Trade	28	20,00	49	16,96	75,00
Accommodation and food	2	1,43	3	1,04	50,00
Other services	56	40,00	139	48,10	148,21
Traffic	8	5,71	81	28,03	912,50
Financial activities			0	0,00	
Industry	3	2,14	3	1,04	0,00
Health, Education and Social Protection			2	0,69	
State Administration	1	0,71	0	0,00	-100,00
Other sectors	24	17,14	2	0,69	-91,67
Total	140	100,00	289	100,00	106,43

Regarding sectoral structure of active contracts as on 30 June 2014, predominant are the contracts within the services (48%), traffic (28%), trade (17%) sector.

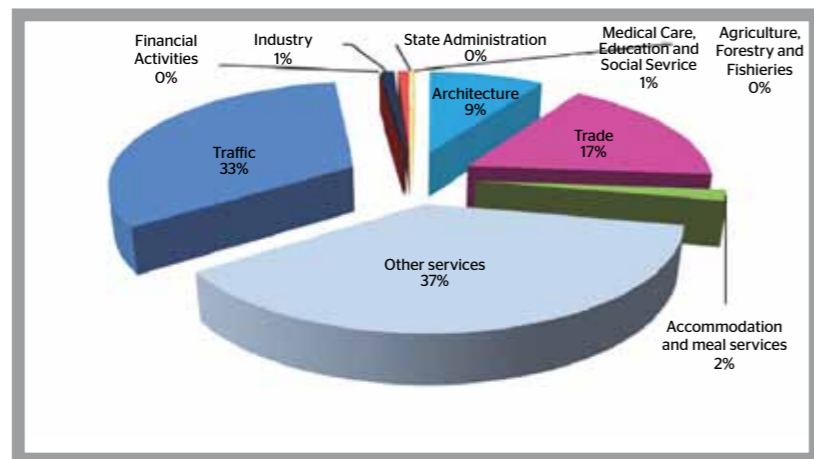
Table 9. Sectoral structure of active contracts

Sector	Active contracts				
	First quarter 2014 (1)	%	Second quarter 2014 (2)	%	Growth/fall rate (2)/(1)
Agriculture, Forestry and Fishery	41	1,42	42	1,42	2,44
Construction	374	12,97	366	12,40	-2,14
Trade	942	32,67	917	31,07	-2,65
Accommodation and food	153	5,31	151	5,12	-1,31
Other services	510	17,69	640	21,69	25,49
Traffic	215	7,46	275	9,32	27,91
Financial activities	23	0,80	23	0,78	0,00
Industry	225	7,80	205	6,95	-8,89
Health, Education and Social Protection	30	1,04	33	1,12	10,00
State Administration	38	1,32	35	1,19	-7,89
Other sectors	332	11,52	264	8,95	-20,48
Total	2883	100	2951	100	2,36

In terms of the number of active contracts according to the sectoral structure, the largest share in the total value of contracts have the trade (around 31%), other services (around 22%), construction (12%) and traffic (around 9%).

Graph 1 illustrates the overall sectoral structure in terms of the value of newly concluded contracts in the second quarter of 2014.

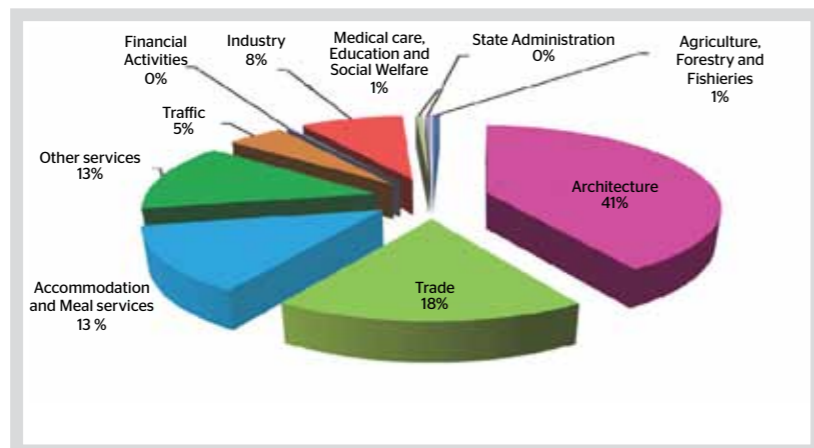
Graph 1: Structure of the value of newly concluded contracts in the second quarter of 2014



In terms of the value of newly concluded contracts according to the sectoral structure, the largest share in total value of investments have the traffic (33%), other services (37%), trade (17%), construction (9%), as well as accommodation and food (2%).

Graph 2 illustrates the overall sectoral structure in terms of the active contracts as on 30 June 2014, with the highest share of the construction, trade, accommodation and food, and other services.

Graph 2: Structure of the value of active contracts as on 30 June 2014



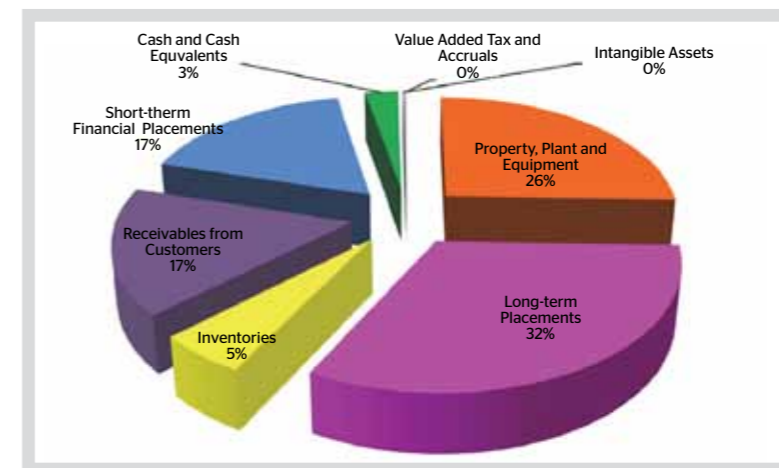
Balance sheet

Total amount of assets of the four leasing companies as on 30 June 2014, amounted at EUR 113 613 824.48 and was lower by 0,17% in relation to the end of the first quarter of 2014. However, the comparative data on assets obtained from the leasing market are not relevant, having in mind that a significant portion of the balance sum of the aggregate market balance is kept within the financial reports of the leasing providers with the highest

market share, Hipo Aple Adria Bank. In the total assets structure, a slightly higher share was related to the fixed assets (58%), while the share of the current asset was 42%. In comparison to the data as on 30 March 2014, the fixed assets is by 0,05%, while the current asset is by 0,46% higher.

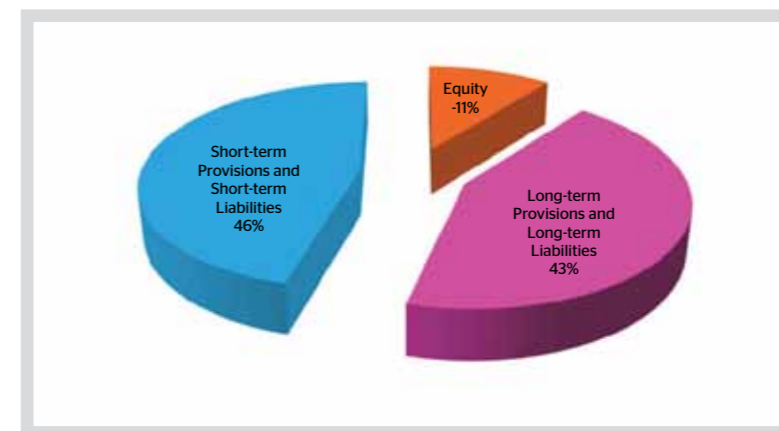
Based on the graph 3, it is evident that the long term financial investments with EUR 36 558 657.50 (32%) are the most important item of assets, followed by real estate, Property, Plant and Equipment EUR 28 973 265,63 (26%), Receivables from Customers EUR 18 881 904.58 (17%), Short-term Financial Placements EUR 19 804 110.40 (17%), Inventories EUR 5 962 610.74 (5%), and Cash and Cash Equivalents EUR 3 112 567.21 (3%).

Graph 3: Structure of total assets of leasing companies as of 30 June 2014



In the structure of liabilities of the four leasing companies as of 30 June 2014, the highest share was with the short-term liabilities and provisions amounting to EUR 66 061 184.75, i.e. 46%, while the long-term provisions and long-term liabilities amounted at EUR 62 618 129.90, i.e. 43%, while the capital was at -11%. In comparison to the data as of 31 March 2014, the capital recorded the increase by 0,81%, long-term provisions and long-term liabilities increased by 1,08%, while short-term reserves and short-term liabilities decreased by 1,47%.

Graph 4: Structure of total liabilities of the leasing companies as of 30 June 2014



Income Statement

As of 30 June 2014, the four leasing companies have generated the operating income in the amount of EUR 5 300 954.57 and the financial income in the amount of EUR 1 128 846.05 and generated income from other activities in the amount of EUR 98 495.64. On the other hand, in the same period, operating expenses were realised in the amount of EUR 4 111 356.50 and financial expenditures in the amount of EUR 1 510 578.69, as well as other expenditures in the amount of EUR 337 867.37.

Leasing companies as of 30 June 2014 have accounted EUR 568 493.70 for the final result, i.e. profit on the market, which is by 29,6% higher in comparison to the end of the first quarter of the current year. For comparison purposes, on the same date in 2013 the leasing market reported the loss before taxation in the amount of EUR 191 669.79. A positive result at the end of the reporting period in 2014 was accounted for by the three of four leasing companies. Simultaneously, it should be noted that the total result of the income statement, illustrating revenues and expenditures of the leasing companies, does not include a part of the data calculated through the balances of banks engaged in the leasing operations, having in mind that the Hipo Alpe Adria Bank is providing the leasing services within its portfolio.

Conclusion

The leasing market during the second quarter of 2014 was featured by the increase in the number of contracts concluded compared to the previous quarter, as well as their value. Comparative data in relation to the previous quarter of the same year indicates positive trends accounted for in the number of newly concluded contracts, as well as results of income statements, which is, in general, a common trend in movement of economic activity in Montenegro during the period of the second and the third quarter.

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Nina Blečić

Risk management in the Public Sector

Term RISK

In order to introduce the risk management process, it is necessary to understand the concept of risk. The word “risk” is often used, but it can be defined in different ways. The word “risk” derives from the old Italian word “risicare” which means “to dare.” So the risk is prior choice than destiny.

Definition of risk

ORGANIZATIONS	DEFINITIONS OF RISK
The law on internal financial control in the public sector	The possibility of occurrence of events that may adversely affect the achievement of objectives of the entity.
ISO Manual 73 ISO 31000	The impact of uncertainty on objectives. These effects can be positive, negative, or deviate from the expected. Also, the risk is often characterized on the basis of the event, changes in the circumstances, or a result of activities.
Institute of Risk Management (IRM)	Risk is the combination of the probability of events and their consequences. Consequences can range from positive to negative.
„Orange Book“ from HM Treasury	Uncertainty of outcomes, in ranging exposure, which arises from a combination of impact and likelihood of potential events.
The Institute of Internal Auditors (IIA)	Uncertainty of events that might occur and affect the achievement of objectives. Risk is measured in terms of consequences and likelihood.
An alternative definition	Threat to the successful achievement of goals and everything that is a threat to the achievement of objectives, programs or services to citizens. Risk are also missed opportunities for achieving these goals.

Effective risk management creates a good basis for better decision making and increase in business efficiency, and for better prediction and optimal use of available resources, and contributes to the strengthening of confidence in the management system in the public sector.

Risk management

Risk management is a management tool that helps to anticipate changing circumstances and to respond to them. Risk management is not a separate activity, but rather is a part of the ordinary activities of the entity managers and organizational units that are responsible for managing the finance and human resources, especially when making decisions. The risk management process is a set of activities that require some human, time and financial resources.

Public sector entities need to establish an effective risk management system, in order not to find themselves obliged to spend a large amount of funds for the elimination of the consequences. Development of financial management and control requires the development of risk management by creating an environment in which the debate about the risks is a part of everyday business.

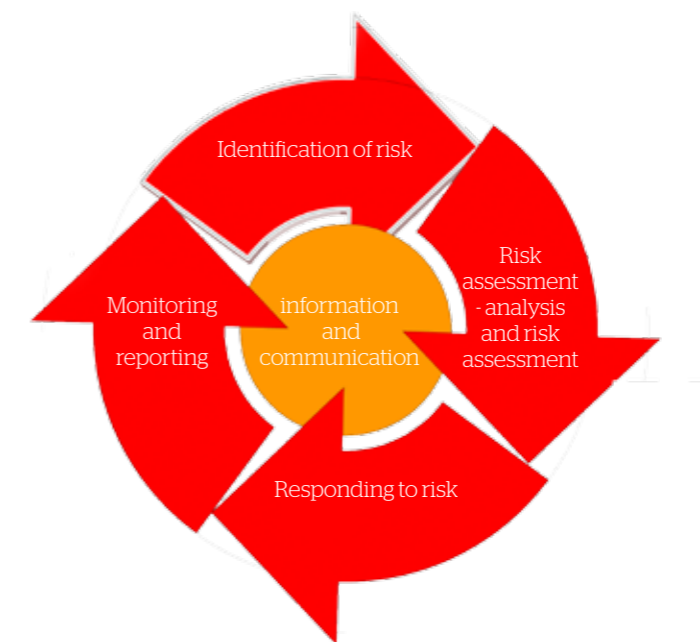
In accordance with Article 13 of the Law on System of Internal Financial Control in the Public sector, the head of the entity is responsible for determining the objectives of the entity, the development and implementation of strategic and other plans and programs to achieve the objectives, including the identification, assessment and management of risks that may threaten the achievement of the objectives of the entity and the introduction of appropriate control the risk management.

Heads of organizational units at different levels of entity management are responsible for achieving the objectives of the entity in accordance with the assigned authorities and responsibilities within their jurisdiction, and thus for risk management.

Risk management means looking into the future, thinking in advance about potential events that may occur, their impacts and consequences which the entity may face in the future, and take timely measures to ensure that risks are reduced to a level that is acceptable to decision-makers, and thus avoid or minimize adverse impacts.

Benefits of establishing and implementing the risk management process are:

- Better decision making - All decisions carry a certain level of uncertainty with them and risk management helps managers to align their decisions with real assessment of planned activities.
- Increase of efficiency - Accepting a risk-based approach, entity can better decide on how to improve the system, allocate resources and achieve a better balance between an acceptable level of risk and control costs.
- Better anticipating and efficient use of available resources - Enables identification of key risks the entity faces and regular distribution of limited available resources for adequate treatment of the identified risks.
- Strengthening confidence in the leadership (management structure) - Risk management is an essential part of the management process in each entity which improves the planning process by emphasizing the key processes and risks that may affect the achievement of the objectives of the process and goals of the enterprise.
- Developing a positive organizational culture - Develop an organizational culture that will create an aversion to risk.



Risk management is a continuous cycle, which allows managers to make better decisions, better anticipation and efficient use of available resources, addressing priorities, and avoiding future problems that may arise during the implementation of the set objectives.

The main activities of the risk management process

Key stages of risk management are:

- Identification of risk
- Risk assessment - analysis and risk assessment
- Responding to risk
- Monitoring and reporting

The Ministry of Finance has issued guidelines for the establishment and implementation of risk management in the public sector entities, which provide the framework for the establishment and implementation of a unified risk management process for all public sector entities.

The guidelines are intended for managers in the public sector and other staff to assist in the establishment of this process, as it refers to each individual in the entity.

Effective risk management will strengthen the existing management structure, particularly in the planning and decision-making, which will contribute to the risk management process to develop as a standard, widely accepted concept and an integral part of management which will help in optimal utilization of public resources, both national and funds from EU.

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