



Ministry of Finance

Report on the implementation of the Public Finance Management Reform Program 2022-2026, in 2024

March 2025

CONTENT

I	SUMMARY.....	2
II	INFORMATION ON PROGRESS IN ACHIEVING OPERATIONAL OBJECTIVES.....	8
II-1	STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING	8
II-1.1	Macroeconomic analysis and fiscal policy.....	9
II-1.2	Medium-term budget planning	12
II-1.3	Further development of program budgeting	15
II-1.4	Public investment management.....	17
II-1.5	Public debt management.....	21
II-1.6	Development of the EU own resources system	23
II-1.7	Improvement of official statistics	24
II-2	BUDGET EXECUTION	26
II-2.1	Improvement of the revenue collection efficiency.....	26
II-2.2	Public procurement.....	34
II-2.3	State aid reform	39
II-2.4	System for calculation of earnings	41
II-3	ACCOUNTING, MONITORING, AND FINANCIAL REPORTING.....	44
II-3.1	Transition to Accrual Accounting.....	44
II-3.2	Management of (Non-Financial) State Property and the Cadastre	46
II-3.3	Reporting on Budget Execution	51
II-3.4	Management and Reporting on the Use of EU Funds	52
II-4	FINANCIAL CONTROL	54
II-4.1	Internal Financial Control in the Public Sector (PIFC)	54
II-4.2	External Audit.....	57
II-4.3	Coordination of fraud prevention (AFCOS)	61
II-4.4	Improvement of the Efficiency of the Audit Authority	63
II-4.5	Operationalization of the Budget Inspection Function.....	65
III	BUDGET	66
IV	RECOMMENDATIONS FOR THE NEXT PHASES OF IMPLEMENTING THE STRATEGIC DOCUMENT.....	66
V	REPORTING TABLES	68

I SUMMARY

The Report on the implementation of the Public Finance Management Reform Program for 2024 provides a comprehensive overview of the achieved results, key activities, and challenges in implementing reform measures aimed at improving the efficiency and transparency of the public funds management. Significant progress was achieved in the previous year in carrying out key activities focused on establishing a solid foundation for the successful implementation of the public finance management reform, which represents a crucial step toward enhancing efficiency and transparency in the use of state resources.

The implementation of the PFM Program is an integral part of Montenegro's EU accession process, within Cluster 1 – Fundamentals, which includes meeting the economic criteria for EU membership. According to the European Commission's 2024 Report, Montenegro is moderately prepared in these areas, with limited or some progress achieved. Further implementation of the PFM Program in 2024 is directed towards fulfilling Montenegro's obligations in public finance management in the following relevant chapters: Chapter 17 – Economic and Monetary Union, Chapter 18 – Statistics, Chapter 32 – Budgetary and Financial Provisions, Chapter 5 – Public procurement, Chapter 8 – Competition, Chapter 16 – Taxation, Chapter 29 – Customs Union and Chapter 32 – Financial Control.

These activities are also intended to achieve aggregate fiscal discipline, operational efficiency, and effective allocation of budgetary resources within the country. The implementation of activities under this program has contributed to further improvements in areas identified as needing enhancement by the relevant international reports such as PEFA, PIMA, and SIGMA monitoring reports.

During the reporting period, a strengthened coordination structure for monitoring reform progress was established, and communication with international partners was intensified to ensure the necessary support for program implementation.

Recognizing the importance of the Public Finance Management Reform Program for 2022–2026, adopted in December 2022, as well as its scope, objectives, and activities, the need for establishing an appropriate coordination structure was identified, that will define the tasks and responsibilities of all relevant institutions and ensure the efficient and timely implementation of the reform. In this regard, at its session held on April 11, 2024, the Government of Montenegro, based on the proposal of the Ministry of Finance, adopted a *Decision on the Establishment of a Working Group for monitoring the implementation of the Public Finance Management Reform Program for 2022–2026*. The decision was published in the Official Gazette of Montenegro on May 16, 2024.

The Working Group, coordinated by the Ministry of Finance, is responsible for coordination, monitoring, and reporting on the results of the activities planned within the Program. It consists of 70 representatives from 14 state institutions, organized into four working teams responsible for coordinating activities within the four strategic objectives of the PFM Program: (1) Strengthened fiscal framework and budget planning, (2) Budget execution, (3) Accounting, monitoring and financial reporting, (4) Efficient financial control.

The Decision on the Establishment of the Working Group defines that the Working Group, among other responsibilities, coordinates and oversees the implementation of the measures and activities outlined in the Program, prepares annual implementation plans, and compiles progress reports on the Program's implementation. The Working Group has prepared this Report on the Implementation of the PFM Program for 2024.

To enhance transparency and improve coordination in reform implementation, members of the Council for Public Administration Reform from NGOs and universities are invited to attend the meetings of the Working Group, in accordance with the Decision. Rules of Procedure for the Working Group has been prepared and adopted, regulating its organization, operations, rights and duties of its members, and other relevant matters.

The dialogue with the European Commission on PFM reform has continued and intensified. A follow-up meeting with the European Commission and SIGMA representatives was held in Podgorica on April 18, 2024, to review the progress on the conclusions from the PFM Dialogue held in November 2023. Additionally, an annual meeting on public finance management reform was held in Brussels on November 20, 2024, as part of the meeting of the Special Working Group on Public Administration Reform. Throughout 2024, regular communication was maintained with the EU Delegation to exchange information on all aspects of reform implementation and the execution of EU-funded technical assistance projects for PFM. Numerous activities were undertaken to ensure technical and expert support for implementing the Program's measures, with assistance from the EU, IMF, UNDP, and other donors, across various areas of public finance management.

Key monitoring findings for PFM Program implementation in 2024, which includes 144 activities and 38 indicators, are presented in the charts below. The findings indicate significant progress in implementing the PFM Program in 2024, with 60% of total performance indicators showing improvement compared to the previous year.

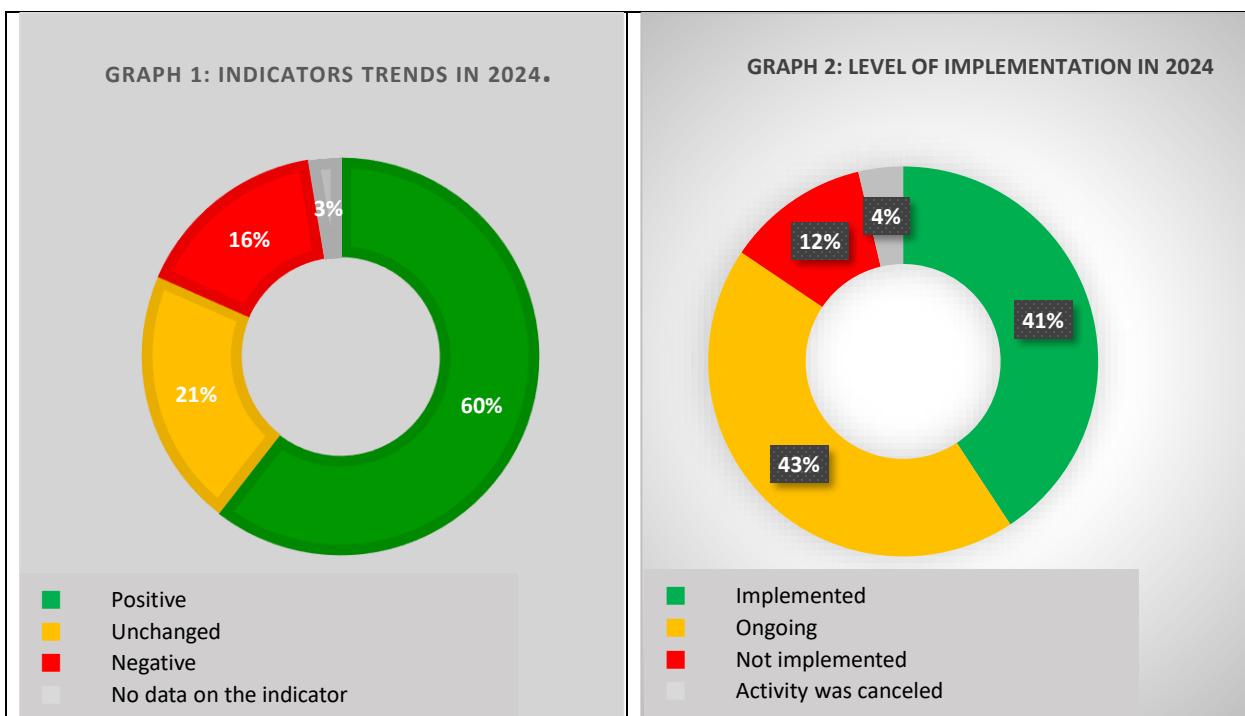
The concrete positive effects of implementing the Program in 2024 relate to reducing the gap between projected and achieved GDP to 0.7%, which is better than the target value of +/-2%. One of the important outcomes in 2024 is the reduced deviation between the upper limits of expenditures set in the medium-term budgetary framework and the annual budget, bringing it below 2%. Another key result is the reduced deviation between the planned budget expenditures in the medium-term budgetary framework and the actual budget execution for 2024. According to preliminary data for the previous year, total revenues deviated by 1.1% from the plan, which is better than the target values set in the Program. Better results were also achieved in public investment management through the initiation of the development of the Long-term Investment Plan. An important achievement is the improvement of the average debt maturity to 4.06 years, as well as progress in Chapters 5 - Public Procurement, 8 - Competition, 16 - Taxation, 17 - Economic and Monetary Union, 18 - Statistics, and 29 - Customs Union, which is crucial for closing these chapters.

A significant result in budget execution was achieved by reducing the time required to process complaints in public procurement to 24 days. Additionally, there was a reduction in the average number of complaints related to public procurement in comparison to the number of published tender notices, along with an increase in the average number of bidders for published tenders to 3.3. This represents a positive trend toward the set target values.

Another positive outcome in 2024 is the increase in the number of institutions using centralized payroll accounting to 159, reflecting a growth of 13.57% in the number of entities and 46% in the number of employees. Furthermore, in 2024, steps were made towards introducing accrual accounting in the public sector through the adoption of necessary bylaws, while simultaneously strengthening the legal framework and information system for maintaining the real estate registry.

As a result of monitoring the effectiveness of budgetary fund allocation, a report on the implementation of the program budget for 2023 was produced. Performance indicators in the area of financial controls also show that in 2024, the participation of ministries delegating financial management and internal control powers increased to 42%, which represents accelerated progress toward the target value of 80% by 2026. Additionally, progress was made in fulfilling the final measure in Chapter 32 - Financial Control, through the completion of obligations related to external audit, as well as staffing and organizational strengthening of the budget inspection.

Realization of 41% of activities from the Action Plan according to the planned timeline contributed to the positive trend in performance indicators, while 44% of activities are currently ongoing and are expected to be completed within the planned deadlines.



The most important achieved results and challenges in the implementation of the PFM program for 2024 are presented below.

SO 1: Strengthened fiscal framework and budget planning

SUCCESSES

- ✓ Macrofiscal projections have been improved, and the deviation (up to 2%) between the achieved and projected results has been reduced.
- ✓ A system has been established for monitoring fiscal risks arising from the operations of state-owned enterprises.
- ✓ The level of gender-responsive budgeting has increased in budget planning, and prerequisites for reporting on budget execution based on results have been ensured.
- ✓ Supervision over capital budget planning has been improved.
- ✓ The legal basis for implementing ESA 2010 in public finance statistics has been secured, contributing to the fulfillment of obligations for the closure of negotiation Chapter 18.

SO 2: Budget Execution

SUCCESSES

- Annual budget revenues in 2024 have increased by 7.3%.
- IRMS is in the final stages of development, and data has been migrated.
- The application of NCTS contributes to more efficient combating of fraud and corruption.
- Public awareness has been increased through awareness-raising events and educational campaigns on tax obligations.
- Awareness and professional capacity in public procurement have been enhanced.
- The efficiency of the e-procurement system has increased.
- The legislative framework in the area of state aid control has been amended in accordance with the EU acquis, improving the general rules for de minimis aid and aid for services of general economic interest.
- 75% of cases concerning the post-control of state aid have been processed by the AZZK, and judicial rulings have been obtained for the first time.
- The centralized payroll system has been expanded to 159 users or 16,700 employees (37% of the total number of employees).

CHALLENGES

- Establishment of the Fiscal Council
- Limited capacities for the medium-term budgeting
- Limited capacities to ensure continuity in the implementation of ESA 2010
- Insufficient awareness and lack of readiness at the local level regarding the monitoring of budget fund allocation effectiveness through the introduction of program-based budgeting.

CHALLENGES

- Full alignment with the EU legal acquis in the areas of tax and customs policy.
- Establishment of the VAT register within the IRMS and preparation of project documentation for proper integration into the VAT Information Exchange System (VIES).
- It is necessary to accelerate activities on testing application modules in IRMS.
- Unfavorable age structure of tax inspectors, as well as a limited number of IT experts in the Tax Administration.
- Lack of funds for further improvement of the electronic public procurement system.
- Insufficiently developed administrative capacities for state aid control.

SO 3: Accounting, monitoring and financial reporting

SUCCESSES

- ✓ The legal prerequisites for transitioning to accrual accounting have been established through the adoption of necessary bylaws.
- ✓ The number of certified accountants in the public sector has increased.
- ✓ Property records have been improved through the enhancement of the cadastral information system.
- ✓ Budget execution reporting by program classification for 2023 has been improved, thanks to the enhancement of the BMIS.

SO 4: Financial control

SUCCESSES

- ✓ The methodological framework for managerial accountability has been improved.
- ✓ Awareness among managers about the importance of managerial accountability has been raised.
- ✓ The knowledge of auditors for assessing the effectiveness of internal controls has been enhanced.
- ✓ The process of monitoring the implementation of external audit recommendations has been improved. The Medium-term Audit Plan 2020-2024 of the State Audit Institution (SAI) has been implemented at 83%, and the Medium-term Financial and Compliance Audit Plan has been implemented at 85%.
- ✓ A methodology for managing fraud and irregularity risks has been developed, and an analysis of the legal basis for the AFCOS system has been carried out.
- ✓ The legal framework for the operation of the budget inspection has been improved through the adoption of the Budget Inspection Law. The capacities have been strengthened by hiring new budget inspectors.

CHALLENGES

- Lack of information systems and insufficient human capacity for implementing the new legal framework for accrual accounting.
- Insufficient information on the readiness of municipalities to transition to accrual accounting.
- Lack of information on the costs and benefits of upgrading the accounting information system.
- Unfinished assessment of state assets for completing the real estate registry.
- Lack of methodology for the mass appraisal of state assets.
- Lack of software solutions for the complete inventory of assets.

CHALLENGES

- Insufficient development of the regulatory framework for internal audit.
- Underdeveloped capacities for internal audit among budget users.
- Delayed procedure for the selection of a member and president of the Senate of the State Audit Institution (SAI).
- Delay in finalizing strategic documents on fraud and irregularities.
- Insufficient acceleration of expert support to improve the work of the budget inspection.

RECOMMENDATIONS

SO 1: Strengthened fiscal framework and budget planning

- Adopt amendments to the Budget and Fiscal Responsibility Law to extend the deadline for establishing the Fiscal Council, ensuring prerequisites for the further development of program budgeting, etc.
- Continue improving the knowledge and skills of employees in the Ministry of Finance through targeted training and work on models for macroeconomic projections.
- Develop a methodology for assessing fiscal risks.
- Establish an efficient monitoring system for the implementation of medium-term plans by linking them with the medium-term budgetary framework and program budgeting.
- Continuously improve the process of identifying gender objectives and indicators within budget documents.
- Further increasing awareness of the importance of program budgeting at the local level. Finalize procedures and the manual for evaluating the impact of programs and projects.
- Continuously work on improving administrative capacities in all institutions involved in the process of planning EU own resources, in the areas of public debt management, public investments, and public finance statistics, for the efficient implementation of ESA 2010.

SO 2: Budget execution

- Accelerate the process of joining Conventions, aiming to fulfill the closing benchmark in Chapter 29 - Customs Union.
- Accelerate activities for the full implementation of IRMS.
- Accelerate activities on adopting bylaws that will clearly define the VAT number.
- Increase the number of inspectors to combat informal economy.
- Continue strengthening administrative capacities in the areas of public procurement and state aid.

SO 3: Accounting, monitoring and financial reporting

- Conduct an urgent analysis of the advantages and disadvantages of upgrading the accounting information system
- Better integration of all institutions and involvement of more IT experts.
- Implement specific training for the implementation of new regulations for accrual accounting
- Continuously provide training for managing the asset registry.
- Establish interoperability of relevant IT systems for managing state assets.
- Intensify activities to improve budget execution visualization.

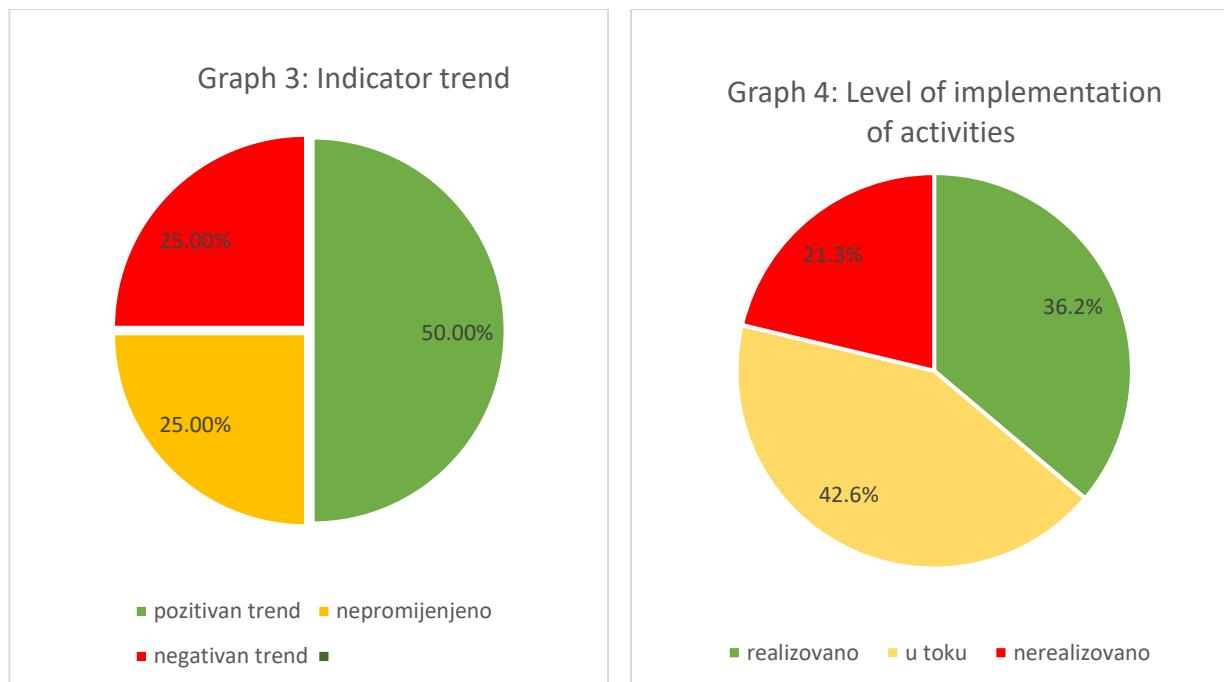
SO 4: Financial control

- Further improve the regulatory framework for managerial accountability and promote the delegation of decision-making authority and resource management
- Continue trainings for internal auditors.
- Accelerate the finalization of strategic documents and analyses.
- Amend the legal framework to further strengthen the capacity of the Audit Authority.
- Further strengthen the capacities of the budget inspection.

II INFORMATION ON PROGRESS IN ACHIEVING OPERATIONAL OBJECTIVES

II-1 STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING

The performance indicators in achieving the strategic objective "Strengthened Fiscal Framework and Budget Planning" show a significant positive trend in 2024. Specifically, in all subsystems of the PFM Program related to budget planning, 50% of performance indicators have improved, while 25% remain at the same level as in 2023. In other words, the improved indicators indicate progress in all negotiation chapters in the process of stabilization and association with the EU, related to Strategic Objective I of the PFM Program – "Strengthened Fiscal Framework and Budget Planning." This particularly includes progress in chapters 17 - Economic and Monetary Union, 18 - Statistics, and 32 - Budgetary and Financial Provisions. The implementation of activities related to the identification and monitoring of fiscal risks, improving capacity for macroeconomic forecasting, improving program structure and performance information, promoting the use of public-private partnerships, establishing a capital projects database, adopting a new public debt management strategy, and establishing procedures for the establishment of EU own resources systems, significantly contributed to the achievement of these results. The trend of performance indicators within Strategic Objective I of the PFM Program – "Strengthened Fiscal Framework and Budget Planning" and the activities aimed at achieving these indicators in 2024 are presented in the graph below.



II-1.1 Macroeconomic analysis and fiscal policy

The table below shows the trend of performance indicators within this subsystem in 2024 compared to the previous year, while the operational objectives of this subsystem and activities from the PFM program Action Plan that have contributed to achieving the results are presented in the following text.

Subsystem Objective 1.1	Macroeconomic analysis and fiscal policy				
Indicator	Baseline value 2021	Achieved value in 2023.	Achieved value 2024.	Trend	Target value in 2026.
The difference between projected and actual GDP	- 2%	- 0.5%	0.7% ¹		- 2%
Deviation between the upper limits of expenditure set in the SBO and the annual budget [Target: < 2%]	- 2%	- 2%	- 2%		- 2%
Deviation between planned budget expenditures in the SBO and budget execution from the previous year	- 2%	- 2%	- 2%		- 2%
Deviation between planned budget revenues in the SBO/annual budget and actual collections from the previous year	- 2%	0.3%	1.1% ²		- 2%

¹ The achievement for 2024 is still not final. The data on GDP growth is for the first nine months.

² The preliminary data for the 12 months of 2024.

OPERATIONAL OBJECTIVE 1.1.1 – Establishment of the Fiscal Council to strengthen oversight of fiscal policy implementation and building its capacities

The formal prerequisites for the establishment of the Fiscal Council of Montenegro were created by the adoption of amendments to the Budget and Fiscal Responsibility Law in 2023, which set out the competencies of the Fiscal Council, criteria for selecting members, professional service, and more. However, the selection of members of the Fiscal Council has not yet been carried out.

Izazovi: The selection of members of the Fiscal Council in order to create conditions for its functioning and operational work in accordance with the competencies of the Fiscal Council.

Recommendations: Adoption of amendments to the Budget and Fiscal Responsibility Law, which would extend the deadline for the functioning of the Fiscal Council by one year, i.e., until 2026, while the selection of the Fiscal Council members would be completed in 2025. The development of procedures/regulations for the functioning of the Fiscal Council will be carried out with the support of the World Bank after the establishment of the Fiscal Council.

OPERATIONAL OBJECTIVE 1.1.2 – Improvement of fiscal risks identification and monitoring

In the previous year, key activities were carried out focused on improving the management and oversight system of the state-owned enterprises sector, laying the foundation for further development and more efficient operation of this sector.

The Government of Montenegro, at a session held on February 22, 2024, considered the Information on the establishment of a register of public enterprises and companies with a majority state ownership, submitted by the Ministry of Finance. The Government tasked the Ministry of Finance, in coordination with the Ministry of Public Administration and the relevant ministries, to undertake the necessary activities for the establishment of a public register of companies with a majority state ownership, with the aim of completing the first phase of establishing the register by the end of February 2024.

In accordance with the Government's conclusion from March 1, 2024, the Ministry of Finance established the Register of Public Enterprises and Companies with Majority State Ownership, which was published on the official website of this institution on February 29, 2024 (<https://www.gov.me/clanak/registar-javnih-preduzeca-i-privrednih-drustava-u-vecinskom-vlasnistvu-drzave>). The Ministry of Finance's website features the updated Register of companies and public enterprises at the central government level, including the most recent available data for 2023.

In collaboration with IMF experts, the capacity-building of employees in the Directorate for Fiscal Risks of Public Enterprises continued in 2024, focusing on the analysis and reporting of fiscal risks arising from the operations of SOEs sector.

In the second half of 2024, the Ministry of Finance independently held annual meetings with 13 companies/public enterprises to better understand their activities and business performance. It is planned for this to become a continuous practice in the future. Individual business performance analyses were prepared for 15 companies assessed with a high fiscal risk rating (categories 4 and 5).

In July 2024, the Government of Montenegro adopted the Analysis of the institutional and regulatory framework for the operations of public enterprises and companies with majority state ownership. During this session, among other decisions, a conclusion was made directing the Ministry of Finance to prepare a draft document that will precisely define the state's ownership policy in public enterprises and companies with majority state ownership, as well as strengthen the ownership function and increase the focus on a centralized management model. Additionally, the Ministry of Finance was tasked, in collaboration with the relevant ministries/sectors, to prepare a draft of a new legal solution that will comprehensively and uniformly regulate the management and oversight system for the SOEs sector, as well as address all specifics related to the functioning and operations of these companies.

The Ministry of Finance, in collaboration with the relevant departments, has prepared a draft document that precisely defines the state's ownership policy in public enterprises and companies with majority state ownership, as well as strengthens the ownership function and increases the focus on a centralized management model.

In addition to the aforementioned document, the Ministry of Finance, in collaboration with the relevant departments, has prepared a draft of a new legal solution that will comprehensively and uniformly regulate the management and oversight system for the state-owned enterprise sector, as well as address all the specifics of the functioning and operations of these companies.

Once the appropriate legal prerequisites for managing and overseeing state-owned enterprises are established, the Ministry of Finance will, in line with the IMF Methodology currently being used for analyzing and monitoring fiscal risks, work on further analyzing this methodology and adapting it to the context of the Montenegrin economy. The plan is to develop and establish a unified methodology for managing fiscal risks of state-owned enterprises in Montenegro, which will define the process and procedure for identifying and managing fiscal risks, as well as clearly establish risk thresholds for different categories, including the methodology for determining the amount of the fiscal safety reserve. According to the Government's work plan for 2025, the adoption of the Methodology for assessing and monitoring fiscal risks of state-owned enterprises is planned for the second half of the year.

The Government of Montenegro, at a session held on December 19, 2024, adopted the Aggregate Analysis of the Financial Performance of the State-Owned Enterprises Sector for 2023, along with the Fiscal Risk Statement. The aggregate analysis was prepared based on the business results of 50 companies with majority state ownership, using the financial condition assessment tool developed by the IMF (SOE HCT). Additionally, the monitoring and public disclosure of the fiscal risk statement is in line with the IMF's Fiscal Transparency Code, which should be applied by all IMF member countries. Montenegro published the aforementioned Fiscal Statement for the first time, and it is planned to be updated annually in the future, with an expanded data scope, aiming to implement advanced IMF practices.

The Government has tasked the Ministry of Finance, in collaboration with other relevant ministries, to continuously monitor the business results of the state-owned enterprises sector, including fiscal risks, and to inform the Government at least once a year on this matter. Additionally, the Government instructed the state-owned companies that have been operating at a loss for the past three years to prepare a Business Recovery Strategy for the medium term and to inform the Ministry of Finance about it no later than the end of the second quarter of 2025.

Challenges: A challenge will be the development of a methodology that is adapted to the context of the Montenegrin economy and aligned with good international practices and standards. Additionally, a potential challenge could be securing expert support in this area.

Recommendations: Securing expert support and further strengthening administrative capacities.

OPERATIONAL OBJECTIVE 1.1.3 – Strengthening the capacity of the Ministry of Finance for enhanced macroeconomic forecasting

Activities related to staff training in the Directorate for Macroeconomic and Fiscal Analysis and Projections have been initiated and intensified throughout 2024. These activities focus on macroeconomic analysis through on-site training and workshops organized by the Center for Excellence in Finance (CEF) and the Joint Vienna Institute (JVI).

Challenges:

Limited capacity of the Directorate for Macroeconomic and Fiscal Analysis and Projections, as there were no activities in 2024 regarding the establishment of new models or working on existing ones.

Recommendations: Initiate a new project cycle focused on strengthening the capacity, knowledge, and skills of the staff in the Directorate through targeted training and work on the models developed within the Directorate, in order to achieve their full operability and functionality. In this way, the working processes in the Directorate would be significantly improved.

II-1.2 Medium-term budget planning

The following table presents the trend of performance indicators within this subsystem in 2024 compared to the previous year. Below the table, the operational objectives of this subsystem and the activities from the Action Plan of the PFM program that contributed to achieving the outcomes are outlined.

SUBSYSTEM OBJECTIVE 1.2		Medium-term budgeting			
Indicator	Baseline value 2021	Achieved value 2023.	Achieved value 2024.	Trend	Target value in 2026.
The number of first-level budget users who provide comprehensive inputs for the proposal of the medium-term budget framework (MTBF)	0	100	43.75%	➡	90%

The number of employees in local government units trained for the Medium-Term Budget Framework (MTBF)	0	0	0		60
The number of strategic reforms prepared in accordance with the new methodology for drafting strategic documents related to program budgeting	0	0	0		80%

OPERATIONAL OBJECTIVE 1.2.1 – Amendment of the legal and regulatory framework reflecting the budget reform

The amendments to the Law on Budget and Fiscal Responsibility have not yet been adopted, but a working group has been established to prepare the amendments. International partners, as well as other external stakeholders, are involved in the process of contributing to the quality of the proposed changes. After the amendments to the law are adopted, relevant by-laws will be prepared.

Challenges: Adoption of the amendments to the legal framework.

Recommendations: Amendments to the Law on Budget and Fiscal Responsibility that further elaborate the Medium-Term Budget Framework (MTBF), based on which the accompanying by-laws will also be adopted.

OPERATIONAL OBJECTIVE 1.2.2 – Establishment of a methodological framework for medium-term budget planning for local governments

The initial plan of the Ministry of Finance was to introduce an obligation for local government units to prepare and implement the medium-term budget framework and program budgeting through amendments to the Law on Budget and Fiscal Responsibility. However, since the amendments to the law have not been adopted within the planned timeframe, these activities have not been implemented. In addition to regulatory changes, the need to significantly strengthen administrative capacities in local governments for the implementation of legislation has been identified, as well as the need for upgrading the budget planning software solution (BMIS).

Challenges: Adoption of amendments to the legal framework; upgrading BMIS; strengthening capacity in local governments.

Recommendations: Training should be conducted before the adoption of amendments to the Law on Budget and Fiscal Responsibility so that local governments are prepared to implement the new legal solutions.

OPERATIONAL OBJECTIVE 1.2.3 – Building capacity for medium-term budget planning at the central and local government levels

The initial plan of the Ministry of Finance was to introduce an obligation for local government units to prepare and implement the medium-term budget framework and program budgeting through amendments to the Law on Budget and Fiscal Responsibility. Given that the amendments to this law have not yet been adopted within the planned timeframe, these activities have not been implemented. In addition to regulatory changes, the need to significantly strengthen administrative capacities in local governments for the implementation of the legislation has been identified, as well as the need to upgrade the budget planning software solution (BMIS).

Challenges: Adoption of amendments to the legal framework; upgrading BMIS; strengthening capacity in local governments.

Recommendations: Training should be conducted before the amendments to the Law on Budget and Fiscal Responsibility are adopted, so that local governments are prepared for the implementation of the new legal solutions.

OPERATIONAL OBJECTIVE 1.2.4 – Further strengthening the link between strategic plans and the budget

In 2024, progress was made in institutionalizing strategic planning at the ministry level through an increase in the number of ministries with organizational units for strategic planning, which currently stands at 6.

Regarding the planned linking of the MTBF with the system for strategic planning and the medium-term government work program, consultations were held with the company responsible for maintaining the Information System for Monitoring and Reporting (ISPI) on the possibility of linking it with the information system for program budgeting. It was concluded that technical integration is possible. However, due to a lack of financial resources, a more detailed technical analysis and specification definition were not carried out. The EU-funded IPA project "EU4PFM," which started in late 2024, financially supports the detailed technical analysis for linking ISPI and the program budgeting software, with implementation planned for mid-2026.

When it comes to linking strategic documents with the program budget, practical options for connecting activities from strategic documents through appropriate sign-offs from the budget review, which would be part of the methodological guidelines for ministries, were discussed with the Ministry of Finance. However, a more detailed analysis of this issue was not conducted. The "EU4PFM" project provides expert support for a more comprehensive analysis and exploration of potential solutions to this challenge. This activity is set to begin in 2025.

Challenges: The challenges related to further progress in institutionalizing strategic planning at the ministry level include the long-term financial sustainability of the requirements for establishing strategic planning units, especially considering the significant increase in the number of ministries due to the latest reorganization of the public administration, which now totals 25 ministries.

Regarding the integration of software solutions for monitoring and reporting (ISPI) and the program budget (BMIS), the challenge will be the preparation of new manuals to further align strategic documents and budget processes, following the EU model. It will also be necessary to prepare technical specifications for the IT platform to link strategic documents with budget programs, i.e., to facilitate data exchange between the information systems.

After preparing the amendments to the methodology that will enable the linking of strategic documents with the program budget, the challenge will be ensuring the implementation of the revised methodology and its integration into existing strategic planning processes.

Recommendations: The solution to the challenge of establishing strategic planning units in ministries will be sought through a correction of the previous approach, which required a specific organizational form to introduce key policy coordination functions in ministries. Instead, the focus should shift from organizational structure to defining the key policy coordination functions at the ministry level. These defined functions would then be assigned to existing positions within the ministries, thereby eliminating the risk to financial sustainability.

The amendments to the Law on the Budget and Fiscal Responsibility should include provisions that will ensure the introduction of standard operating procedures. Additionally, the Decision on the preparation and content of the program budget for spending units needs to be revised to establish an organizational structure for monitoring the program budget, with clearly defined managerial responsibilities.

Regarding the implementation of the revised methodology, it is essential to ensure adequate communication with relevant institutions to guarantee the efficient application of the methodology and establish a clear link between strategic documents and the program budget.

II-1.3 Further development of program budgeting

The table below shows the trend of performance indicators within this subsystem in 2024 compared to the previous year, while the following text outlines the operational objectives of this subsystem and the activities from the PFM Action Plan that contributed to achieving the results.

SUBSYSTEM OBJECTIVE 1.3		Further development of program budgeting			
Indicator	Baseline value	Achieved value 2023.	Achieved value 2024.	Trend	Target value in 2026.
The number of gender-oriented policies and policy objectives implemented in the program budget	0%	26%	22%		45%

The percentage of local government units that have implemented an information system supporting program budgeting	0%	0%	0%		90%
---	----	----	----	---	-----

OPERATIONAL OBJECTIVE 1.3.1 – Improvement of program structure and performance information

Activities related to aligning and improving the quality of the program structure for spending units are continuously being implemented. Through the enhancement of the Budget Management Information System (BMIS), the report on gender-related activities has been technically improved. To facilitate the identification of gender objectives and indicators within budget documents, the Ministry of Finance organized training sessions in July and September 2024 for officials working on program budgeting. In the budget document for 2025, 20 spending units have identified gender-sensitive activities.

In addition to the above, existing objectives and indicators are being analyzed, and activities are being carried out to improve them, including defining the gender dimension. Compared to 2023, in 2024, the number of spending units that marked their programs as gender-sensitive through set objectives and performance indicators has increased, representing a 2% increase.

Challenges: The challenges in this area relate to training as many officials as possible so that activities with a gender component are recognized in the budget document. Support is needed for conducting gender analysis and assessing the impact of budget programs on gender equality, as well as for collecting and managing sex-disaggregated data and gender statistics, and for defining gender-sensitive objectives and indicators.

Recommendations: It is necessary to continuously improve the process of identifying gender objectives and indicators within budget documents and to continue enhancing the performance information in the budget document.

OPERATIONAL OBJECTIVE 1.3.2 – Establishing a reporting and monitoring system for performance information

Activities aimed at further developing subprograms, activities, and performance measures in all spending units are being continuously carried out. Regarding the improvement of performance information, compared to the preparation of the 2024 budget, 14% of spending units submitted a gender-responsive analysis. Although the increase is modest, it is twice as large compared to 2023.

In the previous period, an upgrade to the BMIS was carried out, including a new structure for program budgeting and enhanced performance information. The annual report on the implementation of the program budget for 2023 is an integral part of the Draft Law on the Final Account of the Budget of Montenegro for 2023. This report includes performance information within the report by program classification. The information is available to the public in the Draft Law on

the Final Account of the Budget of Montenegro for 2023, which is published on the website of the Parliament of Montenegro.

Challenges: Maintaining the trend of increased spending units submitting gender-responsive analysis.

Recommendations: The concept of gender-responsive budgeting is complex and requires time for the training of personnel who will define gender-sensitive activities in the future.

OPERATIVNI OBJECTIVE 1.3.3 - Implementation of program budgeting at the local level

The initial plan of the Ministry of Finance was to amend the Law on Budget and Fiscal Responsibility to impose an obligation on local self-government units to prepare and implement a medium-term budget framework and program budgeting. Given that the amendments to this Law have not yet been adopted within the planned timeframe, the activities related to this objective have not been realized. In addition to the regulatory amendments, there is a recognized need to significantly strengthen the administrative capacities of local governments to implement the legislation, as well as to upgrade the software solution for budget planning (BMIS).

Challenges: Frequent changes at the level of leadership and responsible persons in municipal finance departments as a result of political changes.

Challenges: Training should be conducted before the adoption of amendments to the Budget and Fiscal Responsibility Law to ensure that local governments are prepared for the implementation of the new legal solutions.

OPERATIONAL OBJECTIVE 1.3.4 – Program performance evaluation

In December 2023, a draft manual for the evaluation of gender-responsive programs was prepared, and it is currently undergoing a revision and commenting process by relevant stakeholders.

Challenges: Potr Additional financial resources are needed for the implementation of the manual, specifically for conducting program and project performance evaluations by external evaluators.

Recommendations: Finalize the procedures and the manual for evaluating the performance of programs and projects.

II-1.4 Public investment management

The table below shows the trend of performance indicators within this subsystem in 2024 compared to the previous year. The operational objectives of this subsystem and activities from the PFM Action Plan that contributed to the achievement of outcomes are outlined in the following text.

SUBSYSTEM OBJECTIVE 1.4	Public investment management				
Indicator	Baseline value	Achieved value 2023.	Achieved value 2024.	Trend	Target value 2026.

Development of the Action Plan for the Improvement of the Public Investment Management System	Action Plan has not been adopted	Action Plan has not been adopted	Action Plan has not been adopted		Action Plan is implemented
Adoption of the Long-Term Infrastructure Investment Plan	The plan has not been adopted	Working Group was not established	The development of the plan has commenced		The long-term investment plan has been adopted

The activities carried out in 2024 improved the oversight of the capital budget planning process through the adoption of a new Decision on the Preparation of the Capital Budget. This decision clearly defined and enhanced the procedures for nominating new capital projects, as well as the evaluation process by the Commission, where priority was given to "mature" projects for inclusion in the list of priority projects for funding from the state capital budget. This contributed to a more transparent operation and monitoring of the budgetary units responsible for implementing the capital budget, resulting in a record execution rate for 2024 of 106% of the planned funds, amounting to 251 million euros, which is 62 million euros more compared to the previous fiscal year.

Challenges: Amendment actions on the capital budget, where members of parliament, bypassing procedures and technical documentation, propose projects for financing from the capital budget.

Recommendations: Amendment of the legislative framework to limit amendment actions on the capital budget, i.e., to ensure that such actions align with the Decision on the Preparation of the Capital Budget.

OPERATIONAL OBJECTIVE 1.4.1 – Improvement of the capital budget planning process and capacity for managing public investments

In order to strengthen the legal and regulatory framework in the area of public investment management, the Government adopted a new Decision on the Preparation of the Capital Budget ("Official Gazette of Montenegro", No. 36/2024) in April 2024, which improved the process of planning and preparing the state's capital budget. The procedures for including new capital projects for financing from the state budget were also clearly defined. In addition to the Decision on the Preparation of the Capital Budget, a Proposal for Amendments to the Budget and Fiscal Responsibility Law was prepared, which includes a special section targeting and elaborating on the area of public investments. Furthermore, activities have been undertaken to prepare a proposal for amending the Action Plan for the 2025-2026 period of the Public Financial Management Reform Program, which will contain the most important recommendations from the PIMA report.

In order to strengthen the institutional framework in this area, Division for Public Investment Management was established following the adoption of the new Rulebook on organization and systematization of the MoF. This marks the first time a dedicated organizational unit has been

recognized to focus on improving policies in the field of public investments. Additionally, in January 2024, the Government of Montenegro established the Council for Public Investments, chaired by the Prime Minister and including relevant ministers and key institutions. The Council was established to enhance the efficiency of capital projects and public-private partnership projects implementation. In 2024, the Council held three sessions, with the Ministry of Finance handling all administrative tasks on its behalf.

Regarding the indicator related to training for members of the Commission for determining the Priority List, it is deemed not applicable. The Decision on the Preparation of the Capital Budget stipulates that the Government appoints Commission members based on proposals from recognized institutions. The Commission primarily consists of officials with long-standing experience in capital budget planning, who evaluate, and score submitted project proposals according to clear criteria. Based on the Priority Capital Projects List prepared by the Commission, the Government—upon the recommendation of the Council for Public Investments—adopts the final list of projects to be included in the draft Budget Law for the next fiscal year. In practice, newly selected projects have mostly been "mature" projects, with completed technical documentation and resolved expropriation issues. Consequently, this part of activity has been omitted from the Draft Action Plan for the 2025-2026.

Challenges: Delays in adopting legislative amendments; staff turnover, which affects the composition of both the Council and the Commission;

Recommendations: Prompt adoption of legislative amendments to strengthen the legal and regulatory framework for public investment management;

OPERATIONAL OBJECTIVE 1.4.2 – Improving the efficiency of capital budget allocation by determining fiscal space

Activities related to the development of a methodology for public investment management are currently underway. Expert technical support has been contracted for the development of the Methodology for feasibility analysis, which is expected to be completed in 2025. Given that all necessary guidelines for planning new projects are already included in the budget circular with instructions, which the Ministry of Finance delivers to spending units each January in accordance with the Decision, there is no need to update the Capital Budgeting Manual.

Regarding the strengthening of administrative capacities, contact has been established with the Union of Municipalities of Montenegro to identify an appropriate model for organizing training for employees in local governments. Technical support for this training is expected to be contracted in 2025.

In the field of public-private partnerships (PPP), two successful training sessions were held in 2024 in Bar and Budva for representatives of municipalities and the public sector. Engaged experts presented best regulatory practices from the region and the EU, aiming to promote the benefits of financing capital investments through the PPP model. Additionally, a one-week expert mission was conducted, consisting of visits to relevant institutions and the promotion of successful PPP models to interested representatives of local governments.

Challenges: Limited capacity of employees in spending units and local governments, lack of expert and technical support for organizing training sessions.

Recommendations: Ensure appropriate training in cooperation with international organizations.

OPERATIONAL OBJECTIVE 1.4.3 – Improvement of the implementation and monitoring process of capital projects

With the upgrade of the BMIS system, a Register of Capital Projects financed from the state budget has been created. This register enables detailed and transparent quarterly reporting on the execution of the Capital Budget during the current fiscal year. The register is used for the preparation of the quarterly execution report, which is adopted by the Government, publicly disclosed, and submitted to the Parliament of Montenegro for review and further consideration.

Activities have been initiated to establish a dedicated information module for managing all public investments within the existing BMIS application. This module will integrate all necessary digital tools for planning and monitoring the execution of capital projects, as well as tracking public investments financed outside the state capital budget (including ministries, public institutions, local governments, and state-owned enterprises). The deadline for the upgrade is Q2 2026.

Challenges: The Register is not yet integrated with other relevant systems and does not contain all necessary project data, and it is not yet publicly accessible.

Recommendations: Enhance the Register to include all necessary project information and ensure its public accessibility.

OPERATIONAL OBJECTIVE 1.4.4 – Development of a long-term investment document

In accordance with the conclusion of the Council for Public Investments, the Ministry of Finance has established a working group for the development of a Master Plan for Infrastructure Projects. Technical support has been contracted, and more intensive activities on drafting this key strategic document are expected in 2025, in line with PIMA recommendations.

Challenges: Lack of valid sectoral strategies;

Recommendations: Comprehensive strategic planning for the development of individual sectors to identify future capital projects, which will be incorporated into the Master Plan.

II-1.5 Public debt management

The table below shows the trend of performance indicator movements within this subsystem in 2024 compared to the previous year, while the operational objectives of this subsystem and activities from the PFM Program Action Plan that contributed to achieving the results are presented in the following text.

SUBSYSTEM OBJECTIVE 1.5	Public debt management				
Indicator	Baseline value 2021	Achieved value in 2023.	Achieved value in 2024. ³	Trend	Target value in 2026.
Movement of the average maturity of debt	5.6 years	In 2022, the average debt maturity was 4.9 years, while according to preliminary data, in 2023, the average maturity was 4.03 years.	4.2 years		The average maturity has remained stable or improved compared to 2021.
Movement of the average weighted interest rate	2.2%	It was 2.3% in 2022, while according to preliminary data, in 2023, the average weighted interest rate increased to 3.28%.	3,91%		The average weighted interest rate is stable in line with market conditions.

OPERATIONAL OBJECTIVE 1.5.1 – Strengthening the capacities of the public debt management unit

One of the main challenges still faced by the Directorate for Public Debt within the Ministry of Finance is the need for further strengthening of capacities, despite an increase in the number of employees in 2024. Acknowledging this challenge, the Ministry of Finance is making continuous efforts to train and enhance the expertise of existing staff to ensure efficient public debt management.

In this context, the Ministry has repeatedly benefited from the technical and expert support from the International Monetary Fund (IMF). Training sessions have focused on the preparation and issuance of Eurobonds and domestic bonds, use of financial derivatives, development of a public debt management strategy.

Challenges: Lack of staff and employee turnover, limited availability of training programs and technical support.

³ Preliminarni podaci

Recommendations: Hiring additional personnel; ensuring technical support and training in collaboration with international financial institutions.

OPERATIONAL OBJECTIVE 1.5.2 – Adoption of a new public debt management strategy

From September 9 to 18, 2024, a technical mission of the IMF (Monetary and Capital Markets Department - MCM) was held, focusing on the development of a new medium-term debt management strategy. During the mission, two key areas were addressed: updating the strategy and conducting a quantitative analysis of debt portfolio costs and risks. Thanks to the IMF's guidelines and technical support, the Debt Management Directorate prepared a new Medium-Term Debt Management Strategy of Montenegro for the period 2025–2027, which was adopted by the Government in December 2024. The strategy defines specific measures to secure the necessary financial resources while minimizing risks related to financing, refinancing, interest rates, and currency fluctuations. The primary objective of the strategy is to establish a stable and sustainable medium-term framework for financing budgetary needs. The strategy is based on three key pillars:

- Managing financing and refinancing risks,
- Diversifying the international investor base,
- Diversifying domestic financing sources.

One of the key objectives within the first pillar is to extend the average debt maturity to 5–7 years and actively monitor interest rate risk, as changes in interest rates can significantly impact public debt servicing costs. By following the strategy's guidelines and implementing the planned activities, the Ministry of Finance aims to contribute to the achievement of the PFM Program Action Plan objectives, particularly in optimizing debt maturity and reducing the weighted average interest rate. Throughout 2024, the Ministry of Finance has been focused on increasing the average debt maturity, ensuring that all loan agreements signed during the year had a maturity period of 10 years.

Challenges: Fluctuations in international financial markets, including interest rate and currency exchange rate movements, may hinder the implementation of the strategy within the planned framework. Additionally, challenges are related to the economic and political stability of Montenegro, which primarily affects the country's credit rating and, consequently, borrowing conditions that determine the success of the strategy's implementation.

Recommendations: It is recommended to continuously monitor macroeconomic and market trends, regularly update the Debt Management Strategy to ensure its relevance and alignment with current fiscal and economic challenges.

OPERATIONAL OBJECTIVE 1.5.3 – Enhancement of the public debt management software solution

In the second half of 2022, the development of a new public debt management software solution began, designed as a dedicated module within the BMIS. By 2024, data migration and software testing were nearly completed, with significant activities carried out in collaboration with experts to achieve full system operability. Staff have actively worked with experts through regular meetings to further improve software functionalities for more efficient application. The software's structure has been

aligned with the characteristics of the Ministry of Finance's credit arrangements, while key functional enhancements have also been implemented. Currently, final system testing is underway to ensure its reliability and full functionality.

Challenges: Staff shortages within the Directorate limit the available time for thorough system testing, especially in the reporting segment. The lack of personnel may slow down the comprehensive verification of all system functions and ensure reporting fully meets operational needs.

Recommendations: To ensure full integration of the debt management module, it is recommended to increase system engagement through additional workshops and real-condition simulations. Further work on interoperability with the SAP system should also be pursued.

II-1.6 Development of the EU own resources system

The table below shows the trend of performance indicator movements within the "Development of the EU own resources system" subsystem in 2024 compared to the previous year, while the operational objectives of this subsystem and activities from the PFM Program Action Plan that contributed to achieving the results are presented in the following text.

SUBSYSTEM OBJECTIVE 1.6	Development of the EU own resources				
	Indicator	Baseline value	Achieved value in 2023.	Achieved value 2024.	Trend
Negotiations on Chapter 33 (Financial and Budgetary Provisions) have been temporarily closed.	Chapter 33 has been opened	Progress has been made through improved coordination and management of own resources.	A certain level of readiness has been achieved, and limited progress has been made regarding the adoption of legislation and guidelines on procedures for planning the funds that Montenegro contributes to the EU budget.	Red curved arrow pointing down and to the right, indicating a downward trend.	Chapter 33 has been temporarily closed/closed.

OPERATIONAL OBJECTIVE 1.6.1 - Strengthening the administrative capacities of all institutions involved in the EU Own Resources System

The Customs Administration has initiated efforts to organize study visits through TAIEX and CUSTOMS support programs. Additionally, the process of engaging a consultant through bilateral cooperation has begun. The Tax Administration has identified the need to strengthen human resource capacities in the field of EU own resources calculation based on VAT and has defined criteria for new employment.

Challenges: Delays in hiring a consultant for the EU own resources area; lack of expert support and delays in recruiting and training new staff hinder progress in: calculating the VAT base, preparing

requests for IT system modifications or upgrades, conducting training sessions for customs officers. These challenges may slow down the adaptation process for all institutions involved in financial management and reporting.

Recommendations: Continuously improve administrative capacities in all institutions involved in the EU own resources planning process. Increase training efforts through study visits to EU member states.

OPERATIONAL OBJECTIVE 1.6.2 – Establishing procedures for the EU Own Resources System

During the previous reporting period, activities were carried out to establish procedures for the EU own resources system, specifically in the areas of: Traditional own resources, own resources based on VAT, and own resources system based on GNI (Gross National Income).

OPERATIONAL OBJECTIVE 1.6.3 – Harmonization of the regulatory framework with EU legislation

During the previous reporting period, activities focused on analyzing the existing regulatory framework, and preparing amendments to align the regulatory framework with EU legislation.

II-1.7 Improvement of official statistics

The table below shows the trend of performance indicator movements within the "Improvement of Official Statistics" subsystem in 2024 compared to the previous year, while the operational objectives of this subsystem and activities from the PFM Program Action Plan that contributed to achieving the results are presented in the following text.

SUBSYSTEM OBJECTIVE 1.7	Improvement of official statistics				
	Indicator	Baseline value	Achieved value in 2023.	Achieved value in 2024.	Trend
Negotiations on Chapter 17 (Economic and Monetary Policy) have been temporarily closed	Negotiation Chapter 17 has been opened	Limited progress	Some progress		Chapter 17 has been temporarily closed/closed.
Negotiations on Chapter 18 (Statistics) have been temporarily closed.	Negotiation Chapter 18 has been opened	Limited progress	Some progress		Chapter 18 has been temporarily closed/closed.

OPERATIONAL OBJECTIVE 1.7.1 – Official statistics aligned with international standards

In 2024, a three-day expert mission was conducted to review compiled government finance statistics (GFS) data from the IPA 2017 project and prepare them for submission to Eurostat. Additionally, available data were entered into the required tables related to government finance statistics and

successfully submitted to Eurostat. The implementation of IPA 2022 activities has begun, focusing on: establishing regular production of required government finance statistics (GFS) data, and producing data for excessive deficit and debt procedures (EDP) in accordance with the ESA 2010 transmission program. The Statistical Office (Monstat) is coordinating the project, in collaboration with the Ministry of Finance and the Central Bank of Montenegro (CBCG).

At the end of 2024, the Law on Amendments to the Law on Official Statistics and the Official Statistics System was adopted. This law transfers responsibility for government finance statistics from the Ministry of Finance to Monstat, ensuring compliance with the European System of Accounts. These amendments will provide a legal basis for signing a new Trilateral Agreement between the Ministry of Finance, Monstat, and the Central Bank of Montenegro, clearly defining the roles and responsibilities of each institution in applying ESA 2010 standards.

Challenges: Establishing the regular production of government finance statistics; limited capacity within the three institutions responsible for official statistics, particularly in applying ESA 2010 methodology.

Recommendations: Ensure continuity in project activities; clearly define institutional responsibilities in data production; adopt and fully implement the revised Trilateral cooperation agreement.

OPERATIONAL OBJECTIVE 1.7.2 – Government finance statistics aligned with ESA 2010 Methodology

The Statistical Office, in cooperation with the Ministry of Finance and the Central Bank of Montenegro, has submitted preliminary data for the period 2013-2016 to Eurostat for review. These data were generated through the IPA 2017 project, previously coordinated by the Ministry of Finance.

Challenges: Establishing regular production of government finance statistics.

Recommendations: Ensure continuity in project activities, define institutional responsibilities for data production, fully implement the revised trilateral cooperation agreement once adopted.

OPERATIONAL OBJECTIVE 1.7.3 – Improved pre-accession fiscal reporting and excessive deficit procedure (EDP) reporting

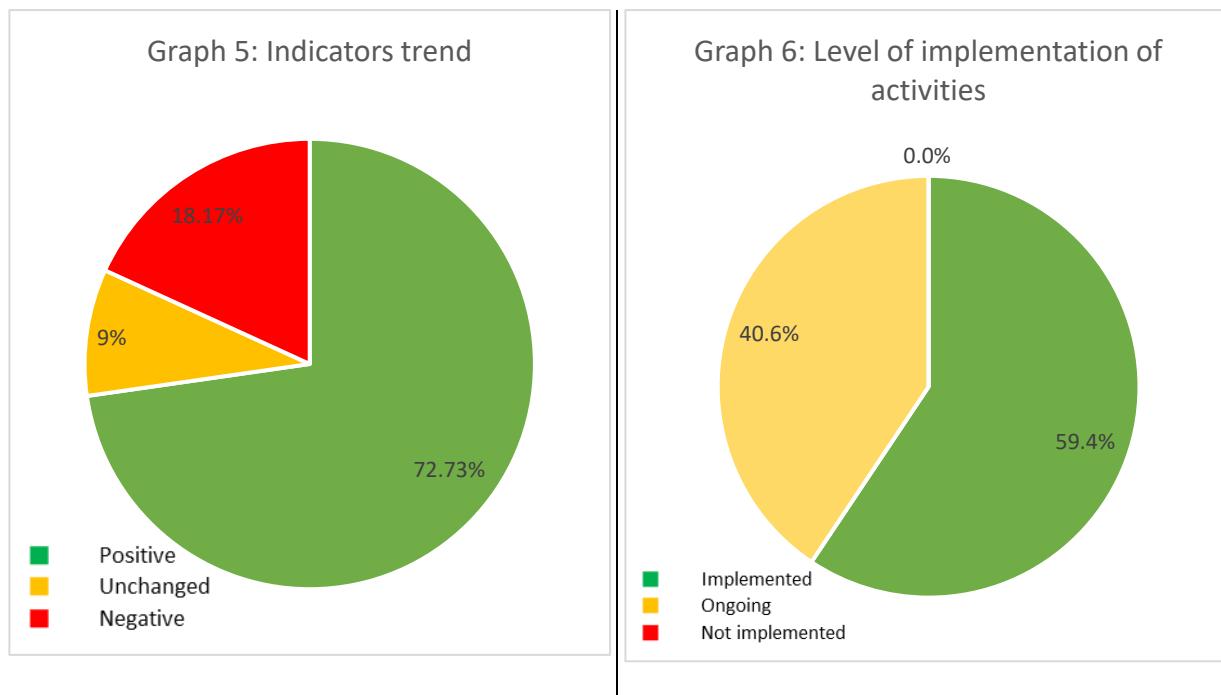
The Government has adopted a proposal to amend the Law on Official Statistics and the Official Statistics System of Montenegro.

Challenges: Updating the Cooperation Agreement between Monstat, the Ministry of Finance, and the Central Bank of Montenegro (CBCG).

Recommendations: Revise the current Cooperation Agreement, signed on May 6, 2016; reflect new responsibilities and a detailed breakdown of data sources;

II-2 BUDGET EXECUTION

The performance indicators in achieving the strategic objective "Budget Execution" show a significant positive trend in 2024. Specifically, in all subsystems of the PFM program related to budget execution, 72.7% of performance indicators have improved, while 9% remain at the same level as in 2023. In other words, the improved indicators point to progress in all negotiation chapters in the process of stabilization and accession to the EU, related to Strategic Objective II of the PFM Program – Budget Execution, namely progress in Chapter 5 - Public Procurement, Chapter 8 - Competition, Chapter 16 - Taxation, and Chapter 29 - Customs Union. This has been significantly contributed to by further alignment of legislation with the EU acquis, implementation of activities related to the development and implementation of IT systems in the customs and tax areas, improvement of public revenue collection efficiency and tax discipline, strengthening the capacity for applying the new legal framework for public procurement and public-private partnerships, enhancing the functionality of the e-procurement system and training its users, as well as the complaints system, strengthening administrative capacities for state aid control, and the central payroll calculation system through software solution upgrades. The trend of performance indicators within Strategic Objective II of the PFM Program – Budget Execution, as well as the activities contributing to achieving these indicators in 2024, are shown in the graph below.



II-2.1 Improvement of the revenue collection efficiency

The following table shows the trend of performance indicator movements within this subsystem in 2024 compared to the previous year, while the operational goals of this subsystem and activities from the PFM program's Action Plan that contributed to achieving these outcomes are presented in the following text.

SUBSYSTEM OBJECTIVE 2.1	Improvement of the revenue collection efficiency				
Indicator	Baseline value	Achieved value in 2023.	Achieved value 2024.	Trend	Target value 2026.
Harmonized legislation in Chapter 16 – Taxation with the EU acquis	Chapter 16 has been opened	Significant progress has been made in meeting the closing benchmark for Chapter 16	Progress has been made in aligning tax legislation with the EU acquis		Chapter 16 has been temporarily closed/closed
Harmonized legislation in Chapter 29 – Customs Union with the EU acquis	Chapter 29 has been opened	Significant progress has been made in meeting the closing benchmark for Chapter 29	Progress has been made in aligning customs legislation with the EU acquis		Chapter 29 has been temporarily closed/closed
Strengthening the capacity and development of human resources of the Revenue and Customs Administration in the field of information technology	The officials have not been trained	150 customs officers and 200 tax officers have been trained	A total of 744 tax officers and 150 customs officers have been trained		A total of 200 customs officers and 350 tax officers have been trained

OPERATIONAL OBJECTIVE 2.1.1 – Alignment with the EU acquis in the areas of taxation and customs

Activities aimed at aligning tax legislation with the EU acquis have continued. In this regard, the following regulations were adopted in 2024: the Law on Amendments and Supplements to the Value Added Tax Law, the Law on Amendments and Supplements to the Excise Duty Law, and the Law on Amendments and Supplements to the Corporate Income Tax Law.

Customs legislation has been largely harmonized with the relevant European customs legislation. The alignment of legislation has significantly created conditions for the establishment and upgrading of customs IT systems, which will be interoperable with the IT systems of EU member states upon Montenegro's accession to the European Union. In 2024, the following regulations were adopted:

- The Regulation on the Customs Tariff for 2025 ("Official Gazette of Montenegro" No. 126/24),
- The Law on the Ratification of Amendments 23, Amendments 24, Amendments and Supplements 25, Amendments 26, Amendments and Supplements 27, Amendments and Supplements 28, Supplement 28 BIS, Amendments and Supplements 29, Amendments and Supplements 30, Amendment and Supplement 31, Amendments and Supplements 32, Amendments and Supplements 33, Amendments and Supplements 34, Amendments and Supplement 35, Amendments and Supplements 36, Supplement 37, Amendments and Supplements 38, and Amendments and Supplements 39 of the Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention, 1975).

In the area of verifying the fulfillment of the conditions for Montenegro's accession to the Convention on the Common Transit Procedure, the Revenue and Customs Administration (UC) has undertaken numerous activities in preparation for a successful pre-monitoring mission of the European Commission scheduled for January 14-16, 2025. The mission was carried out by representatives of DG TAXUD and representatives from six member countries of the Convention. The European Commission has not yet provided the conclusions from the pre-monitoring mission. Further dynamics and the timing of the monitoring mission will also depend on the EC. Regarding the accession to the Convention on the Common Transit Procedure and the Convention on Simplification of Goods Trade, it is planned for the accession to take place during 2025.

Challenges: Full alignment with the EU acquis by the end of 2026, which will be achieved through amendments to relevant laws and bylaws. Expert support should be provided for the preparation of remaining bylaws to align with European customs regulations and best practices. The timely action of competent authorities in the legislative process is crucial to ensure the adoption of laws ratifying conventions and subsequent accession.

Recommendations: Continued alignment with the EU acquis in the area of taxation. Considering that customs laws are already aligned with EU regulations, it is necessary to harmonize certain bylaws with the regulations and best practices of EU member states. It is also recommended that all institutions of the executive and legislative branches facilitate the earliest possible accession to the conventions, which would contribute to fulfilling the closing benchmark 3 for Chapter 29 - Customs Union.

OPERATIONAL OBJECTIVE 2.1.2 - Improvement of procedures, development, and implementation of IT systems in the customs and tax areas

The Conceptual Design document for the Integrated Revenue Management System (IRMS), the IRMS Architecture document, and the document for Data Migration from existing registers to the IRMS Registers have been aligned and adopted. Procurement and installation of hardware equipment for the IRMS environment (test/development and production environments) have been completed. The test/development environment has been accepted, on which the deployment of the commercial software application solution, procured for the IRMS implementation, has been carried out. Activities have been initiated to implement functional requirements in order to adapt the software module for Taxpayer Registration to the requirements of the Tax Administration as the client. Installation of base servers for the future IRMS production environment has been completed at both the primary location and the disaster recovery (DR) site. Software licenses for the database management software, including data replication software licenses, have been delivered in accordance with the contractor's requirements.

Regarding the implementation of the VAT Information Exchange System (VIES), the Customs Administration has implemented a secure communication network system for integration with VIES (CCN - Common Communication Network) and reserved one interface for the needs of the Tax Administration, as a prerequisite for establishing information exchange.

As of September 9, 2024, the Customs Administration began the national implementation of the New Computerized Transit System (NCTS) in five customs offices, and by October 1, 2024, it was fully implemented across the entire customs territory of Montenegro. Through the implementation of

NCTS, the Customs Administration enhanced its customs information system by introducing modern architecture and technology, thus facilitating trade and creating conditions for a more efficient fight against customs fraud and preventing corruption. Guarantee management and risk management systems were developed in line with European Commission requirements, ensuring the protection of the state's financial interests. During the presentation of the preliminary findings by the European Commission representatives, it was highlighted that all instructions were followed and that significant efforts are being made to fully align the legislation, improve the organization of the customs service, ensure compatibility of IT solutions, and prepare the economy for future accession to the Convention. Notices regarding the implementation of the transit procedure were published on the ecarina.me portal to ensure uniform application of NCTS. During the initial period, the Customs Administration organized a help desk service in two shifts to provide support and services to businesses and customs officers conducting the transit procedure through the new NCTS system. No critical issues have arisen during the initial implementation of the system, and all challenges have been quickly and efficiently addressed. From September 9 to December 31, 2024, a total of 66,012 declarations were processed via NCTS.

Activities have been undertaken to begin the contracting process for projects financed by IPA 2024 funds. Project tasks for the AES and ICS2 (Automated Export System and Import Control System) project, as well as the EMCS (Excise Movement and Control System) project, have been prepared and forwarded to the Ministry of Finance (MF) for further procedure. Additionally, a request has been submitted to the Ministry of Justice (MJU) for obtaining consent to upgrade these systems onto the existing Customs Information System (UC). The remaining two projects, ITMS and NCTS Phase 6, will be implemented in the upcoming period using funds allocated under Montenegro's Reform Agenda 2024-2027.

In terms of reducing administrative barriers through further implementation of measures to facilitate trade in line with the Trade Facilitation Strategy 2018-2022, the Customs Administration has continued to implement measures regarding the simplification of customs procedures, digitalization of customs processes, and reduction of the average release time for goods. In 2024, the Customs Administration continued granting AEO (Authorized Economic Operator) status and implementing simplified import and export customs procedures based on accounting records and commercial documents. In 2024, nine economic entities were granted AEO status, and 15 simplified procedures were approved.

Challenges: In the project documentation for IRMS, risks have been identified related to deviations from the deadlines set by the Activity Plan. The realization of activities is conditional on the successful establishment of the VAT register within the IRMS and the preparation of project documentation for proper integration with the VAT Information Exchange System (VIES). Regarding NCTS, it is essential to ensure that activities are implemented according to the planned timeline so that Montenegro can accede to the CTC and SAD Conventions in 2025. For ITMS, AES, ICS2, NCTS Phase 6, and EMCS, challenges include the dynamics of the tendering procedure, a shortage of human resources, and potential changes in system specifications at the EU level. In terms of reducing administrative barriers, the challenges include difficulties in the further development of the Customs Information System and the digitalization of customs procedures, as well as a lack of available human resources.

Recommendations: It is necessary to accelerate activities related to testing the application modules for IRMS to identify any deviations from functional and technical requirements, which is a prerequisite for the realization of all planned activities defined in the contract with the contractor,

especially concerning the completion deadline (all modules accepted and put into production, all documentation delivered and accepted). Additionally, it is crucial to expedite the drafting of bylaws that would clearly define the VAT number as a unique identification data point for taxpayers subject to registration, as well as those voluntarily registered as VAT taxpayers in the VAT register. Activities should be initiated for preparing the project documentation for the implementation of services for connecting to VIES. It is also essential to begin work on developing a service for exchanging information between the Tax Administration and the Customs Administration's information systems, particularly in configuring CSI for the Tax Administration's needs on the CCN system for information exchange, established within the Customs Administration's Information System.

The Customs Administration (UC) should, after the successful pre-monitoring mission, continue with high-quality preparation for the upcoming monitoring mission to confirm Montenegro's readiness to accede to the Convention on the Common Transit Procedure and the Convention on Simplification of Trade in Goods. This would create conditions for the application of NCTS at the international level. Regarding other IT systems, it is necessary for all stakeholders involved in the implementation of these activities to act promptly and efficiently within their competencies. Additionally, the preparation and adoption of staffing plans should ensure the provision of additional human resources. It is also essential to monitor any potential changes in the specifications of the relevant systems at the EU level, so that these can be applied to national IT systems without delay.

In the context of reducing administrative barriers, it is important to continue implementing measures from the new Trade Facilitation Strategy and ensure the training of sufficient new personnel to complete the digitalization of customs procedures. It is recommended that a new study on the average time for the release of goods be conducted in 2026, to provide insight into how the reduction of administrative barriers is being implemented in practice.

OPERATIONAL OBJECTIVE 2.1.3 – Improvement of revenue collection efficiency

In 2024, the Tax Administration made significant progress in improving the efficiency of the tax inspection process by selecting audit subjects based on risk assessment.

This achievement was significantly contributed by:

- The adoption of the new Rulebook on internal organization and systematization, which resulted in the centralization of the tax inspection within the Operational Sector for inspection oversight;
- The adoption of the General Control Plan for 2024, which is based on the assessment of tax significance and risk evaluation of tax obligations;
- A reform in the area of VAT credit refund requests analysis, which involved eliminating unnecessary inspections for VAT credit refund requests and focusing inspection oversight on taxpayers where the greatest impact on detecting undeclared taxes is expected.

The activities in the Operational Sector for inspection oversight have resulted in an increase in the number of audits conducted based on risk assessment. According to the data provided by this Sector, tax inspectors in the Central, Coastal, and Northern regions performed 639 full audits in 2024, which represents 44.81% of the planned number of audits by the Risk Analysis, Audit Selection, and Reporting Group, as well as 4,634 partial audits, which accounts for 70.46% of the planned number

of partial audits. In contrast, in 2023, out of the total number of planned full audits (1,710), only 60 audits were completed, representing just 3.50% of the target.

The introduction of risk analysis in the selection of audit subjects is of exceptional importance both for the effective use of tax inspection resources and for efficient budget revenue collection. This is particularly significant because, in 2024, during the oversight process, undeclared tax (correction) liabilities were identified across all tax forms, totaling €92,019,546.86, of which the net financial effect amounted to €36,062,833.30.

In the inspection oversight process (tax inspection groups for the Central, Coastal, and Northern regions) from January to December 2024, corrections were identified for tax forms totaling €64,438,853.56. The financial effects from these corrections amounted to €11,462,121.74, of which €3,371,679.73 was collected during the inspection oversight process. Corrections related to the reduction of losses were identified at €2,636,127.86. For the irregularities identified during the inspection process, tax inspectors issued 767 fines amounting to €2,593,700.00 and submitted 84 requests for the initiation of misdemeanor proceedings. The revenue collected from monetary fines during the reporting period amounted to €1,251,462.03.

From January to December 2024, a total of 4,250 partial inspections were carried out in areas such as general tax registration, submission of tax returns, recording of transactions, payment of revenues, and registration of workers, all aimed at combating the grey economy.

Out of the total number of partial inspections (focused on combating the grey economy) conducted during the summer tourist season from May 1 to August 31, 2024, tax inspectors carried out 3,172 checks on the regularity of business operations of taxpayers (936 fewer checks compared to the same period in 2023). Irregularities were identified with 453 taxpayers (111 more taxpayers compared to the same period in 2023). Based on these findings, 617 fines were issued (174 more than in the same period in 2023), with a total of €2,066,700.00 in financial penalties (an increase of €663,600.00 compared to the same period in 2023). The total obligation based on the monetary fines amounted to €1,474,299.92 (an increase of €438,032.33 compared to the same period in 2023), of which €1,141,951.14 was collected, representing a 26.19% increase (by €299,050.16) compared to the same period in 2023. This is due to targeted inspections of taxpayers based on an analysis of data on reported revenues from the Central Portal for Tax Control and Management.

From January to December 2024, the Group for Risk Analysis, Selection of Control Subjects and Reporting received 1,535 requests for VAT credit refunds totaling €78,518,645.59. Inspectors analyzed 1,374 requests (from 442 taxpayers) and based on these analyses, it was decided that 855 requests, or 321 taxpayers (for a total of €51,308,010.05), would be subject to inspection, while 519 requests (from 121 taxpayers) with low-risk levels (for a total of €18,197,396.56) were forwarded to the relevant regional units, which will decide on these requests without prior inspection.

During the reporting period, tax inspectors from the Central, Coastal, and Northern regions, based on VAT credit refund requests, performed 367 inspections (351 full and 16 partial inspections). The share of full inspections related to VAT credit refund requests (351) in the total number of full inspections (639) was 54.92%. Based on these inspections, a VAT credit correction of €8,575,363.11 was identified during the inspection procedure, while the validity of VAT credits was confirmed at €37,444,203.48. The share of invalid VAT credits in the total requested VAT credit (€46,019,566.59) was 18.63%.

Additionally, of the total number of full inspections (639), 15.96% or 102 inspections were based on initiatives submitted by third parties, including relevant authorities (Police Directorate, Special State Prosecutor's Office), the Inspection Directorate, and citizens. During the inspection process, irregularities were identified in 69 taxpayers, and the total corrections amounted to €6,425,812.20.

Furthermore, in the Large Taxpayer Sector - Department for Inspection Supervision (VPO), in 2024, tax inspectors conducted 45 inspections, which represents 77.58% of the total planned inspections (58) based on risk assessment. This is a 50% increase compared to 2023, when 83 inspections were planned based on risk assessment, but only 23 inspections were carried out, or 27.7%. During the reporting period, tax inspectors from the VPO Inspection Supervision Department identified corrections in tax forms totaling €27,580,693.30. The financial effects from the identified corrections amounted to €24,600,711.56, of which €1,869,047.16 was collected during the inspection procedure, while corrections related to loss reduction were identified in the amount of €624,973.00.

Additionally, during the reporting period, tax inspectors from the Large Taxpayer Sector – Department for Inspection Supervision (VPO), based on submitted requests for VAT credit refunds, conducted 35 inspections (27 full inspections and 8 partial inspections). The participation of full inspections related to VAT credit refund requests (27) in the total number of full inspections (43) is 62.79%, while the participation of partial inspections based on this criterion in the total number of partial inspections (14) is 57.14%. Based on these inspections, VAT credit corrections were identified in the total amount of €131,279.98, while the validity of the VAT credit was confirmed in the amount of €32,643,903.02.

Challenges: The critical age structure of tax inspectors and the filling of vacant positions in accordance with the valid Rulebook on the Internal Organization and Systematization of the Tax Administration.

Recommendations: Considering that the current Rulebook on the Internal Organization and Systematization of the Tax Administration includes positions for tax inspectors that are still unfilled, and given the expected implementation of more intensive controls aimed at combating the shadow economy, it is essential to secure the necessary budgetary funds to fill the vacant positions in line with the staffing plan.

OPERATIONAL OBJECTIVE 2.1.4 – Improvement of voluntary tax compliance and adherence to tax obligations

In 2024, the Tax Administration carried out a series of activities aimed at strengthening both internal and external communication, with the objective of contributing to the uniformity of procedures within all departments of the Tax Administration on one hand and enhancing voluntary compliance with tax regulations by taxpayers on the other.

In an effort to provide support to taxpayers in the correct application of tax regulations during 2024, a total of 4,654 responses were provided to inquiries submitted by taxpayers via the Call Center, while 685 inquiries were answered in writing (100% response rate).

In collaboration with professional associations such as the Chamber of Commerce, the Institute of Certified Accountants of Montenegro, and the Business Law Center, nine seminars were organized in online, face-to-face, and hybrid formats, attended by over 2,000 participants – taxpayers,

accountants, and other interested parties. The seminars were dedicated to the analysis of tax regulations, with a particular focus on the current norms adopted in 2024 for the implementation of the Fiscal Strategy of the Government of Montenegro, as well as on norms whose practical application presents challenges for taxpayers.

Additionally, two professional articles on the application of tax regulations were prepared and published in the Institute's journal.

In order to inform taxpayers about the latest changes in tax regulations and provide timely and effective education, the Tax Administration published detailed information and notifications on its website regarding the entry into force of amended and supplemented provisions of the Law on Personal Income Tax, the VAT Law, the Law on Contributions for Mandatory Social Security, the Corporate Income Tax Law, and the Law on the Write-off of Interest on Due Tax Liabilities, as well as all bylaws and tax return forms.

As part of the preparations for the summer tourist season, the educational campaign "Tax Caravan" was held in May 2024. This campaign, organized in cooperation with the Employers' Union and the Chamber of Commerce, has been taking place since 2016, with forums held in five municipalities across Montenegro. Additionally, an Information Bulletin for the summer tourist season was prepared, providing essential information for taxpayers – entrepreneurs and individuals engaged in seasonal activities or those involved in providing accommodation for tourism purposes.

During 2024, activities were carried out within the project "Education of Primary and Secondary School Students on Taxes and the Tax System of Montenegro," and meetings with final-year students were organized in several cities across the country.

In the area of strengthening internal communication, during the reporting period, training was conducted for officials at the central office and all regional units of the Tax Administration, including branches, on tax practices and the proper application of tax regulations. Approximately 150 officials attended the training. Additionally, regional units were continuously provided with updates on new developments in tax legislation and practices, as well as information about amendments and additions to tax regulations published in the Official Gazette. Furthermore, publications with answers to frequently asked questions were prepared based on the most commonly asked questions and responses provided to taxpayers.

Challenges: Frequent and unpredictable changes in tax regulations contribute to a sense of legal uncertainty among taxpayers and accountants, which increases the risk of non-compliance with tax regulations, even among taxpayers with a high level of tax discipline, due to insufficient education.

Recommendations: When developing tax policy, it is essential to consider the need to ensure predictability regarding the tax implications on taxpayers' operations. This will contribute to the greater efficiency of measures aimed at educating taxpayers and, consequently, increase voluntary compliance with tax regulations.

OPERATIONAL OBJECTIVE 2.1.5 – Development and improvement of human resources

The Revenue and Customs Administration ceased to exist on December 31, 2023, and in accordance with the Regulation on the Organization and Method of Operation of State Administration Authorities ("Official Gazette of Montenegro", nos. 98/23, 102/23, 113/23, 71/24, 72/24, 90/24, 93/24, 093/24,

104/24, 117/24), the Tax Administration and Customs Administration were established, starting from January 1, 2024. The activities of both administrations are presented below.

Regarding the Tax Administration, there was no additional hiring of staff for the IT department in 2024. The new Rulebook on the Internal Organization and Systematization of the Customs Administration was adopted in September 2024. The Customs Administration prepared the Staffing Plan for 2024, which was adopted at the Government session on October 30, 2024. The 2024 plan for the Customs Administration includes the hiring of a total of 28 employees. Considering the intensified activities related to the implementation of IT systems within the Customs Administration, and in order to ensure adequate staffing capacity, the hiring of 5 customs officers is planned for the Customs Information Systems Sector, including 3 positions in the Department for Design, Development, and Maintenance of Application Software. Additionally, taking into account the fact that the NCTS (New Computerized Transit System) has been implemented at the national level, the plan includes the hiring of 2 employees in the Customs System and Procedures Sector, Transit Department, User Support Group.

In 2024, a total of 744 employees participated in training programs organized by the Tax Administration, in cooperation with other authorities and institutions in Montenegro.

Challenges:

Tax Administration (PU): Vacant positions in the Sector for Information Systems according to the current Rulebook on the Internal Organization and Systematization of the Tax Administration. Insufficient utilization of EU funds for projects related to modern tax administrations, particularly in the area of training necessary to enhance the knowledge and skills of tax officers.

Customs Administration (UC): Implementation of the adopted Staffing Plan, effectively conducting internal and public advertisements, insufficient response from interested candidates for open positions; frequent staff turnover; training of newly hired customs officers.

Recommendations:

Tax Administration (PU): Further strengthen the Sector for Information Systems and ensure the recruitment of qualified professional staff. Ensure the use of EU funds for the implementation of projects related to modern tax administration, particularly in the area of training. Additionally, secure budgetary funds for the continuous professional development of tax officers.

Customs Administration (UC): Motivate potential employees to apply for open positions by offering attractive working conditions, especially in terms of salaries. Ensure adequate training related to IT systems.

II-2.2 Public procurement

The table below shows the trend of performance indicators within this subsystem in 2024 compared to the previous year. The following text outlines the operational objectives of this subsystem and the activities from the Action Plan of the PFM program that contributed to achieving these outcomes.

SUBSYSTEM OBJECTIVE 2.2		Public procurement			
Indicator	Baseline value	Achieved value in 2023.	Achieved value in 2024.	Trend	Target value in 2026.
Real-time processing of complaints in public procurement	23	41	24		18
The share of contracts subject to formal ex-post evaluation	0	0	-		0
The share of public procurement complaints contested in courts	14,28%	7,5%	15%		11,10%
The number of public procurement complaints relative to the number of published tender notices	0	6.77	5.4%		0
Average number of bidders per procurement procedure	2.82	3.16	3.3		3.00
Share of contracts awarded through competitive procedures	96.4	97.52	91% ⁴		97

OPERATIONAL OBJECTIVE 2.2.1 – Established capacities for the implementation of the new legal framework for public procurement and public-private partnerships

During the reporting period, administrative capacities were strengthened, and the level of professionalism among employees in public procurement was raised.

In cooperation with SIGMA, a new Program and method for professional training and development in the field of public procurement was prepared, with its adoption expected at the beginning of 2025.

Regarding the implementation of regulations in the field of public procurement and new legal solutions, the Ministry conducted 9 training sessions for 220 participants.

The Ministry, in cooperation with SIGMA, also organized a specialized training on IN-HOUSE procurement for 21 participants, while training sessions on the Dynamic Purchasing System were held in collaboration with SIGMA and USAID.

Additionally, training sessions were organized regarding the adoption of the Regulation on the Electronic Declaration of Economic Operators, as well as for the use of the new functionality of the CEJN system, with approximately 300 participants attending.

⁴ The data is preliminary, as the official statistics on conducted public procurement procedures will be available after the adoption of the Annual Report on Public Procurement in Montenegro for the year 2024, no later than May 31, 2025.

The professional exam for working in public procurement was continuously conducted electronically, while the oral part of the exam was held in person in small groups before the Commission. To date, 934 public procurement officers have passed the exam, and a total of 681 contracting authorities are registered in Montenegro. In 2024, the Directorate for Public Investment Management and Public Procurement Policy conducted 6 exam sessions, with a total of 66 officers passing the exam, bringing the total number of certified officers working in public procurement in Montenegro to 934.

Despite the large number of trained and certified officers, the level of interest in professional training and development continues to grow. This is evidenced by the fact that, in addition to public procurement officers, candidates from the private sector and other interested individuals are also applying to take the professional exam. These figures further highlight the importance of professional development and the enhancement of knowledge in the field of public procurement.

When it comes to improving the manuals and guidelines for using the e-procurement system, the new legal solutions have also led to changes in the Rulebook on the operation and use of the electronic public procurement system, as well as the Instruction for using the electronic public procurement system.

In order to facilitate the implementation of the new secondary legislation, the following acts have been adopted:

- Instruction for suppliers on submitting requests for monitoring the simple procurement process;
- Instruction for creating the statement of the business entity for contracting authorities;
- Instruction for creating the statement of the business entity for suppliers;
- Instruction for creating Form 2 in simple procurement for contracting authorities.

Challenges: Lack of qualified trainers for specialized topics in the field of public procurement; lack of motivation among staff for further training in this area; lack of funds for organizing training sessions. The electronic public procurement system is continuously being upgraded with new functionalities, so it is essential that technical literature be available to system users at the time of implementation, which requires timely preparation and updates.

Recommendations: Establish a sustainable system for professionalization and specialized training in the field of public procurement; enhance cooperation with international institutions and organizations to transfer best practices; update guidelines for using the e-procurement system with every change in the system.

OPERATIONAL OBJECTIVE 2.2.2 – Improvement of e-procurement system functionality and training of its users to achieve value for money in public procurement and PPPs

Regarding the increase in the number of economic operators registered in the e-procurement system, in 2024, the number of e-procurement system users is 12,936. Of these, 6,253 are registered suppliers, and 4,401 are actively registered. By the end of January 2024, the system had a total of 10,566 users, with 5,066 registered suppliers, of which 3,620 were actively registered. These figures indicate that the projected increase of 10% in the number of economic operators registered in the

system has been exceeded, which simultaneously shows a high level of interest from new economic operators in participating in public procurement procedures.

Regarding the training of users for the e-procurement system, in 2024, two training sessions on using the CEJN system were organized for 25 participants. Additionally, training sessions were held on the adoption of the Regulation on the electronic statement of business entities and the use of the corresponding new functionality of CEJN, with approximately 300 participants attending. The instructors for these sessions were employees of the Ministry of Finance.

In accordance with the recommendations of the European Commission regarding the continuous improvement of the CEJN system, the system was enhanced in 2024 by adding new functionalities. In January, a feature was introduced that allows the submission of requests for monitoring simple procurement (application part for the contracting authority, suppliers, and employees of the Ministry of Finance working on monitoring). In June, the possibility of publishing intergovernmental agreements and contracts with third countries on the e-system was introduced. A function was also added for reporting on procurements carried out by Montenegro's diplomatic and consular missions abroad. Additional improvements to the e-procurement system were implemented through activities within a project in cooperation with the EU Delegation in Montenegro, which include the electronic statement of business entities (application part for contracting authorities and suppliers), as well as the enhancement of the application software for suppliers, including various notifications and reports.

The connection with the criminal records database of the Ministry of Justice has been initiated, and the implementation is expected to begin in the second quarter of 2025.

Planned improvements to the e-procurement system in the upcoming period include the introduction of red flags, i.e., the detection of potential irregularities in public procurement procedures. This is also a measure of the Action Plan for the Anti-Corruption Strategy in Montenegro for the period 2024-2027. Additionally, work will be done on introducing a function to monitor the implementation of public procurement contracts.

Regarding the improvement of the monitoring system, enhancements to the e-procurement system were carried out through activities under the aforementioned project, in collaboration with the EU Delegation in Montenegro. These improvements include the electronic statement of the economic entity (the application part for contracting authorities and bidders), as well as the enhancement of the software application intended for bidders and contracting authorities, featuring various notifications and reports. This is an ongoing activity, and the system is constantly being improved by developing new types of reports based on reporting needs and requirements, both for domestic and international partners.

Challenges: Insufficient promotional activities. Lack of interest among officials for this type of training, staff turnover. Lack of funds for further improvement of the e-procurement system. Insufficient inter-institutional cooperation regarding the enhancement of system interoperability. Lack of staff specialized in the analytical processing of data generated from the system.

Recommendations: Strengthen and raise awareness of the importance of the e-procurement system. Encourage procurement officials, as well as already trained officials, for further professional development. Work on raising awareness of the importance of the e-procurement system within relevant institutions.

OPERATIONAL OBJECTIVE 2.2.3 – Improvement of the complaints review system

In 2024, representatives of the Commission for the Protection of Rights in Public Procurement Procedures participated in the following training sessions:

- Panel discussion "Corruption in Public Procurement - Why is there no Criminal Liability," organized by the Institute Alternative, funded by the Embassy of the Kingdom of the Netherlands through the MATRA support program;
- Workshop on the topic "Public Procurement Procedures in Practice," organized by Temporis and SIGMA/OECD;
- IV Regional Conference on Public Procurement - Application in Practice, organized by the Institute for Economics and Law;
- Adriatic Public Procurement and Finance Forum, held in Portorož, Slovenia;
- Conference "Next Generation Procurement," held in Rome, Italy.

The strengthening of the Southeast Europe Public Procurement Review Bodies Network continued, and representatives of the Commission for the Protection of Rights attended the workshop "Legal Protection in Construction Projects and Public Procurement," held in Ankara, as well as the conference "Legal Protection Procedures and Legal Remedies," organized by the Appeals Commission of Bosnia and Herzegovina. Representatives of the Commission also participated in the Network of First Instance Appeal Bodies in Public Procurement conference, held in Zagreb.

Challenges: Lack of administrative capacities in the Commission, incomplete composition of the Commission.

Recommendations: Establish an electronic platform for managing cases within the Commission.

OPERATIONAL OBJECTIVE 2.2.4 – Increase market competition, particularly for SMEs

In cooperation with the Chamber of Commerce of Montenegro, training sessions for businesses were held in 2024 on the application of regulations in the field of public procurement and the use of the electronic public procurement system. Additionally, training was organized on the adoption of the Regulation on the Electronic Statement of Economic Operators, as well as the use of the new functionality of the CEJN system, with approximately 300 participants attending.

Challenges: Lack of funds for organizing training sessions, lack of specialized instructors for topics relevant to SME participation in public procurement procedures.

Recommendations: Improve cooperation with business associations to identify training needs.

II-2.3 State aid reform

The following table shows the trend of performance indicators within the "State Aid Reform" subsystem in 2024 compared to the previous year. The text below outlines the operational objectives of this subsystem and the activities from the PFM Action Plan that contributed to achieving these outcomes.

SUBSYSTEM OBJECTIVE 2.3	State aid reform				
Indicator	Baseline value	Achieved value in 2023.	Achieved value in 2024.	Trend	Target value in 2026.
Negotiations on Chapter 8 have been temporarily closed (regarding the measure related to state aid).	Chapter 8 has been opened.	Negotiations under Chapter 8 have progressed, as measured through the EU progress reports.	The legislative framework of Montenegro in the area of state aid is largely aligned with the EU acquis.		Chapter 8 has been provisionally closed/closed

OPERATIONAL OBJECTIVE 2.3.1 – Harmonization of legislation with the EU acquis

The harmonization of legislation with the European Union acquis is in its final phase. By adopting and publishing two key regulations of the European Commission, which modify the general rules for de minimis aid and de minimis aid for services of general economic interest, the legal and institutional frameworks for the control of state aid have been further improved. This is an important step in the European integration process and increasing transparency in the allocation of state aid.

A Draft Law on the Control of State Aid has been prepared, and its adoption will significantly contribute to harmonization with EU primary and secondary legislation, as well as regulatory and technical standards governing this area. This will strengthen the capacities for effective state aid control and ensure greater legal certainty for all market participants.

Challenges: The delayed adoption of the Draft Law on State Aid Control, or its delay by the Government and the Parliament, may negatively impact the progress of negotiations with the EU and slow down the fulfillment of obligations under Chapter 8.

Need for Continuous Harmonization with EU Regulations – The European Commission regularly updates the state aid rules, which requires continuous monitoring and timely response to changes in order to ensure full compliance.

Strengthening Administrative Capacities – The effective implementation of new regulations depends on the administrative capacities of the institutions responsible for enforcement and control.

Recommendations: In order to ensure further progress in the state aid reform and successfully fulfill the obligations from the European integration process, the following activities are recommended:

- Adoption of the Draft Law on State Aid Control – It is necessary to accelerate the legislative process to ensure full alignment with the EU legal framework and improve legal certainty in the field of state aid.
- Continuing Monitoring and Implementation of New EU Regulations – It is essential to ensure the timely adoption of new rules and their consistent application in practice.
- Strengthening Institutional Capacities – Additional training for officials is recommended, along with improvements in the methodologies for monitoring and controlling state aid, as well as better coordination with the European Commission and relevant domestic institutions.
- Increasing Transparency and Cooperation with Stakeholders – Organizing consultations with economic entities and all interested parties can contribute to more efficient implementation of regulations and a better understanding of state aid rules.

OPERATIONAL OBJECTIVE 2.3.2 – Strengthening administrative capacities of the Agency for protection of competition, State aid control Sector, and the APC Council

In 2024, eight officials, or approximately 50% of the planned number of officials, were trained, along with more than 20 judges, or 30% of the defined indicator.

Challenges: There is a need for additional recruitment and training of staff who can efficiently handle the growing number of cases and requests and implement new legal provisions. The conditions for hiring and training employees have not yet been fully met, which is slowing progress.

Recommendations: Increase the budget and invest in human resources – It is recommended to increase the budget of the Agency to allow for the recruitment of additional staff and investment in employee training. This will ensure better management of requests, faster processing of cases, and more efficient implementation of legislative changes.

Intensify training and institutional cooperation – In the upcoming period, additional training should be organized for employees in state authorities, institutions, and judicial instances. These trainings should focus on strengthening coordination between different institutions and improving cooperation to more effectively implement laws and bylaws.

OPERATIONAL OBJECTIVE 2.3.3 – Building a set of ex-ante and ex-post control cases and their implementation by the APC

Regarding the closure of unresolved cases ex officio, in 2024, part of the cases were concluded and resolved, while the processing and resolution of other cases are still ongoing. During the reporting period, the Agency completed 8 post-control state aid examination procedures, representing 75% of the total number. There are currently 3 ongoing examination procedures, which are expected to be concluded in 2025.

Ex-Ante and Ex-Post Control – The Agency successfully completed all submitted requests within the ex-ante state aid control framework, while the ex-post control is continuously conducted through defined legal procedures. It is noteworthy that in 2024, the Agency received court rulings concerning state aid, three of which upheld its decisions, marking a significant achievement.

Cooperation with State Aid Providers – The Agency has improved cooperation with state aid providers, government bodies, and institutions. A further increase in the number of state aid applications and approvals is expected, which will contribute to a more efficient system and better implementation of the rules.

Regarding strengthening compliance monitoring in the area of state aid, the European Commission's Report on Montenegro indicates that the activity is continuously carried out. An Action Plan for Negotiation Chapter 8 has been adopted.

Challenges: Lack of administrative capacity in the area of state aid, limited budget for investing in the training of officials for specific sectors of activity; a higher number of consultations and trainings with state aid providers. Raising awareness among state aid providers about the obligation to report and approve state aid; timely data entry into the state aid registers; insufficient knowledge of the rules for granting state aid by providers. Digitalization - The implementation of digital solutions for monitoring and managing state aid requires significant technical and human resources, and there is a need for additional infrastructure and training in this segment.

Recommendations: Intensify inter-institutional cooperation: Increase the number of state aid applications in order to increase the number of ex-ante controls and reduce the number of ex-post state aid controls. Training of AZZK Officials: Increase the number of trainings for AZZK officials in DG COMP (European Commission Directorate-General for Competition). Improved Communication with State Aid Providers: Enhance communication between state aid providers and AZZK, and increase the number of trainings for both AZZK officials and state aid providers. Collaboration with Experts: Strengthen the cooperation of AZZK officials with experts on specific state aid grants. Improvement of Digitalization and Transparency: Introduce new provisions within the Law on State Aid Control that mandate state aid providers to enter all relevant data within clearly defined deadlines, contributing to greater transparency. It is recommended to accelerate the implementation of digital solutions for better control and supervision, which will improve monitoring of compliance with legal frameworks.

II-2.4 System for calculation of earnings

The table below shows the trend of performance indicators within the "Salary Calculation System" sub-system in 2024 compared to the previous year, while the following text presents the operational objectives of this sub-system and activities from the PFM program Action Plan that contributed to achieving these results.

SUBSYSTEM OBJECTIVE 2.4		2.4 System for calculation of earnings			
Indicator	Baseline value	Achieved value in 2023.	Achieved value in 2024.	Trend	Target value in 2026.
Comprehensive implementation of the centralized salary calculation (COZ) has been ensured for all state budget users	The COZ implementation has begun in a test environment for pilot institutions	A total of 140 institutions are using the COZ	A total of 159 institutions are using the COZ, representing a 13.57% increase in the number of entities and a 46% increase in		There are 430 users of the COZ and the module for processing

			the number of employees		g data classified by confidentiality level in application
--	--	--	-------------------------	--	---

OPERATIONAL OBJECTIVE 2.4.1 – All spending units whose employees' salaries are financed from the Budget of Montenegro included in the Information system for the centralized calculation of earnings

During 2024, the Ministry of the Interior, including the Police Directorate, and the Health Insurance Fund of Montenegro were included in the COZ. As of now, the system includes 159 entities with a total of 16,700 employees. This represents a 47% increase in the number of employees compared to December 2023. In 2023, the number of employees in the system was 25% of the total number of employees, but with the inclusion of large entities such as the Ministry of the Interior in 2024, the participation in the total number of employees reached 37%, with the expectation of further growth in the following year.

The migration of master data, as a continuous process and part of the procedure for including new entities in the centralized payroll calculation system, was successfully completed for the Ministry of the Interior and the Health Insurance Fund, which were included in the system in September and October 2024. The training process for using the COZ was synchronized with the data migration process and was successfully conducted for employees in the Ministry of the Interior and the Health Insurance Fund of Montenegro.

The system adjustment to the specific needs and requirements of these entities was successfully carried out. This activity was multifaceted, considering the number of employees, the complexity of the work processes, and the requirements for supplements from the involved entities.

Challenges: Difficulties and obstacles in 2024 included the consequences of cyberattacks, which led to limited access to the system due to protective measures taken by the Ministry of Public Administration. Additionally, there was resistance to joining the system by certain entities, as well as inconsistencies in the application of salary calculation regulations across different sectors, which requires further engagement from the Ministry of Finance.

Recommendations: Strong political will and support from the highest levels of decision-making are essential for enabling new entities to join the system.

OPERATIONAL OBJECTIVE 2.4.2 – Ensured maintenance of COZ

The stable operation of the system, with the upgrade to include calculations for other allowances and revenues, has been ensured through the signing of maintenance and upgrade contracts, following the regular tender procedure in line with the established public procurement plan.

Challenges: Potential delays in contracting and the start of project implementation. Limited expertise in the market.

Recommendations: Timely planning and execution of the tender procedure.

OPERATIONAL OBJECTIVE 2.4.3 – COZ upgrade for classified data

Implementation will begin after the inclusion of all entities with non-classified data.

Challenges: Complex preparatory activities regarding the provision of infrastructure prerequisites in accordance with stringent security standards.

Recommendations: Timely preparatory actions in consultation with relevant institutions in the field of classified data protection.

OPERATIONAL OBJECTIVE 2.4.4 – COZ upgrade for all personal income payments from the Budget of Montenegro

During the third and fourth quarters of 2024, the functionality for calculating other personal income and allowances through the COZ was developed and put into use. This activity was successfully implemented for new entities included in the system during 2024 (Ministry of Interior and the Health Insurance Fund of Montenegro). Preconditions were also met for the use of this functionality by other entities, which will begin gradually in 2025.

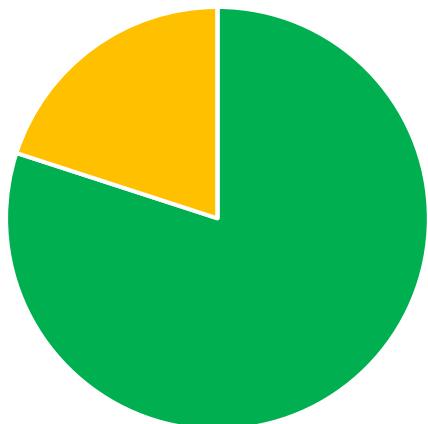
Challenges: Inconsistent classification of allowances by entities, requiring additional efforts to adjust and adapt the system at the level of each individual entity.

Recommendations: Efforts should be made to ensure consistent, standardized, and uniform classification of allowances at the level of all entities.

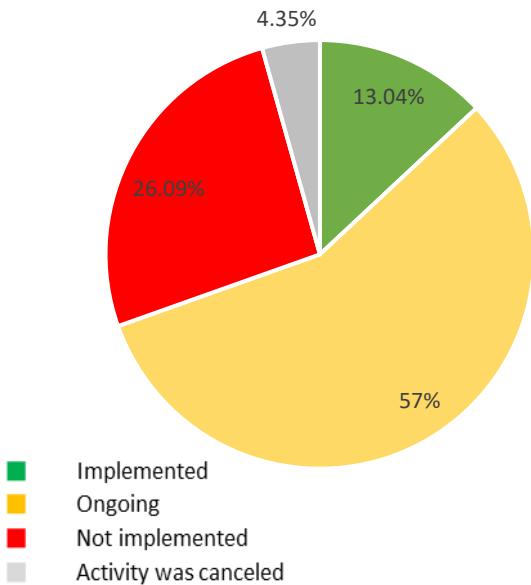
II-3 ACCOUNTING, MONITORING, AND FINANCIAL REPORTING

In achieving the strategic objective of "Accounting, Monitoring, and Financial Reporting," 80% of performance indicators showed a positive trend in 2024, while 20% remained at the same level as in 2023. This was significantly influenced by the adoption of by-laws for the implementation of accrual accounting in the public sector, further improvement of the cadastral information system, enhancement of BMIS for better reporting on the allocation of budget funds, as well as activities aimed at improving the management of EU funds through the development of a unified Information system for project management and project monitoring (MIS).

Graph 7: Trend of indicators



Graph 8: Level of implementation of activities



II-3.1 Transition to Accrual Accounting

The table below shows the trend of performance indicators within the subsystem "Transition to Accrual Accounting" in 2024 compared to the previous year. The following text presents the operational objectives of this subsystem and a part of activities from the PFM program Action Plan that contributed to improved performance.

SUBSYSTEM OBJECTIVE 3.1	Transition to accrual accounting				
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.

Established preconditions for the implementation of accrual accounting in the public sector	Accrual accounting is not in use	A draft law on amendments to the Law on Accounting in Public Sector has been adopted, which extends the deadline for the implementation of the law to January 1, 2027	Adopted by-laws establishing the prerequisites for the implementation of the Law on Accounting in Public Sector and conducted training sessions		The accounting information system is functional for accrual-based recording
---	----------------------------------	---	---	---	---

OPERATIONAL OBJECTIVE 3.1.1 – Entry into force and implementation of the Law on Accounting in Public Sector

In 2024, by-laws were adopted to create the prerequisites for the implementation of the Law on Accounting in Public Sector, including: Rulebook on the Methodology for Accounting, Recognition, and Valuation of Assets, Liabilities, Net Assets, Revenues, Receipts, Expenses, and Expenditures of Public Sector Entities ("Official Gazette of Montenegro," No. 61/24), Rulebook on the Content of Business Books and Auxiliary Records of Public Sector Entities ("Official Gazette of Montenegro," No. 35/24), Rulebook on the Manner, Content, and Deadlines for Submitting Financial Reports in the Public Sector ("Official Gazette of Montenegro," No. 63/24). However, an analysis of the state of local self-government units regarding the implementation of the Law on Accounting in Public Sector has not been conducted.

Challenges: In this area, there is a challenge in the application of by-laws and accounting methodology, which is significantly more complex than the existing one. Regarding the analysis of the state of local self-government units for the implementation of the Law on Accounting in Public Sector, it is planned that the analysis will be conducted by a consultant hired by UNDP, given the complexity and the need to visit and assess the readiness of local self-government units for the implementation of the Law on Accounting in Public Sector. Since the funds for this purpose were allocated by UNDP in December 2024, the analysis could not be completed within the planned timeframe.

Recommendations: To organize specialized training sessions and on-the-job training for the implementation of the new accounting regulations. In collaboration with UNDP, to hire a consultant to conduct an analysis of the state of local self-government units for the implementation of the Law on Accounting in Public Sector.

OPERATINAL OBJECTIVE 3.1.2 – Upgrade of the IT system to support accrual accounting

A cost-benefit analysis for the upgrade of the accounting information system has not been conducted. The Directorate for State Treasury decided not to prepare this analysis taking into account that a ToR will be developed to define the IT solution for accrual accounting. The ToR for the accounting information system, in accordance with the new accounting regulations, has not been prepared.

Challenges: The Directorate for State Treasury, in collaboration with international partners (UNDP), will carry out an activity to engage a consultant/company to prepare the ToR. This task will include an analysis of the processes related to the transition to accrual accounting, the preparation of tender documentation for selecting software solutions for accrual accounting needs, as well as cost projections for certain IT solutions. This will provide an overall picture of the implementation costs for a new solution or the upgrade of the existing solution.

Additionally, for the preparation of the ToR for the accounting information system in accordance with the new accounting regulations, it is necessary to engage an external consultant who would prepare the ToR due to its comprehensiveness, complexity, and the need for various areas of expertise. The Directorate for State Treasury, in collaboration with international consultants, has previously prepared an analysis of accounting processes in line with the new accounting methodology, which provides a solid foundation for IT experts to work on the ToR preparation. Furthermore, examples of accounting entries for all typical accounting events have also been prepared, which additionally provide a good foundation for the ToR. Given that the preparation of the ToR requires IT knowledge and competencies, a challenge in this area may be the lack of IT competencies within the public sector.

Recommendations: Formation of a project team, interdepartmental cooperation, engagement of an external consultant or consulting company to work, in collaboration with the Ministry of Finance and public sector institutions, to prepare the ToR.

OPERATIONAL OBJECTIVE 3.1.3 – Training and certification of the public sector accountants

In 2024, the second cycle of training and certification for public sector accountants was completed, with 34 participants, of whom 22 obtained certification. Additionally, in 2024 the third cycle of training and certification for accountants was initiated, with 45 participants. It is important to highlight the strong interest among public sector accountants, as 80 accountants applied to the public call issued by the Ministry of Finance in 2024.

Regarding the preparation of the analysis on the number of accountants that need to be trained and certified in the upcoming period, in 2023, the Ministry of Finance issued a request and prepared a form for all public sector entities that are required to apply Article 49 of the Law on Accounting in Public Sector. The form requested the number of accountants that need to be trained and certified in the upcoming period. The form contained all the necessary data for preparing the analysis. Public sector entities submitted the requested data; however, during the preparation of the analysis, a significant amendment to the Regulation on the Organization and Methods of Work of the Public Administration occurred, making the submitted data unusable for further analysis.

Challenges: The sustainability of training and capacity-building in this area as well as frequent amendments to the Regulation on the Organization and Method of Work of the Public Administration.

Recommendations: In the upcoming period, it is essential to organize a continuous education program for public sector accountants to ensure the sustainability of training and capacity building. This is especially important due to the delayed implementation of the Law on Accounting in Public Sector and the new accounting regulations. It is necessary to prepare an analysis of the number of accountants that need to be trained and certified in 2025.

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

The table below shows the trend of performance indicators within the subsystem "Management of (Non-Financial) State Property and the Cadastre" in 2024 compared to the previous year. The following text presents the operational objectives of this subsystem and a selection of activities from the PFM program Action Plan that contributed to the improved performance.

SUBSYSTEM OBJECTIVE 3.2	Management of (Non-Financial) State Property and the Cadastre				
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Register of the non-financial (state property) established	Non-financial assets are not presented	Drafts of internal acts are being prepared: "Internal Procedures for Quality Control of Collected and Recorded Data on Real Estate in State Ownership" and "Internal Procedure for Collecting and Recording Data for the Electronic Register of State Property"	Internal acts and procedures are being prepared		Register of the non-financial (state property) established
The cadastral information system has been upgraded	The procedure for improving data quality has not been established; The strategic document for the development of the cadastral information system has not been adopted	The Rulebook on the creation and maintenance of the immovable property cadastre has been adopted and is being implemented. Efforts are ongoing to transfer the records of the census cadastre into the immovable property cadastre. The first phase of the system upgrade project has begun, with the aim of implementing new web-based services	Implementation of the Rulebook on the Creation and Maintenance of the Immovable Property Cadastre. The web application has been upgraded, a new platform has been tested, the process of developing the IT System Strategy has been initiated, an analysis of the current state has been conducted, and the procedures for public procurement for IT system maintenance are being planned		The cadastral information system has been upgraded, and a new platform has been established

OPERATIONAL OBJECTIVE 3.2.1 – Management of (Non-Financial) State Property and the Cadastre

Regarding the completion of the asset register for all spending units at the central level, with an assessment based on a unified method of state property inventory in the cadastre, all spending units are submitting their assets through an inventory of property. However, the asset register has not been completed as it requires a new software solution as well as an evaluation of state property. In January 2024, the Administration for Cadastre and State Property was split into two separate

administrations: The Administration for Real Estate and the Administration for State Property. The Administration for State Property possesses a database of state immovable property, which is updated based on contracts and decisions received by the Administration, as well as through self-initiated data verification. Currently, the mentioned database contains 301,469 immovable properties, of which 280,795 are land plots and 20,674 are buildings. The government manages 11,079 buildings, while municipalities manage 9,595. The government holds 152,228 land parcels, and municipalities hold 128,567 parcels. In 2024, the property inventory for 2023 was submitted by: 1) 88 budget users, of which 75 submitted complete documentation; 2) 327 indirect users, of which 261 submitted complete documentation; 3) 20 municipalities, of which 10 submitted complete documentation; 4) 150 public services and institutions established by municipalities, of which 107 submitted complete documentation; 5) 12 joint-stock and other companies, of which 9 submitted complete documentation.

Regarding the control function for assessing the quality of recorded data, it has been established in the form of State Property Record Cards, which were created for 21,297 properties in 2024. In 2024, the Administration for State Property sent 3,484 requests for corrections or updates to the immovable property lists to the regional units of the Administration for Real Estate.

In order to strengthen the State Property Assessment Commission, all initiated requests were assessed during the reporting period. Specifically, the following reports were prepared:

- 56 reports on the valuation of real estate for 133 parcels with a total area of 844,517 m²;
- 11 reports on the valuation of real estate for 11 business spaces with a total area of 1,567 m².

Training for officials in the field of state property, specifically regarding asset register management, has not yet been implemented. The timing of this will depend on the implementation of the new software solution.

Challenges: Implementation of the tender for the procurement of software solutions. Development of a methodology for the (mass) valuation of state property and conducting the procedure for the overall valuation of the immovable property database. The valuation of state property is an exceptionally complex task that requires an extended period of time and significant financial resources. Thousands of buildings and hundreds of thousands of land parcels owned by the state and managed by the government and local self-governments need to be elaborated. The creation of a methodology for mass property valuation, which would allow for property assessment on a large scale, taking into account all relevant factors and best practices in the region. Due to the need for new software solutions, training programs need to be implemented.

Recommendations: New software solution is required to transfer data from the immovable property database owned by the Administration for State Property. The IT solution must be integrated with the Administration for Real Estate software to ensure that any changes made in the property sheets for properties owned by Montenegro in the software of the Administration for Real Estate are automatically reflected in the Immovable Property Register. In order to have a valid Immovable Property Register according to the Law on State Property, it is necessary to conduct an evaluation of state property. Interoperability of the Immovable Property Register with the software of the Administration for State Property so that any implemented decisions are automatically updated in the Immovable Property Register. A joint approach should be implemented for the mass valuation process. New cartographic products should be created, as well as a model for mass valuation of real estate. Training should be organized through video links or user manuals. To

increase the accuracy of data in the Immovable Property Register, the training should involve as many institutions and users as possible.

OPERATIONAL OBJECTIVE 3.2.2 – Upgrade of relevant IT systems in the field of state property and cadastral management and development of e-services

The improvement of the functionality of the IT solution for state property management and data quality has not started due to the lack of a functional IT solution for state property management and data quality. The deadline for the implementation of this activity is 2026.

In 2024, the cadastral information system was improved through the following activities:

- Comprehensive analysis of the current situation related to data quality, technological limitations, legal regulations, and the improvement of data exchange electronically, followed by the preparation of proposals and initiatives for further activities;
- Implementation and monitoring of new methods prescribed by the Regulation on the creation and maintenance of the cadastre of immovable property, which improved the quality of cadastral records data;
- Upgrading of the information system to implement new e-services for the distribution of cadastral data and documents, and e-submission of requests;
- Testing the system development, based on a new platform and web application, through test phases for establishing new e-services;
- Maintenance and improvement of the existing web application used by notary offices, public bailiffs, government authorities, and local governments;
- Initiating the public procurement procedure for the development of the "Information System Development Strategy Project for the Real Estate Administration";
- Planning financial resources in public procurement plans for the maintenance of existing, as well as for the implementation of new software packages and licenses;
- Initiating the improvement of the legal framework to facilitate the application of new technologies and ensure greater legal certainty and transparency in working with property data;
- Development of the idea for the creation of the "Medium-Term Work Program 2025-2030 for the Real Estate Administration";
- Participation in training and presentations in the areas of information systems and digitalization in general.

Challenges: Changes in legislation and securing expert support. The Real Estate Administration requires support from the responsible Ministry, the Government of Montenegro, and all local self-governments.

There is a lack of a strategic document for the development of the Real Estate Administration's information system, changes in the legislation concerning state property and e-Government, an insufficient number of employees in the IT sector and the field of geospatial data processing, allocated financial resources for planned activities, outdated and amortized IT infrastructure, software solutions that do not align with modern cadastral systems and upgrades, and a lack of a strategic framework for managing innovations, which should provide clear guidelines for the implementation of new functionalities.

Recommendations: Engage expert support and strengthen inter-institutional cooperation. There is a need for the upgrade of the cadastral information system to improve data quality and enable their consolidation, as well as the integration of modern technologies and procedures. It is essential to define priorities, procedures, and the human and financial resources required for the implementation of the new system. At the same time, risks arising from these changes should be carefully managed, and alignment with the current state must be ensured. New IT solutions should be aligned with regulations and procedures to enable their optimal application. This includes reviewing laws, bylaws, and other legal norms that regulate the use of information technologies in the cadastral system.

OPERATIONAL OBJECTIVE 3.2.3 – Amendment of legislation and the development of strategic documents to ensure the quality of the system and data

In December 2024, the procedure for forming a Working Group with the task of amending the Law on State Property was initiated. The proposed amendments to the Law on State Property are currently in parliamentary procedure, and their adoption is expected in the first quarter of 2025. In addition to the proposed amendments in the procedure, further changes and improvements are needed, which will be worked on in the upcoming period.

No changes have been made to the regulatory framework regarding the definition of mandatory norms for the submission of electronic documentation by notaries. However, legal amendments have been initiated in the Government of Montenegro's Work Program for 2025.

Preparatory activities for the development of the Strategic Document for the Development of the IT System for the Cadastre have been carried out. Its completion is expected within the prescribed deadline by the end of 2026.

Challenges: It is necessary to amend the Law on State Property as soon as possible and regulate the issue of one-time submission of asset inventory data in the form of Excel spreadsheets for easier data processing. The method of submitting electronic documentation by notaries needs to be amended to ensure clear regulatory alignment with the operational procedures of the Real Estate Administration. There is a lack of a strategic framework for innovation management, which would provide clear guidelines for implementing new functionalities and for the integration of the existing cadastral information system. The public procurement process in 2024 was conducted twice without a successful outcome.

Recommendations: It is essential to initiate the amendment of Article 9 of the Regulation on the Method of Maintaining Records of Movable and Immovable Property and Inventory of Property in State Ownership, which specifies how asset inventories are submitted to the Real Estate Administration. Additionally, the amendment of Article 63 of the Law on State Property is necessary, as it does not include penalties for failing to submit the inventory of movable property to the Administration. Strengthening inter-institutional cooperation between the Real Estate Administration, the Notary Chamber, and the Ministry of Justice with the common objective of removing legal barriers through the revision and amendment of laws, regulations, and other legal norms. Initiating a new public procurement procedure for the development of the Information System Development Strategy.

II-3.3 Reporting on Budget Execution

The following shows the trend of performance indicator movements within the subsystem 'Reporting on Budget Execution' in 2024 compared to the previous year, as well as the operational objectives of this subsystem and some activities from the PFM program Action Plan that contributed to the improved performance.

SUBSYSTEM OBJECTIVE 3.3	Reporting on budget execution				
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Annual and periodic reports on budget execution in accordance with the program classification are prepared within the Budget Management Information System (BMIS)	Reports are not being prepared	BMIS is in the process of being upgraded, which will enable the preparation of annual and periodic reports, including gender indicators	The annual report on the implementation of the program budget for 2023 has been prepared, and the monthly, quarterly, and annual budget execution reports have been published on the Ministry of Finance website		Periodic and annual reports have been improved according to the BMIS upgrade, including gender indicators

OPERATIONAL OBJECTIVE 3.3.1 – Establishing the process of preparing and publishing transparent annual and periodic budget execution reports

Spending units, in accordance with Article 7 of the Decision on the Method of Preparation and Content of the Program Budget of Spending Units, are required to submit semi-annual and annual reports on the realization of the program budget to the Ministry of Finance. In 2024, within the Budget Information System (BMIS), the annual report on the realization of the program budget for 2023 was prepared. The semi-annual report was not prepared due to the need for a budget revision, which was being prepared during August, requiring adjustments to the information system as well as changes to the structure of spending units due to amendments to the Regulation on the Organization and Operation of the Government and the recognition of new ministries. On the other hand, monthly and quarterly reports on the realization of the program aspect of the Capital Budget were prepared, which were also subject to discussion in the Parliament of Montenegro.

The annual report on the realization of the program budget for 2023 is an integral part of the Proposal of the Law on the Final Account of the Budget of Montenegro for 2023. The Parliament of Montenegro, at the third session of the Second Regular (Autumn) Session in 2024, adopted a Conclusion calling on the Government of Montenegro to respect and fulfill all recommendations of the State Audit Institution given in the audit report of the Proposal of the Law on the Final Account of the Budget of Montenegro for 2023. The mentioned proposal of the Law is available to the general public on the website of the Parliament of Montenegro, as well as on the website of the Government of Montenegro.

In the next period, work will continue on further improving the BMIS to enhance the quality of the submitted (entered) information on objectives and indicators, in order to improve the accuracy and completeness of performance reports on the budget.

In terms of increasing transparency and improving the visualization of budget statements in 2024, monthly reports on the execution of the Budget of Montenegro were prepared and published on the Ministry of Finance's website, 30 days after the end of the observed period. The monthly reports consist of the GDDS table, Budget execution by functional classification, Budget execution by organizational classification, Budget execution by program classification, Report on the current reserve, and the accompanying explanation of the monthly reports. In addition to these reports, analyses of consolidated public expenditure were also prepared and published on the Ministry of Finance's website. These analyses contain data on public revenues and public expenditure by economic classification compared to the plan, as well as with the corresponding period of the previous year. These analyses are published quarterly, 50 days after the end of the quarter for the previous quarter. Transparency will be further improved through the visualization of reports on budget execution and plans related to the budget for citizens.

Challenges: Potential delays in contracting and the start of project implementation for the BMIS upgrade.

Recommendations: Continue working on improving the BMIS in order to enhance the quality of the attached (entered) information regarding objectives and indicators, with the aim of improving the accuracy and completeness of budget performance reports.

OPERATIONAL OBJECTIVE 3.3.2 – Establishing the process of preparing annual and periodic budget performance reports

Semi-annual and annual budget performance reports are continuously prepared through the Budget Management Information System (BMIS).

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

The following section presents the trend of performance indicators within the subsystem “Management and Reporting on the Use of EU Funds” in 2024 compared to the previous year, as well as the operational objectives of this subsystem and part of the activities from the PFM Program Action Plan that contributed to achieving improved performance.

Management and Reporting on the Use of EU Funds					
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Improving EU funds management through the development of a unified information system for project management and monitoring – MIS	Information system does not exist	Preparatory activities for the establishment of the MIS have not started	Activities related to needs analysis have begun as a prerequisite for drafting the technical specification		MIS developed and functioning

(Management Information System)					
---------------------------------	--	--	--	--	--

OPERATIONAL OBJECTIVES 3.4.1 – Establishing a Management Information System (MIS) for EU Funds Management and 3.4.2 - Establishing a Process for Monitoring of the EU Assistance Programs

In 2024, an analysis of the current situation and needs regarding the establishment of an electronic Management Information System (MIS) for the management of EU funds was initiated. The completion of the analysis is expected in 2025. As a result, technical documentation, including technical specifications, will be developed, which is a prerequisite for the implementation of further steps outlined in the Action Plan.

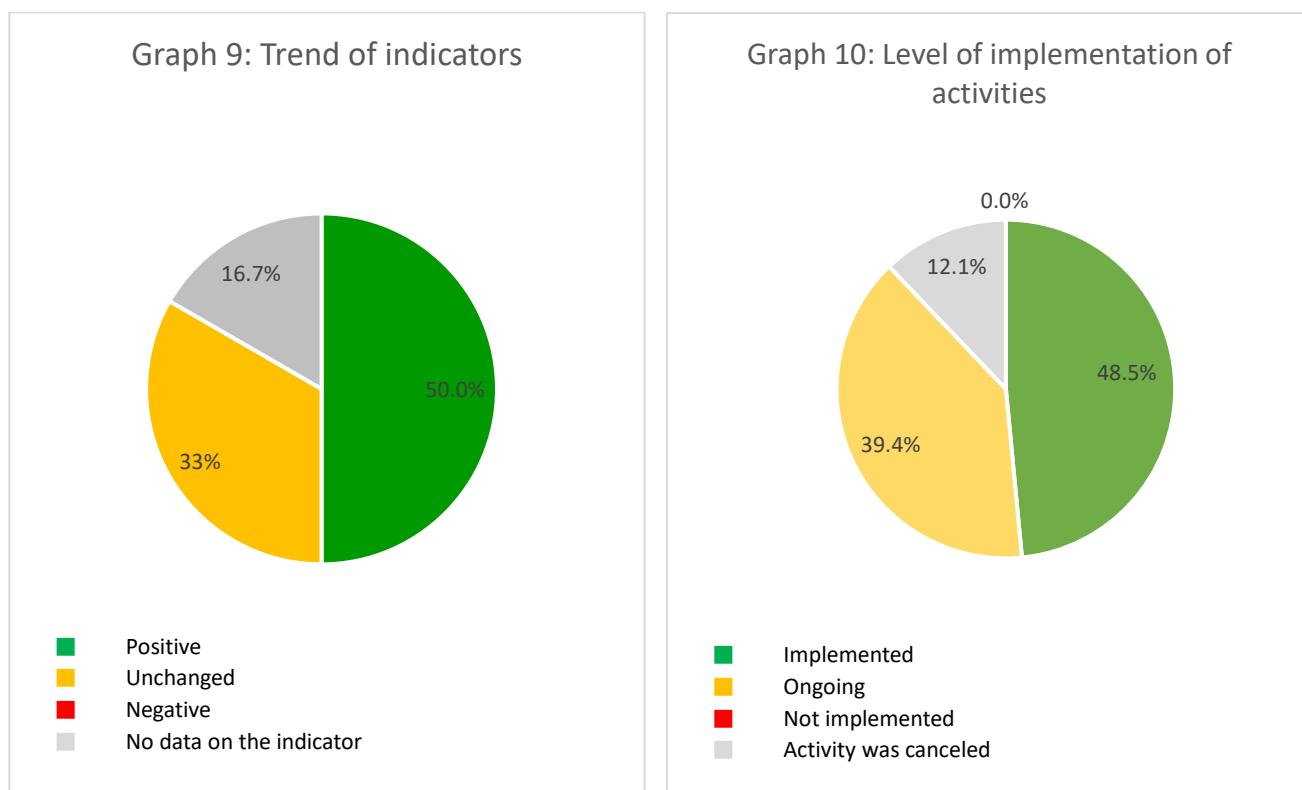
The development of the MIS will contribute to reliable and credible data on programs, contracts, and payments, as well as the monitoring, management, and reporting in accordance with the requirements of the European Union under Negotiation Chapter 22 – Regional Policy and Coordination of Structural Instruments.

Challenges: Creation of quality tender documentation, through close collaboration between IT experts and users of the MIS system.

Recommendations: Engagement and commitment of bodies/actors with experience in managing EU funds, to exchange knowledge and share expertise, as well as experts in the field of information technology.

II-4 FINANCIAL CONTROL

In achieving the strategic objective "Financial Control," 50% of performance indicators in 2024 showed a positive trend, while 33% remained at the same level as in 2023. The achieved improvement in performance was significantly contributed to by the increase in the number of ministries delegating responsibilities for financial management and internal controls, as well as the fulfillment of the external audit obligations to meet the final benchmark for Chapter 32 - Financial Control. Below is the trend of indicators and the level of implementation of activities in achieving Strategic Objective 4 of the PFM Program.



II-4.1 Internal Financial Control in the Public Sector (PIFC)

The next table shows the trend of performance indicators within the subsystem "Internal Financial Control in the Public Sector (PIFC)" in 2024, compared to the previous year. Below the table, the operational objectives of this subsystem are presented, along with activities from the PFM Action Plan that have contributed to achieving these results.

SUBSYSTEM OBJECTIVE 4.1		Internal Financial Control in the Public Sector (PIFC)			
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.

Percentage of ministries that delegate authority for financial management and internal controls.	8,3%	10% ⁵	42% ⁶		80%
Percentage of internal audit recommendations related to improving internal controls and achieving value for money	28,60%	36%	N/A ⁷		40%

OPERATIONAL OBJECTIVE 4.1.1 - Improvement of managerial accountability and risk management procedures

The assessment of the quality of management and internal controls is conducted annually. The selection of areas and institutions is carried out in accordance with the criteria outlined in the Regulation on the Methodology for Assessing the Quality of Management and Controls in the Public Sector. In December 2024, an assessment was conducted on the quality of the established management and internal control system, with a focus on the risk management system established in the Ministry of Justice and the Ministry of Health. Reports containing recommendations for the improvement of this system were prepared.

Activities were carried out to raise awareness about the importance of managerial accountability, delegation of authority, and internal reporting through training sessions organized in cooperation with the Human Resources Administration. In 2024, one training session was held on the topic: Managerial accountability for budget fund users at the central level, while three training sessions on the topic: Internal reporting were conducted for budget fund users at both the central and local levels.

Additionally, recommendations were made for further improvement of risk management and, consequently, managerial accountability in the institutions that were subject to the assessment of this system's quality. The analysis of managerial accountability conducted by the Ministry of Finance in June 2024 revealed that only 42% of ministries had delegated authority.

Challenges: Given that the managerial culture in the public administration is still highly centralized and that delegation of authority (although allowed) is not mandatory, and for smaller institutions, delegation is often not even suitable, the implementation of this concept remains a key challenge in

⁵ The information on the percentage of realization of the indicator (formal delegation of responsibilities), which measures the achievement of this goal in 2023, was difficult to determine due to frequent organizational changes and fluctuations in leadership positions, as stated in the Consolidated Report on Management and Internal Control in the Public Sector of Montenegro for 2023

⁶ The Ministry of Finance carried out activities to collect data on transferred or delegated powers in ministries. A request for information and data regarding the delegation of powers was sent to 19 ministries, of which 13, or 68.4%, responded. Of the 13 ministries, 8, or 61.5% (which represents 42% of the total number of ministries, 19), provided the relevant evidence of delegated powers. The final data for 2024 will be available upon the adoption of the Consolidated Annual Report on Management and Internal Controls in the Public Sector for 2024.

⁷ The data for 2024 will be available upon the adoption of the Consolidated Annual Report on Management and Internal Controls in the Public Sector for 2024.

public administration. Another challenge is the insufficient staffing capacity to carry out a greater number of quality assessments of management and internal controls.

Recommendations: Develop a roadmap for the implementation of managerial accountability based on the analysis conducted in the state administration bodies. Strengthen the capacity of employees in the Directorate for Harmonization of Management and Internal Controls to assess the quality of management and internal controls on a broader scale.

OPERATIONAL OBJECTIVE 4.1.2 – Strengthening Internal Auditing and FMC (Financial Management and Control) in State-Owned Enterprises

The knowledge of employees in state-owned enterprises has been improved in the field of internal auditing through the Training Program for Internal Auditors in the Public Sector, organized by the Ministry of Finance in collaboration with the Human Resources Administration. In 2024, four employees from state-owned enterprises attended the program.

Challenges: The insufficient number of employees from state-owned enterprises who attend training in the areas of management and internal controls.

Recommendations: The Ministry of Finance will take steps to promote training aimed at strengthening the capacities of managers and employees in state-owned enterprises, where the state holds a majority ownership stake, in the fields of management and internal controls.

OPERATIONAL OBJECTIVE 4.1.3 – Improvement of the Capacities of the CHU and the Internal Audit Function

The capacities of the employees in the Directorate for Central Harmonization and Development of Internal Controls of the Ministry of Finance have been strengthened. Specifically, employees in the Directorate attended training in the areas of management, internal controls, and internal audit, primarily organized by the "Public Expenditure Management – Learning through Peer Support" network (PEMPAL) and the Center for Excellence in Finance (CEF) from Ljubljana.

The knowledge of certified internal auditors has been enhanced through the implementation of the Continuous Professional Development Program for certified internal auditors in the public sector, organized by the Ministry of Finance in collaboration with the Human Resources Administration. In 2024, 24 training sessions were organized for internal auditors deployed in internal audit units at both central and local levels. The topics included: "Presentation of the new Global Internal Audit Standards with a focus on ethics and professionalism of internal auditors," "Audit of management as an area of internal audit work with a focus on auditing the planning and execution of the program budget," "Similarities and differences between assurance engagements and advisory engagements and providing advisory services in the area of risk management," "IT audit, use of CAAT, and the importance of audit sampling," "Ensuring the quality of internal audit work and the role of internal audit in preventing and detecting fraud," and "Strategic and annual planning of internal audit." These trainings were also attended by internal auditors deployed in state-owned enterprises.

Challenges: Insufficient financial resources and available time for strengthening the capacity of employees in the Central Harmonization Unit (CHU) to monitor and improve management and internal control in the public sector (training, on-the-job support, experience exchange with EU

member states). Lack of financial resources for implementing training programs to enhance the capacity of the internal audit function for budget users.

Preporuke: Ministarstvo finansija će preduzeti aktivnosti kako bi zaposleni u CHU prisustvovali obukama i jačali kapacitete za praćenje i unaprijeđenje upravljanja i unutrašnje kontrole u javnom sektoru. Godišnjim planom planiraće se broj dana za prisustvo obukama.

Recommendations: The Ministry of Finance will take measures to ensure that employees in the Central Harmonization Unit (CHU) attend training sessions and strengthen their capacity to monitor and improve management and internal control in the public sector. The annual plan will include the number of days for training attendance.

Through the "EU4PFM in Montenegro" project, activities will be implemented to enhance the knowledge of internal auditors, as well as the implementation of the Professional Development Program for internal auditors, which the Ministry of Finance conducts in collaboration with the Human Resources Administration. The Ministry of Finance will also explore other methods to strengthen the capacity of internal auditors.

II-4.2 External Audit

The next table shows the trend of performance indicator within the subsystem "External Audit" in 2024 compared to the previous year, while the following text outlines the operational objectives of this subsystem and activities from the PFM program Action Plan that have contributed to achieving these results.

SUBSYSTEM OBJECTIVE 4.2		External audit			
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Negotiations on Chapter 32 (Financial Control) have been provisionally closed	Chapter 32 is open	Significant progress in meeting the final benchmark	According to the 2024 Report on Chapter 32 – External Audit, the European Commission did not issue recommendations to the SAI because the SAI had fulfilled its obligations to meet the final benchmark.		Negotiations on Chapter 32 (Financial Control) have been provisionally closed

OPERATIONAL OBJECTIVE 4.2.1 – Improve the strategic planning framework

The Strategic Development Plan of the State Audit Institution (SAI) for the period 2024-2027 was adopted in March 2023. Every year, the SAI adopts annual operational plans to fulfill the obligations outlined in the Strategic Development Plan of the SAI.

Despite the challenges faced, the SAI achieved a high level of implementation of activities from the Operational Plan for the implementation of the Strategic Development Plan of SAI for 2024. Specifically, the Operational Plan for the implementation of the Strategic Development Plan for 2024 was realized at 63%. In addition to the efforts invested in fulfilling strategic priorities, SAI also focused on expanding the scope of different areas of auditing in line with the Annual Audit Plan, which is based on risk assessments determined by the strategic audit plans.

Activities related to the development of the Communication Strategy and the Human Resource Management Strategy were not planned for realization in 2024. These are planned to be realized through the “EU4PFM” project. The development of the Communication Strategy of SAI for the period 2025-2028 is planned for Q1 2025, while the development of the Human Resource Management Strategy of SAI for the period 2026-2029 is planned for Q1 2026.

Challenges: There have been delays in the timely realization of certain strategic activities due to the lack of adequate human resource capacities, specialized knowledge, and the emergence of extraordinary circumstances in 2024, including:

- Vacant Senate position (The Parliament appointed the fifth member of the Senate on July 31, 2024);
- Lack of a systematic approach by the Parliament in monitoring of the findings and implementation of audit recommendations;
- Unsuccessful realization of the public procurement procedure for the audit management system due to deficient and faulty offers submitted by bidders.

Considering the large number of sub-activities planned for the development of the Communication Strategy, there is a risk that not all sub-activities will be completed according to the planned timeline.

Other challenges include:

- Insufficient involvement of target groups and delays in obtaining feedback regarding the satisfaction level of target groups with the implementation of the current communication policy of SAI;
- Lack of appropriate human resources specifically dedicated to this area.

Recommendations:

- Conduct monitoring of the implementation of strategic activities in SAI at least twice a year and propose measures to address potential challenges and risks.
- Timely and successfully completed process of selecting and appointing the fifth member of the Senate and the Senate President by the Parliament, who would be responsible for implementing strategic activities in accordance with the internal acts of SAI.
- Increase the engagement of experts with the appropriate specialized knowledge in the field of external public sector auditing.
- Find an alternative solution to gather feedback on the satisfaction level of target groups with the implementation of the current communication policy of SAI (both live and online).
- Prioritize employee responsibilities in the development of strategic documents.
- Engage a larger number of employees in the development of the Communication Strategy.

OPERATIONAL OBJECTIVE 4.2.2 – Increase the quality of audits

The Medium-Term Performance Audit Plan for 2020-2024 has been implemented at 83%. The Medium-Term Financial Audit and Compliance Audit Plan has been implemented at 85% in relation to the SAI Annual Audit Plan for 2024.

Through regular control of recommendation implementation, the State Audit Institution has ensured timely tracking of the execution of audit recommendations by increasing the number of controlled recommendations i.e. increased number of published reports on the control of the implementation of recommendations.

Environmental audits. After several unsuccessful attempts to engage an appropriate expert for this activity through international support, due to limited specialized knowledge in the field of environmental auditing, the SAI has decided to abandon the implementation of this activity. For this reason, it was decided that environmental audits will follow the INTOSAI Development Initiative (IDI) Guidelines for auditing areas related to the Sustainable Development Objectives, considering that a number of these objectives pertain to environmental issues.

In 2024, six performance audits were conducted. The total number of auditors in sector 2 is 13. By carrying out performance audits, the State Audit Institution aimed to contribute in improving the implementation of gender-responsive budgeting policies, water management, and state asset management, as well as the implementation of strategic documents necessary for meeting obligations under the EU negotiation process. With the support of international partners, the SAI continued strengthening its audit capacities for conducting performance audits through participation in an international auditor training program in cooperation with the Swedish National Audit Office. Additionally, it engaged in parallel performance audits on topics such as "Effectiveness of Gender-Responsive Budgeting Implementation in Montenegro," supported by UN Women and five supreme audit institutions from Bosnia and Herzegovina and Serbia, and "Implementation of Water Management Projects," with expert support from the Swedish National Audit Office.

Challenges:

The challenge in drafting the SAI's medium-term audit plan is the untimely execution of the selection and appointment process for a Senate member and the President of the Senate. Another challenge is the increased scope of the SAI's activities in monitoring and controlling the implementation of audit recommendations, given the existing limited administrative capacity, which is already engaged in conducting audits planned in the SAI's Annual Audit Plan. Additionally, there is a lack of an established systematic approach by the Parliament of Montenegro for tracking the implementation of audit recommendations. Delays in securing and equipping the SAI's office space also remain a challenge.

In relation to the obligation to prepare guidelines for environmental protection audits, the challenge is the lack of expert knowledge and skills in the field of environmental auditing.

In the area of strengthening performance auditing, the challenge is the lack of practical training for audit staff in performance auditing, both at the beginner and advanced levels, as well as the large number of planned performance audits, while there are insufficient audit capacities to carry out these performance audits.

Recommendations: It is recommended to complete the process of selecting and appointing the fifth member of the Senate and the President of the Senate by the Parliament in a timely and successful manner. A systematic approach to monitoring the implementation of audit recommendations by the Parliament of Montenegro needs to be introduced. The recruitment of additional audit staff depends on the timely provision and equipping of the premises of the State Audit Institution.

In the area of environmental protection auditing, it is necessary to apply the existing international guidelines for supreme audit institutions (ISSAI) in the field of environmental auditing, such as the INTOSAI Development Initiative (IDI) Guidelines for auditing areas related to sustainable development objectives.

Regarding the strengthening of performance audits, one of the activities within the “EU4PFM” project focuses on enhancing the capacity of the auditing staff in the area of performance audits. This will involve organizing training sessions at both the introductory and advanced levels, including mentoring and practical work on audits. The training sessions will take place in Q3/Q4 of 2025, Q2/Q3 of 2026, and Q2 of 2027. Additionally, there is a need for the engagement of a larger number of auditors for performance audits.

OPERATIONAL OBJECTIVE 4.2.3 – Improve the digitalization of auditing and the process of monitoring the implementation of audit recommendations

The SAI conducted a public procurement procedure for an Audit Management System (AMS). However, due to the submission of low-quality and defective bids by suppliers, the procedure was annulled in 2024. Given that this is a highly complex system requiring specialized expertise and that the success of the procurement process does not depend on the Institution but rather on the quality of the submitted bids, there is no guarantee that the same procedure will be successfully conducted in 2025 and that the system will be implemented and operational by 2026. For this reason, the SAI has decided to abandon this activity within the PFM document, and it is now planned for implementation in 2027 as part of the SAI’s Strategic Development Plan.

The SAI has established a system for monitoring and controlling the implementation of recommendations in accordance with the Guidelines for the Development, Monitoring, and Control of the Implementation of SAI Recommendations. This system is fully applied in practice through the publication of SAI reports on the implementation of recommendations on the Institution’s official website, as well as through the Recommendations Register.

Challenges: Delay in implementing the audit management software due to the annulment of the public procurement process, caused by the submission of low-quality and defective bids that did not meet the tender specifications.

Increased workload for the SAI in monitoring and controlling the implementation of audit recommendations, having in mind limited administrative capacity, as personnel are primarily engaged in conducting audits planned in the SAI’s Annual Audit Plan. Lack of timeliness in updating the Register of Audit Recommendations.

Recommendations: The SAI plans to initiate a public procurement procedure for the Audit Management System in 2025. However, since the success of the process does not depend on the Institution, there is no guarantee that it will be completed on time and successfully. Given the lack of specialized expertise in these areas, future similar projects should include the engagement of international expert support.

It is recommended to assess the implementation of and update the Guidelines for the Development, Monitoring, and Control of the Implementation of SAI Recommendations in accordance with international standards. Conduct an internal study within the SAI on the use of the application for monitoring audit recommendations by audit staff and propose system upgrades based on the Institution's needs.

II-4.3 Coordination of fraud prevention (AFCOS)

The following table illustrates the performance indicator trends within the "Coordination of Fraud Prevention" subsystem in 2024 compared to the previous year. Below, the operational objectives of this subsystem and the activities from the PFM program's Action Plan that contributed to achieving these results are presented.

SUBSYSTEM OBJECTIVE 4.3		Coordination of fraud prevention (AFCOS)			
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Negotiations on Chapter 32 (Financial Control) have been provisionally closed	Chapter 32 is open	Law on Amendments to the Law on Budget and Fiscal Responsibility	A case management system for irregularities and fraud in the context of IPA funds has been established (Chapter 32 remains open)	↔	Negotiations on Chapter 32 (Financial Control) have been provisionally closed

OPERATIONAL OBJECTIVE 4.3.1 – Improvement of the functioning of the AFCOS system

An analysis of the legal basis of the AFCOS system has been conducted, and recommendations for its improvement have been made. Amendments to the Law on the Budget and Fiscal Responsibility have been proposed to better define the AFCOS system and its role, with adoption expected within the prescribed timeline.

A methodology for managing the risk of fraud and irregularities has been developed. Additionally, in accordance with this methodology, the AFCOS office prepared the "Risk Analysis of Fraud with Statistical Analysis of Irregularity Cases, in the Context of Implementing Projects Funded by IPA Funds" in February 2024 (which was adopted by the Government of Montenegro in July 2024). This analysis provides significant statistical insight into the occurrence of irregularities in the implementation of IPA projects and analyzes the effectiveness of the financial management and control systems within IPA structures, identifying areas that require further attention and improvement. This data-driven approach is essential for directing resources and efforts to areas that need the most attention to ensure proper management and EU protection of funds.

Challenges: A potential challenge for completing activities within the planned timeframe could be any delays in the passage of the law in the Parliament, considering that the draft amendments have already been prepared and there have been no obstacles or challenges in this regard.

Recommendations: Introduce regular meetings and/or working groups for the swift adoption and finalization of key legislative acts, in order to accelerate the procedure for adopting the legislative and other changes necessary to improve the system.

OPERATIONAL OBJECTIVE 4.3.2 – Improvement of the work of the AFCOS Network bodies in the area of irregularity management

The draft "Communication Strategy for the Protection of the Financial Interests of the EU in Montenegro for the Period 2026-2029" has been developed in accordance with the "Methodology for Policy Development, Drafting, and Monitoring the Implementation of Strategic Documents" and the "Guidelines for Preparing Strategic Documents" of the Government's General Secretariat. After finalizing the document, its adoption is expected by the end of 2026.

The activity from the Action Plan related to establishing a case management system for irregularities and fraud in the context of IPA funds has been discontinued, as the Montenegro Progress Report for 2023 concluded that a system for managing cases of irregularities and fraud has already been established. Additionally, the capacity of AFCOS for coordinating the fight against fraud and irregularities has been strengthened, and good cooperation and a solid audit trail have been achieved regarding OLAF investigations in Montenegro.

Recommendations: Set clear deadlines and assign responsible individuals for the finalization of the mentioned documents.

OPERATIONAL OBJECTIVE 4.3.3 – Strengthening of the administrative capacities of AFCOS system

The needs analysis for training has not yet been conducted, but it is expected to be completed by the end of the second quarter of 2025. After the analysis, a Training Plan/Catalog will be developed. In November 2024, AFCOS office officials, in collaboration with the Human Resources Administration, organized and conducted a training titled "Risk Management and the Policy of Combating Irregularities, Fraud, and Misuse in the EU Fund Management System".⁸

Challenges: A challenge is to secure financial resources for the implementation of this activity, considering that it will not be funded through the current Twinning Light project. The AFCOS office, in cooperation with the CEF, has taken steps to secure an expert(s) for the implementation of the activities.

Recommendations: Expand the scope to include a larger number of employees across all relevant institutions. Additionally, implement specific training focused on new challenges in the area of managing irregularities and fraud, particularly in the context of new technologies and prevention methods.

⁸ The training covered the following topics: the concept of risk, irregularities, and fraud; procedures and tools for managing risks, irregularities, and fraud; reporting lines and reporting on risks; risk management; the EU financial interests protection system; the procedure for reporting irregularities; using the electronic reporting system to the European Commission; and practical examples. Around 25 officials from the IPA structure bodies attended the training.

OPERATIONAL OBJECTIVE 4.3.4 – Improvement of the protection of the EU's financial interests

The Strategy for Combating Fraud and Managing Irregularities to protect the EU's financial interests, along with the accompanying Action Plan, has been prepared and its adoption is expected by the end of the current year.

Challenges: Although significant results have been achieved, such as the development of key analyses and training programs, challenges remain in finalizing strategic documents and the training analysis, which are expected to be addressed within the prescribed timelines. Strengthening administrative capacities and the legal framework, along with improving reporting, are key factors for further enhancing the protection of the EU's financial interests.

Recommendations: Strengthen the legal framework and accelerate the process of adopting key documents. Introduce regular meetings and/or working groups for the swift adoption and finalization of key legislative acts to speed up the procedure for adopting necessary legislative and other changes to improve the system. Continue with training programs, but expand their scope to include a larger number of employees across all relevant institutions. Additionally, implement specific training focused on new challenges in the area of managing irregularities and fraud (especially in the context of new technologies and prevention methods). Accelerate the finalization of strategic documents and analyses: set clear deadlines and assign responsible individuals for finalizing documents such as the Communication Strategy, Guidelines for Managing Irregularities, and the Anti-Fraud Strategy. Regularly assess risks and continuously update the methodology based on new insights.

II-4.4 Improvement of the Efficiency of the Audit Authority

The following table shows the trend of performance indicator changes within the subsystem "Improvement of the Efficiency of the Audit Authority" in 2024 compared to the previous year. The operational objectives of this subsystem and the activities from the PFM program's Action Plan that contributed to achieving these outcomes are presented in the following text.

SUBSYSTEM OBJECTIVE 4.4	Improvement of the efficiency of the Audit Authority				
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Negotiations on Chapter 32 (Financial Control) have been provisionally closed	Chapter 32 is open	The amendments and additions to the Law on the Audit of EU Funds have been completed and are ready for submission to the Parliament. The sub-legal acts of the AA have been identified and prepared for further adoption	The amendments and additions to the Law on the Audit of EU Funds have been completed and are ready for submission to the Parliament. The sub-legal acts of the AA have been identified and prepared for further adoption.	↔	Negotiations on Chapter 32 (Financial Control) have been provisionally closed

OPERATIONAL OBJECTIVE 4.4.1 – Improvement of the legislative framework

The legislative framework of the Audit Authority has been improved through the implementation of the following activities:

- Amendments to the Law on the Audit of EU Funds have been completed and are ready for submission to the Parliament of Montenegro.
- The sub-legal acts of the Audit Authority have been prepared and will be further processed after the adoption of the amendments to the Law on the Audit of EU Funds in the Parliament of Montenegro.
- The positions and coefficients of employees have been recognized in the draft Law on Salaries in the Public Sector, which was one of the prerequisites for improving the legislative framework of the Audit Authority, as well as aligning with EU requirements after Montenegro's accession to the EU.

Challenges: The delay in adopting the amendments to the Law on Salaries in the Public Sector also causes delays in the adoption of amendments to the Law on the Audit of EU Funds, the adoption of sub-legal acts, which leads to non-compliance with standards and future EU requirements.

Recommendations: In order to improve the legislative framework of the Audit Authority, it is necessary to adopt the amendments to the Law on the Audit of EU Funds, the Law on Salaries in the Public Sector, which recognizes the positions and coefficients of employees in the Audit Authority, as well as to adopt the sub-legal acts.

OPERATIONAL OBJECTIVE 4.4.2 – Strengthening capacities and increasing the efficiency of audit implementation

Fifteen auditors in the Audit Authority have been trained on the closure of the IPA II program and the novelties related to the IPA III programming period, which contributes to strengthening capacities and increasing efficiency in conducting audits. The training for closing the IPA II program (2013-2020) and preparing auditors for auditing the first programs of the IPA III perspective (2021-2027)/ESIF was implemented through the TWL project. Additionally, two Taiex missions were held in 2024 for employees working on audits for Agricultural funds, as well as audits related to ISO 27001 standards. Furthermore, employees of the Audit Authority attended other training sessions organized by the IPA structures throughout 2024, focusing on risk management, financial corrections, fraud, and irregularities.

Challenges: There is a continuous need to strengthen administrative capacities so that the Audit Authority is prepared to meet all the demands of applying the working methodology used in EU member states.

Recommendations: Ongoing education and training are essential to ensure that the Audit Authority performs its core function as defined in the Law on the Audit of EU Funds.

II-4.5 Operationalization of the Budget Inspection Function

The following table shows the trend of performance indicators within the subsystem "Operationalization of the Budget Inspection Function" in 2024 compared to the previous year. The operational objectives of this subsystem and the activities from the PFM program's Action Plan that contributed to achieving these outcomes are outlined in the following text.

SUBSYSTEM OBJECTIVE 4.5	Operationalization of the Budget Inspection Function				
Indicator	Initial value 2021.	Realised value in 2023.	Realised value in 2024.	Trend	Target value in 2026.
Negotiations on Chapter 32 (Financial Control) have been provisionally closed	Chapter 32 is open	Administrative capacities and organisation strengthened	Administrative capacities and organisation strengthened		Negotiations on Chapter 32 (Financial Control) have been provisionally closed

OPERATIONAL OBJECTIVE 4.5.1 – Establishment of the legislative framework

A Budget Inspection Law has been drafted and adopted in December 2024. On December 17, 2024, the Parliament adopted the Budget Inspection Law, which defines the specificities in the work of budget inspectors. The EU4PFM project provides support for improving the work of budget inspectors, specifically in the development of the budget inspection methodology and a special training program for budget inspectors. This is especially important considering the broad scope of responsibilities for budget inspectors (supervision over the implementation of 4 systemic laws and related regulations). The work methodology would enable a standardized approach to inspection supervision, preserving institutional memory, and increasing the efficiency of the inspection work.

Challenges: Currently, activities planned through the EU4PFM project are scheduled for the fourth quarter of 2025 and in 2026, which poses a risk that certain activities crucial for the budget inspection will not be implemented in 2025.

Recommendations: It is important to strengthen the administrative capacity of the budget inspection to ensure that a larger number of inspectors are involved from the start of the planned activities and throughout their implementation.

OPERATIONAL OBJECTIVE 4.5.2 – Capacity building

The Ministry of Finance has announced an internal job vacancy for the Directorate for Inspection Supervision and Protection of EU Financial Interests, Budget Inspection Direction, with the objective of hiring two budget inspectors during 2024. The testing of candidates was conducted in October, and the entire process was completed in December 2024.

For the first time, the draft proposal of the Budget Law of Montenegro for 2025, in line with the program-based budget, recognizes the activity "Activities focused on inspection supervision and fraud control", which includes allocated budget funds for the training of inspectors.

Challenges: The recruitment process is complex and lengthy (internal job announcements are published through the Human Resources Administration, and if the vacancy is not filled internally, a

public announcement is made. Both procedures are subject to corresponding legal deadlines, which are quite long and last several months). Additionally, there is a need for a special training program due to the specific nature of budget inspection.

Recommendations: Considering that the process of appointing budget inspectors is demanding and time-consuming, it is essential to take steps to retain personnel in the budget inspection. One mechanism is the proposal for amendments to the Law on Salaries in Public Sector, specifically to increase the coefficient calculation value for budget inspectors, as well as the Decision on a special allowance, in light of the increasing demands for cooperation from the Prosecutor's Office.

III BUDGET

Implementation of the PFM Program has been supported through the Sectoral Budget Support, with a total value of €16.1 million. Of this amount, €13.1 million represents direct financial support to the budget, while complementary financial support is provided in the amount of €3.5 million through three public administration reform and public finance reform projects.

The funds spent from the budget for the implementation of activities from the PFM program have been utilized in accordance with the Action Plan and the Law on the Budget for 2024.

IV RECOMMENDATIONS FOR THE NEXT PHASES OF IMPLEMENTING THE STRATEGIC DOCUMENT

General recommendations for the continuation of the implementation of the Action Plan in the upcoming period are provided below for each strategic objective:

SO 1: Strengthened Fiscal Framework and Budget Planning

- Adopt amendments to the Budget and Fiscal Responsibility Law to extend the deadline for establishing the Fiscal Council, ensure the prerequisites for further development of program-based budgeting, AFCOS operations, etc. (Responsible institutions: Ministry of Finance, Parliament of Montenegro)
- Continue improving the knowledge and skills of employees in the Ministry of Finance through targeted training and work on macroeconomic projection models. (Responsible institution: Ministry of Finance)
- Establish an efficient system for monitoring the implementation of medium-term plans by linking it with the medium-term budgetary framework and program budgeting. (Responsible institutions: Ministry of Finance, Government General Secretariat)
- Further increase awareness of the importance of program budgeting at the local level. (Responsible institutions: Ministry of Finance, local self-governments)
- Continuously improve the process of identifying gender-related objectives and indicators within budgetary documents. (Responsible institution: Ministry of Finance)
- Finalize procedures and a manual for the evaluation of program and project performance. (Responsible institution: Ministry of Finance)

- Continuously work on improving administrative capacities in all institutions involved in the process of planning EU own resources, in public debt management, public investments, and in the field of public finance statistics for the effective implementation of ESA 2010. (Responsible institutions: Ministry of Finance, Statistical Office – Monstat)

SO 2: Budget execution

- Accelerate the process of accessing Conventions with the aim of meeting the final benchmark 3 for Chapter 29 - Customs Union. (Responsible institutions: Customs Administration, Ministry of Finance)
- Speed up the activities related to testing the application modules for the full implementation of the IRMS system. (Responsible institution: Tax Administration)
- Accelerate the activities for the development of bylaws that will clearly define the VAT number. (Responsible institutions: Ministry of Finance, Tax Administration)
- Increase the number of inspectors to combat the grey economy. (Responsible institution: Tax Administration)
- Increase the predictability of tax policy to reduce the tax implications on the business operations of taxpayers. (Responsible institutions: Ministry of Finance, Tax Administration)
- Ensure a sufficient number of trained new staff to complete the process of digitalizing customs procedures and reduce the time goods spend at the border. (Responsible institution: Customs Administration)
- Work on raising awareness about the importance of the electronic public procurement system among relevant institutions. (Responsible institution: Ministry of Finance)
- Continue strengthening administrative capacities in the field of public procurement and state aid. (Responsible institutions: Ministry of Finance, Competition Protection Agency)

SO 3: Accounting, monitoring, and financial reporting

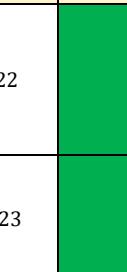
- Urgent analysis of the advantages and disadvantages of upgrading the accounting information system (Responsible institution: Ministry of Finance)
- Better integration of all institutions and involvement of more IT experts. (Responsible institution: Ministry of Finance)
- Implementation of special training for the application of new regulations for accrual accounting. (Responsible institution: Ministry of Finance)
- Continuous training of officials in the area of state property, in the domain of property register management, as well as collecting and exchanging international experiences. (Responsible institution: Administration for State Property)
- The cadastral information system needs to be upgraded in order to improve data quality and enable its consolidation, as well as the integration of modern technologies and procedures. (Responsible institution: Administration for Real Estate)
- Continue working on improving BMIS to enhance the quality of entered information and improve the accuracy and completeness of budget performance reports. (Responsible institution: Ministry of Finance)
- Strengthen activities to improve the visualization of budget execution. (Responsible institution: Ministry of Finance)

SO 4: Financial control

- Izvršiti izmjene zakonskog okvira za dalje jačanje administrativnih kapaciteta Revizorskog tijela. (Odgovorna institucija: Revizorsko tijelo)
- Dalje jačanje kapaciteta budžetske inspekcije. (Odgovorna institucija: Ministarstvo finansija)
- Further improvement of the regulatory framework for managerial accountability and promotion of delegating decision-making authority and resource management. (Responsible institution: Ministry of Finance)
- Continue improving the knowledge of internal auditors as well as the implementation of the Professional Development Program for internal auditors, which the Ministry of Finance implements in cooperation with the Human Resources Administration. (Responsible institution: Ministry of Finance)
- Strengthen the capacities of managers and employees in state-owned enterprises with a majority government ownership stake in the areas of management and internal control. (Responsible institution: Ministry of Finance)
- Accelerate the finalization of strategic documents and analyses. (Responsible institutions: State Audit Institution, Audit Authority, AFCOS)
- Further strengthen the capacity of the auditors in the area of performance auditing. (Responsible institution: State Audit Institution)
- Accelerate the public procurement of an information system for managing the audit process. (Responsible institution: State Audit Institution)
- Amend the legal framework to further strengthen the administrative capacities of the Audit Authority. (Responsible institution: Audit Authority)
- Further strengthen the capacities of the budget inspection. (Responsible institution: Ministry of Finance)

V REPORTING TABLES

STRATEGIC OBJECTIVE I
STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING

SUBSYSTEM OBJECTIVE 1.1	Macroeconomic Analysis and Fiscal Policy									
Indicator	Initial value 2021	Realised value 2023.	Realised value 2024.	Trend	Target value 2026.					
The difference between projected and actual GDP	- 2%	- 0.5%	0.7% ⁹		- 2%					
The deviation between the upper expenditure limits set in the Medium-Term Budget Framework and the annual budget [Target: < 2%]	- 2%	- 2%	- 2%		- 2%					
The deviation between planned budget expenditures in the Medium-Term Budget Framework and the budget execution of the previous year	- 2%	- 2%	- 2%		- 2%					
The deviation between planned budget revenues in the Medium-Term Budget Framework/annual budget and the actual revenue collection from the previous year	- 2%	0.3%	1.1% ¹⁰		- 2%					
OPERATIONAL OBJECTIVE 1.1.1	Establishment of the Fiscal Council to strengthen oversight of fiscal policy implementation and build its capacities									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.1.1.1 Comparative analysis of independent fiscal institutions provided in the Options Document	The Fiscal Council established and operational	Ministry of Finance	I Q 2022	I Q 2022		-	20.000€	-	Donation	Adoption of amendments to the Law on Budget and Fiscal Responsibility, extending the Fiscal Council's operational
1.1.1.2 Drafting legislative amendments/new laws and by-laws for the			II Q 2022	II Q 2023		-	No additional funds required	n/a	Budget	

⁹ Realisation for 2024 is still not final. Data on GDP growth realisation is for nine months.

¹⁰ Preliminary data for 12 months of 2024.

	establishment of the Fiscal Council										timeline by one year until 2026, while the selection of Fiscal Council members would be completed in 2025. The drafting of procedural rules and regulations for the Council's functioning will be carried out, with World Bank support, after the Council's establishment
1.1.1.3	Drafting of procedural rules and regulations for the functioning of the Fiscal Council.			II Q 2023	IV Q 2023 (New deadline from the Report from 2024)		IV Q 2026	150.000	-	Budget	
OPERATIONAL OBJECTIVE 1.1.2		Improvement of the identification and monitoring of fiscal risks									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.1.2.1	Development of a methodology for fiscal risks	Methodology prepared	Ministry of Finance	2022	2022	IV Q 2025	No additional funds required	n/a	Budget, Donation	Providing expert support and further strengthening administrative capacities	
1.1.2.2	Preparation of the Fiscal Risk Statement as part of the Guidelines for Macroeconomic and Fiscal Policy	The Guidelines for Macroeconomic and Fiscal Policy supplemented with a special chapter addressing fiscal risks	Ministry of Finance	2023	2024	IV Q 2025 Continuous activity	No additional funds required	n/a	Budget, Donation		
1.1.2.3	Periodic monitoring of fiscal risks	Ministry of Finance	2024	Cont.		-	No additional funds required	n/a	Budget, Donation		

OPERATIONAL OBJECTIVE 1.1.3		Strengthening the capacities of the Ministry of Finance for improved macroeconomic forecasting									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.1.3.1	Training of DEP staff on macroeconomic modelling, financial programming, and impact assessment.	Continuous implementation of impact assessments of structural reforms Capacity improved	Ministry of Finance	2022	Cont.	Yellow	IV Q 2026	40.000 €	-	Budget, Donation	Implement a new project activity through a donation that will strengthen the capacities within the Directorate and enable high-quality continuous work on macroeconomic modelling, financial programming, and impact assessments
SUBSYSTEM OBJECTIVE 1.2											
Indicator		Initial value 2021	Realised value 2023.	Realised value 2024.	Trend		Target value 2026.				
The number of first-level budget users who provide comprehensive inputs for the proposal of the Medium-Term Budget Framework		0	100	43.75%			90%				
The number of employees in local government units trained for the Medium-Term Budget Framework		0	0	0			60				
The number of strategic reforms prepared in accordance with the new methodology for developing strategic documents related to program budgeting		0	0	0			80%				
OPERATIONAL OBJECTIVE 1.2.1		Amendment of the legal and regulatory framework reflecting the budget reform									

Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.2.1.1	Draft of by-laws for the implementation of the Law on Budget and Fiscal Responsibility (after the adoption of amendments to the Law): institutional competencies, coordination process, and content of the Medium-Term Budget Framework	Adopted amendments to the Law on Budget and Fiscal Responsibility and relevant by-laws	Ministry of Finance	2023	2023	Yellow	IV Q 2025	No additional funds required	n/a	Budget Donation	Amendments to the Law on Budget and Fiscal Responsibility, which further elaborate the Medium-Term Budget Framework Adoption of accompanying by-laws
OPERATIONAL OBJECTIVE 1.2.2											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.2.2.1	Draft methodology for assessing the fiscal impact of policy initiatives and available fiscal space	Methodology prepared	Ministry of Finance	2022	2022	The activity has been postponed. The initial plan of the Ministry of Finance was to stipulate through amendments to the Law on Budget and Fiscal Responsibility the obligation for local government units to prepare and implement the medium-term budget	-	No additional funds required	n/a	-	Training needs to be carried out before the adoption of amendments to the Law on Budget and Fiscal Responsibility in order for local governments to be prepared for the implementation of the new legal solutions
1.2.2.2	Development of procedures for identifying, prioritizing, determining costs, and selecting new public policy proposals/capital projects	Procedures prepared	Ministry of Finance	2023	2023		-	No additional funds required	n/a	Budget Donation	

OPERATIONAL OBJECTIVE 1.2.3	Capacity building for medium-term budget planning at the central and local government levels									

Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.2.3.1	Implementation of training on the Medium-Term Budget Framework	Enhanced capacities of local government units trained for the Medium-Term Budget Framework	Ministry of Finance	2023	Cont.	The activity has been postponed. The initial plan of the Ministry of Finance was to stipulate through amendments to the Law on Budget and Fiscal Responsibility the obligation for local government units to prepare and implement the medium-term budget framework and program budgeting. Given that the amendments to this law have not yet been adopted within the planned timeframe, these activities have not been realized. In addition to regulatory changes, the need for	-	30,000€	-	Budget Donation	Training needs to be carried out before the adoption of amendments to the Law on Budget and Fiscal Responsibility in order for local governments to be prepared for the implementation of the new legal solutions

						significant strengthening of administrative capacities in local governments for the application of the legislation has been recognized, as well as the upgrading of the budget planning software solution (BMIS)					
OPERATIONAL OBJECTIVE 1.2.4		Further strengthening the connection between strategic plans and the budget									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.2.4.1	Coordination with the Public Administration Reform Office; establishment of a planning function in all major expenditure units; procedures for determining the costs of strategies; and institutional competencies related to coordination	Adopted standard operating procedures for the development of program budgeting with a clear division of roles in the planning and management of the program budget and the proposal of new policies	Ministry of Finance Ministry of Public Administration General Secretariat of the Government	2023	2023	IV Q 2026	30,000€	No expenditure of financial resources	Budget Donation	To include activities in the next Action Plan for the implementation of Public Financial Management (PFM) Program	
1.2.4.2	Linking the Medium-Term	Ensured data exchange	Ministry of Finance	2024	2025	IV Q 2026	No additional funds required	n/a	Budget Donation	The system of medium-	

	Budget Framework with the strategic planning system and the government's medium-term work program.	between information systems	Ministry of Public Administration General Secretariat of the Government								term planning for the work of the Government and ministries will be mutually linked with the medium-term budget framework
1.2.4.3	Linking strategic documents with the program budget	The amended methodology for preparing strategic documents, which will enable a clear connection between the budget and the strategic document, has been adopted	Ministry of Finance Ministry of Public Administration General Secretariat of the Government	2024	2025		IV Q 2026	No additional funds required	n/a	Budget Donation	Ensure adequate communication with relevant institutions for the implementation of the methodology
SUBSYSTEM OBJECTIVE 1.3		Further development of program budgeting									
Indicator		Initial value 2021	Realised value 2023.	Realised value 2024.		Trend		Target value 2026.			
The number of gender-oriented policies and policy objectives implemented in the program budget		0%	26%	22%				45%			
The percentage of local government units that have implemented an information system supporting program budgeting		0%	0%	0%				90%			
OPERATIONAL OBJECTIVE 1.3.1		Improvement of program structure and performance information									
Activities		Result indicator	Responsible	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations

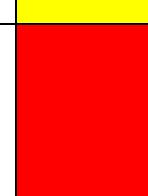
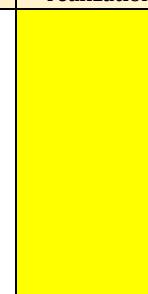
			institution s								
1.3.1.1	Harmonizing and improving the quality of the program structure of spending units	Gender objectives and indicators presented in the budget document	Ministry of Finance	2022	Cont.	Green	-				
1.3.1.2	Analyzing existing objectives and indicators and potentially improving their quality, including defining the gender dimension	Increase in the percentage of total budget users who have improved performance information with their annual budget requests	Ministry of Finance	2022	2023	Green	-	30,000€	-	Budget Donation	It is planned to continuously improve the process of identifying gender objectives and indicators within budgetary documents.
1.3.1.3	Advanced training on program budgeting for different target groups	All local government units have adopted the program structure and performance information, including gender-oriented indicators	Ministry of Finance	2024	2026	Yellow	-				
OPERATIONAL OBJECTIVE 1.3.2		Establishment of a reporting and monitoring system for performance information									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.3.2.1	Further development of subprograms, activities, and performance measures in all spending units	Increase in the percentage of budget users submitting a Gender-Responsive Budgeting Statement, demonstrating how each program, subprogram, and	Ministry of Finance	2022	Cont.	Green	-	No additional funds required	n/a	Budget, Donation	The concept of gender-responsive budgeting is complex and requires time for training personnel who will, in the future, define gender-

		activity/project contributes to reducing the gender gap and improving the position of vulnerable groups in society									sensitive activities
1.3.2.2	Development of procedures for monitoring and reporting on the program budget	The interface between BMIS (Budget Management Information System) and the budget execution system (SAP) is operational	Ministry of Finance	2022	2023			No additional funds required	n/a	Budget Donation	-
1.3.2.3	Upgrade of BMIS (Budget Management Information System) with the new program budgeting structure and enhanced performance information.	BMIS updated	Ministry of Finance	2022	2023			30,000€	-	Budget Donation	-
OPERATIONAL OBJECTIVE 1.3.3		Implementation of program budgeting at the local level									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.3.3.1	Introduction of BMIS (Budget Management Information System) at the local level	The budget management information system, which supports program budgeting, has been implemented in the majority of local	Ministry of Finance	2023	2023	The activity has been postponed. The initial plan of the Ministry of Finance was to stipulate through amendments to the Law on Budget and Fiscal	IVQ2025	100.000€	-	Budget	Training needs to be carried out before the adoption of amendments to the Law on Budget and Fiscal Responsibility in order for local

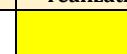
		government units				Responsibility for local government units to prepare and implement the medium-term budget framework and program budgeting. Given that the amendments to this law have not yet been adopted within the planned timeframe, these activities have not been realized. In addition to regulatory changes, the need for significant strengthening of administrative capacities in local governments for the application of the legislation has been recognized, as well as the upgrading of the budget planning software solution (BMIS)					governments to be prepared for the implementation of the new legal solutions
1.3.3.2	Development of a roadmap and manual for the implementation of program budgeting at the local level		Ministry of Finance	2022	2022		-	No additional funds required	n/a	Budget	
1.3.3.3	Training of local government unit officials	Manuals developed and training conducted	Ministry of Finance	2022	2026			10.000€		Budget	
OPERATIONAL OBJECTIVE 1.3.4		Evaluation of program performance									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	

1.3.4.1	Develop procedures and a manual for evaluating the performance of programs and projects	Procedures developed	Ministry of Finance	2023	2024	IV Q. 2025	No additional funds required	n/a	Budget	Finalize procedures and the manual for evaluating the performance of programs and projects	
SUBSYSTEM OBJECTIVE 1.4											
Indicator		Initial value 2021	Realised value 2023.	Realised value 2024.	Trend	Target value 2026.	Management of public investments				
Development of an Action Plan for Improving the Public Investment Management System		The Action Plan has not been adopted	The Action Plan has not been adopted	The Action Plan has not been adopted		AP implemented					
Adoption of the Long-Term Infrastructure Investment Plan		The Plan has not been adopted	WG has not been established	The preparation of the plan has begun		The long-term investment plan has been adopted					
OPERATIONAL OBJECTIVE 1.4.1		Improving the capital budget planning process and public investment management capacity									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.4.1.1	Strengthening the legal and regulatory framework for public investment management	Action plan adopted (based on PIMA report)	Ministry of Finance	2022	2023		II Q. 2025	No additional funds required	n/a	Budget Donation	Adopt as soon as possible amendments to the legal framework that would strengthen the legal and regulatory framework for public investment management
1.4.1.2	Strengthening the institutional framework and coordination and training of members of the Commission for determining the list of capital	Trainings conducted	Ministry of Finance	2023	2024		IV Q. 2025	No additional funds required	n/a	Budget Donation	-

	investment priorities										
OPERATIONAL OBJECTIVE 1.4.2		Improving allocation efficiency for capital budgets by defining fiscal space									
	Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.4.2.1	Develop a methodology for public investment management: Guidelines for conducting economic analyses (feasibility studies) of investment projects to ensure value for money; and an updated Capital Budgeting Manual (to determine fiscal space)	An increased % of projects for which cost-effectiveness analyzes were performed, according to the new methodology	Ministry of Finance	2023	2024	Yellow	II Q 2026	30,000€	-	Budget	Capacity building through the implementation of training programs
1.4.2.2	Training for cost accounting of capital projects		Ministry of Finance	2022	2023	Red	IV Q 2026	50,000€	-	Budget	In cooperation with international organizations, provide appropriate trainings
1.4.2.3	Promote the use of public-private partnerships		Ministry of Finance	2023	Cont.	Green	-	No additional funds required	n/a		In cooperation with international organizations, provide appropriate trainings
OPERATIONAL OBJECTIVE 1.4.3		Improving the implementation and monitoring process of capital projects									
	Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations

1.4.3.1	Establishing a (public) database of capital projects	Published public register of capital projects	Ministry of Finance	2022	2026		II Q 2026	35.000 €		Budget, Donation	Improve the register and ensure its public accessibility
1.4.3.2	Upgrading the existing IT system (BMIS) to support public investment management processes	BMIS upgraded	Ministry of Finance	2023	2023		II Q 2026	100.000 €		Budget, Donation	-
1.4.3.3	Develop procedures for monitoring and reporting on the implementation of capital projects	Developed methodology and procedures	Ministry of Finance	2023	2025		IV Q 2026	150.000€	-	Budget, Donation	Create all necessary prerequisites for the development of procedures
OPERATIONAL OBJECTIVE 1.4.4		Creation of a long-term investment document									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.4.4.1	Preparation of a long-term investment document (master plan of infrastructure projects)	The document "Long-term Infrastructure Investment Plan" was developed	Ministry of Finance	2023	2026		IV Q 2026	200.000€		Budget, Donation	Adequate strategic planning of the development of individual sectors within which future capital projects will be recognized
SUBSYSTEM OBJECTIVE 1.5		Public debt management									
Indicator		Initial value 2021	Realised value 2023.	Realised value 2024. ¹¹		Trend		Target value 2026.			
Movement of the average maturity of debt		5.6 years	In 2022, the average maturity of debt was 4.9 years, while according to preliminary data, in 2023, the average maturity was 4.03 years	4,2 years				The average maturity is stable or improved compared to the year 2021			

¹¹ Preliminary data

Movement of the average weighted interest rate	2.2%	2.3 in 2022, while according to preliminary data, in 2023, there was an increase in the average weighted interest rate, which now stands at 3.28%	3,91%		The average weighted interest rate remains stable in line with market conditions					
OPERATIONAL OBJECTIVE 1.5.1	Improving the capacity of the unit responsible for the area of public debt									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.5.1.1 Recruitment and training of employees	Number of trained employees	2022	2026	2026		-	300.000€	-	Budget	Employment of new staff
OPERATIONAL OBJECTIVE 1.5.2	Adoption of a new debt management strategy									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.5.2.1 Prepare and adopt the debt management strategy for 2022-2024 and its periodic updates	Adopted debt management strategy for 2022-2024	Ministry of Finance	2022	2023		-	40.000 €	-	Budget, Donation	Employment of additional staff; providing technical support and training in cooperation with international financial institutions
1.5.2.2 Introduction of a system for monitoring the implementation of the debt management strategy	A system for monitoring the implementation of the debt management strategy has been introduced	Ministry of Finance	2022	2024		IV Q 2025	No additional funds required	n/a	Budget, Donation	It is recommended to continuously monitor macroeconomic and market trends and regularly update the Debt Management Strategy to ensure it remains relevant and aligned with

											current fiscal and economic challenges
OPERATIONAL OBJECTIVE 1.5.3		Improvement of the software solution for public debt management									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.5.3.1	Implementation of a debt management module within the BMIS, aimed at improving reporting and incorporating models to enhance public debt risk management and scenario analysis, as well as ensuring interoperability with the SAP system	The debt management software module has been implemented and is operational, and it is interoperable with the SAP payment system	Ministry of Finance	IV Q 2022	2024	Yellow	II Q 2026	60.000 €	60.000 €	Donation IPA 2014 Budget	To ensure full integration of the debt management module, it is recommended to intensify system engagement through additional workshops and simulations of operations in real conditions. Additionally, it is suggested to continue working on interoperability with the SAP system
SUBSYSTEM OBJECTIVE 1.6		Development of the system for EU own resources									
Indicator	Initial value 2021	Realised value 2023.	Realised value 2024.	Trend	Target value 2026.						
Negotiations on Chapter 33 (Financial and Budgetary provisions) have been provisionally closed	Negotiation Chapter 33 has been opened	According to the 2023 EC Report, a better progress rating has been achieved: Progress was made through improved coordination and management of own resources	According to the 2024 EC Report, a certain level of readiness has been achieved and limited progress has been made regarding the adoption of legislation and guidelines on procedures for planning the funds that Montenegro contributes to the EU budget		Chapter 33 has been provisionally closed						

OPERATIONAL OBJECTIVE 1.6.1		Strengthening the administrative capacities of all institutions involved in the EU own resources system									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.6.1.1	Building administrative capacities for the coordination and management of EU own resources (training of the Ministry of Finance Directorate for the coordination and management of EU own resources and other organizational units and institutions involved in the EU own resources system)	Strengthened administrative capacities for coordination and establishment of the own resources system	Ministry of Finance	2022	2024	Yellow	II Q 2026	225.000€	-	Budget	Continuously work on improving administrative capacities in all institutions involved in the EU own resources planning process, with special focus on employees in the IT sector
OPERATIONAL OBJECTIVE 1.6.2		Establishment of procedures for setting up the EU own resources system									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.6.2.1	Establishment of procedures for setting up the own resources system in the area of traditional own resources	Established procedures for calculation, planning, and reporting on the own resources system	Ministry of Finance	2022	2024	Green	II Q 2026	No additional funds required	n/a	Budget, Donation	-
1.6.2.2	Establishment of procedures for setting up the own resources system in relation to VAT					Green	II Q 2026	No additional funds required	n/a	Budget, Donation	-
1.6.2.3	Establishment of procedures for setting up the own resources system based on					Green	II Q 2026	No additional funds required	n/a	Budget, Donation	-

	GNI (Gross National Income)										
OPERATIONAL OBJECTIVE 1.6.3		Alignment of the regulatory framework with EU legislation									
	Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.6.3.1	Development of an analysis of the existing regulatory framework	Analysis prepared	Ministry of Finance	2022	2023	Green	-	No additional funds required	n/a	Budget, Donation	This document contains a detailed analysis of EU requirements and the alignment of the national legal framework, including regulations on procedures and processes that need to be established for the management of EU own resources
1.6.3.2	Prepared amendments to the regulatory framework in accordance with EU legislation	The proposal for amendments to the regulatory framework has been made		2023	2025	Green	IV Q 2026	No additional funds required	n/a	Budget, Donation	-
SUBSYSTEM OBJECTIVE 1.7		Improvement of official statistics									
Indicator		Initial value 2021	Realised value 2023.		Realised value 2024.		Trend		Target value 2026.		
Negotiations on Chapter 17 (Economic and Monetary Policy) have been provisionally closed		Negotiation Chapter 17 has been opened	Limited progress		Some progress				Chapter 17 has been provisionally closed		

Negotiations on Chapter 18 (Statistics) have been provisionally closed		Negotiation Chapter 18 has been opened		Limited progress		Some progress				Chapter 18 has been provisionally closed	
OPERATIONAL OBJECTIVE 1.7.1		Official statistics aligned with international standards									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.7.1.1	Improve coordination between the Ministry of Finance, MONSTAT, and the Central Bank by forming working teams and enhancing data exchange	Government finance statistics prepared in accordance with the GFSM and ESA 2010 methodologies	Monstat Central Bank Ministry of Finance	2022	2026	Yellow	IV Q 2025	No additional funds required	n/a	Budget, Donation	Definition of institutional responsibilities and implementation of the cooperation agreement
1.7.1.2	Training of statisticians			2023	2026	Yellow	IV Q 2026				
1.7.1.3	Development of an IT integrated system for collecting, processing, publishing, and documenting official statistics results			2023	2024	Yellow	IV Q 2026	150.0000€		Budget, Donation	
OPERATIONAL OBJECTIVE 1.7.2		Government finance statistics aligned with the ESA 2010 methodology									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
1.7.2.1	Preparation of government finance statistics in accordance with the ESA 2010 methodology and the Government Finance Statistics Manual (GFSM) requires improvement of data collection procedures	Fiscal notifications for the pre-accession procedure prepared in accordance with the requirements of the ESA 2010 methodology	Monstat Ministry of Finance Central Bank	2023	2024	Yellow	IV Q 2026	700.000€		Budget, Donation	Definition of institutional responsibilities and implementation of the cooperation agreement

OPERATIONAL OBJECTIVE 1.7.3		Improved pre-accession fiscal notifications, i.e. reporting on the excessive deficit procedure									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
1.7.3.1	Capacity building for the professionalization of the financial reporting system, particularly fiscal notifications for pre-accession requirements in accordance with the ESA methodology	Amendment of the Law on Official Statistics and the Official Statistics System with the aim of defining institutional roles in the preparation of government finance statistics in accordance with best practices	Monstat Ministry of Finance Central Bank	2023	2024	Yellow	IV Q 2026	250.000 €		Budget, Donation	Amendments to the Cooperation Agreement

STRATEGIC OBJECTIVE II
BUDGET EXECUTION

SUBSYSTEM OBJECTIVE 2.1		Improving efficiency in revenue collection									
Indicator		Initial value		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Harmonized legislation in Chapter 16 – Taxation with the EU acquis		Chapter 16 has been opened		Significant progress in meeting Chapter 16 final benchmark		Progress made in aligning tax legislation with the EU acquis				Chapter 16 is provisionally closed	
Harmonized legislation in Chapter 29 – Customs Union with the EU acquis		Chapter 29 has been opened		Significant progress in meeting Chapter 29 final benchmark		Progress made in aligning tax legislation with the EU acquis				Chapter 29 is provisionally closed	
Strengthening the capacities and human resources development of the Revenue and Customs Administration in the field of information technologies		The officers are not trained		150 customs and 200 tax officers trained		744 tax officers and 150 customs officers trained				200 customs and 350 tax officers trained	
OPERATIONAL OBJECTIVE 2.1.1		Harmonization with the EU acquis in the areas of taxation and customs.									
Activities		Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations

2.1.1.1	Continuous harmonization with EU directives in taxation	High compliance with EU directives in taxation	Ministry of Finance Tax and Customs Administration	2022	2026		-	No additional funds required	n/a	Budget, Donation	Continuation of harmonization with the EU acquis
2.1.1.2	Continuous harmonization with EU directives in customs		Ministry of Finance Tax and Customs Administration	2022	2026		-	No additional funds required	n/a	Budget, Donation	It is necessary to align certain by-laws with the regulations and best practices of EU member states
2.1.1.3	Draft Law on the Ratification of the Convention on the Common Transit Procedure	High compliance with EU directives in customs	Ministry of Finance Tax and Customs Administration	2023	2026		-	No additional funds required	n/a	Budget, Donation	Continue with preparatory activities for the ratification of the Convention.
2.1.1.4	Draft Law on the Ratification of the Convention on the Simplification of Trade in Goods		Ministry of Finance Tax and Customs Administration	2023	2026		-	No additional funds required	n/a	Budget, Donation	Continue with preparatory activities for the ratification of the Convention
OPERATIONAL OBJECTIVE 2.1.2 Improvement of procedures, development, and implementation of IT systems in customs and taxation											
Activities		Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
2.1.2.1	Development of an integrated revenue management system	The IRMS system has been implemented	Tax and Customs Administration	2022	2026		-	10.000.000€	1.500.000 €	Budget Credit	It is necessary to accelerate activities on testing application modules in order to identify any deviations from

											functional and technical requirements
2.1.2.2	Implementation of the VAT Information Exchange System (VIES)	The VAT Information Exchange System (VIES) has been implemented		2024	2026		-	2.000.000€	-	Budget Donation	It is necessary to start activities on preparing project documentation for the implementation of the service for connecting to VIES
2.1.2.3	Complete the implementation of NCTS (Phase 5)	NCTS (Phase 5) is operational		2022	2023		I Q 2026	3.300.000 €	Implementation of NCTS (2,115,000 EUR IPA, 235,000 EUR national co-financing) Support for accession to the Common Transit Convention and the Convention on Simplification of Trade in Goods (520,896.97 EUR IPA, 57,877.44 EUR national co-financing) Procurement of hardware for the functioning of NCTS (287,089.39 EUR IPA, 31,898.82	Budget Donation	Continuation of activities on the implementation of NCTS at the international level

								EUR national co-financing) Maintenance contracts from national funds: - Signed for 6 months starting from March 2023, valued at 149,919 EUR - Signed for 12 months starting from October 2023, valued at 299,838 EUR - Signed for 12 months starting from October 2024, valued at 299,838 EUR		
2.1.2.4	Implementation of IT systems required for interconnection and electronic data exchange with the EU – specifically ITMS, AES, ICS2, NCTS Phase 6, EMCS, and others.	Other customs IT systems for interconnection and electronic data exchange have been implemented and are operational		2022	2026		-	9.200.000 €	-	Budget Donation
2.1.2.5	Reduction of administrative barriers through the further implementation of measures to facilitate trade in accordance with the Trade	Continuous implementation of activities		2022	Cont.		-	No additional funds required	n/a	Budget

	Facilitation Strategy 2018-2022 and the ERP										release of goods, improve cooperation, increase the effectiveness of border controls, and expand automated processing and electronic data exchange
OPERATIONAL OBJECTIVE 2.1.3 Improvement of revenue collection efficiency											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.1.3.1	Strengthening tax risk management through risk profiling, recording tax audit results, and collecting information from third parties; specifically, risk analysis for the control and processing of VAT refunds	Increase in the percentage of timely submitted e-declarations	Tax and Customs Administration	2023	Cont.	-	No additional funds required	n/a	Budget Donation	It is necessary to secure the required budgetary funds in order to fill the vacant positions in accordance with the staffing plan	
OPERATIONAL OBJECTIVE 2.1.4 Improvement of voluntary tax compliance and adherence to tax obligations											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.1.4.1	Strengthening external and internal communication through targeted public awareness campaigns and taxpayer education programs	Continuous implementation of activities	Tax and Customs Administration	2023	2024	IV Q 2026	150.000 €	-	Budget	Given the importance of proactive communication with taxpayers for compliance with tax regulations, all activities should ensure long-term	

											continuity in the coming years	
OPERATIONAL OBJECTIVE 2.1.5		Development and improvement of human resources										
	Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.1.5.1	Ensure further employment of officials for the IT department	Staff trained	Tax and Customs Administration	2022	2026	Yellow	-	No additional funds required	n/a	Budget	Finalize the filling of positions through public and internal job announcements as outlined in the Recruitment Plan	
2.1.5.2	Training of staff		Tax and Customs Administration	2023	2026	Green	-	120.000€	-	Budget Donation	Use of EU funds Ensure funds from the budget	
SUBSYSTEM OBJECTIVE 2.2		Public procurement										
Indicator		Initial value 2021	Realised value 2023.		Realised value 2024.		Trend		Target value 2026.			
Real-time processing of complaints in public procurement		23	41		24				18			
The share of contracts subject to formal ex-post evaluation		0	0		-				0			
The share of complaints on public procurement that have been challenged in courts		14,28%	7,5%		15%				11,10%			
The number of complaints on public procurement relative to the number of published tender notices		0	6.77		5.4%				0			
The average number of bidders per procurement procedure		2.82	3.16		3.3				3.00			

The share of contracts awarded through competitive procedures		96.4		97.52		91% ¹²				97	
OPERATIONAL OBJECTIVE 2.2.1		Established capacities for the implementation of the new legal framework for Public Procurement and Public-Private Partnerships									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
2.2.1.1	Develop a training system for the needs of public procurement and public-private partnerships (JPP) within a train the trainer scheme for different target groups (contracting authorities).	- 700 trained officials for public procurement - 16 trained trainers	Ministry of Finance	2022	2026		-	No additional funds required	n/a	Budget	Establish a sustainable system for professionalization and vocational training in the field of public procurement, and improve cooperation with international institutions and organizations for the transfer of best practices
2.2.1.2	Improvement of manuals and guidelines for using the e-procurement system	Adopted necessary bylaws	Ministry of Finance	2022	2023		IV Q 2025	No additional funds required	n/a	Budget	The guidelines for using the e-procurement system should be updated with every change in the system
OPERATIONAL OBJECTIVE 2.2.2		Improvement of the functionality of the e-procurement system and training of its users, with the aim of achieving value for money in public procurement and public-private partnerships (PPP)									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations

¹² The data is preliminary, as the official statistics on the conducted public procurement procedures will be available after the adoption of the Annual Report on Public Procurement in Montenegro for 2024, no later than May 31, 2025.

2.2.2.1	Increase in the number of business entities registered in the e-procurement system	Increase in the number of active business entities in the e-procurement system by 10% annually	Ministry of Finance	2022	Cont.		-	No additional funds required	n/a	Budget	Strengthening and raising awareness about the importance of the electronic Public Procurement System
2.2.2.2	Training of users for the e-procurement system	The number of business entities trained for e-procurement has increased by 20% annually	Ministry of Finance	2023	Cont.		-			Budget, Donation	Encourage public procurement officials, as well as those already trained, to pursue further professional development
2.2.2.3	Further development of the functionality of the e-procurement system	Improvement of the Public Procurement Information System	Ministry of Finance	2023	Cont.		-	100.000€		Budget, Donation	Work on raising awareness about the importance of the electronic public procurement system among relevant institutions
2.2.2.4	Establish interoperability of e-procurement with relevant IT systems and registers	Interface between e-procurement and connected IT systems	Ministry of Finance	2023	2025		-	150.000€		Budget, Donation	Work on raising awareness about the importance of the electronic public procurement system among relevant institutions

2.2.2.5	Improve the monitoring system by developing an analytical framework for measuring the efficiency of the e-procurement system	Continuous increase in the number of analytical reports (cost-effectiveness)	Ministry of Finance	2023	2026	Planned	-			Budget, Donation	Training or engaging qualified personnel to perform the assigned tasks
OPERATIONAL OBJECTIVE 2.2.3 Improvement of the system for handling complaints											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.2.3.1	Building the capacity of the Commission for the Protection of Rights in Public Procurement Procedures (training, case management system)	Trainings realised	Commission for the Protection of Rights in Public Procurement Procedures	2023	Cont.	Planned	-	25.000 €	-	Budget	Establishment of an electronic platform for case management by the Commission
OPERATIONAL OBJECTIVE 2.2.4 Increase in market competition, particularly the participation of SMEs (Small and Medium Enterprises)											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.2.4.1	Educational program for SMEs aimed at encouraging their participation in public procurement procedures, especially simplified procurements	Annual implementation of training programs to encourage SME participation in public procurement procedures	Ministry of Finance	2023	Cont.	Planned	-	40.000€	-	Budget	Improve cooperation with business associations to identify training needs.
SUBSYSTEM OBJECTIVE 2.3 State aid reform											
Indicator	Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.		
Negotiations on Chapter 8 are provisionally closed (in relation to the criterion relating to State aid)	Chapter 8 is open		Negotiations under Chapter 8 have progressed, as measured by the EU progress reports		Montenegro's legislative framework in the field of state aid is largely aligned with the EU acquis				Chapter 8 is provisionally closed		
OPERATIONAL OBJECTIVE 2.3.1 Alignment of legislation with the EU acquis											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	

2.3.1.1	Drafting and adoption of regulation	Relevant acts adopted	Ministry of Finance Agency for Protection of Competition	2022	2026		-	No additional funds required	n/a	Budget, Donation	Continued monitoring and implementation of new EU regulations Strengthening institutional capacity Increasing transparency and cooperation with stakeholders
OPERATIONAL OBJECTIVE 2.3.2 Strengthening the administrative capacities of the Agency for Protection of Competition (AZZK), the State Aid Control Sector and the AZZK Council											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.3.2.1	Training of the State Aid Sector and the Council for the implementation of legislation	At least 15 Agency officials trained	Agency for Protection of Competition	2022	2026		-			Budget	Increase the budget and invest in human resources: It is recommended to increase the Agency's budget to enable the employment of additional staff and invest in employee training. This will ensure better management of requests, faster processing of cases and more
2.3.2.2	Training of judges and prosecutors	At least 50% of the judges of the Administrative and Misdemeanor Court are trained and 50% of prosecutors are trained	Agency for Protection of Competition	2022	2026		-	400.000€		Budget	

											efficient implementation of legislative changes.
<p>Intensify training and institutional cooperation:</p> <p>In the coming period, it is necessary to organize additional training for employees in state bodies, institutions and judicial instances. This training should include strengthening coordination between different institutions and improving cooperation with the aim of more efficient implementation of laws and bylaws.</p>											
OPERATIONAL OBJECTIVE 2.3.3 Building a case set of ex-ante and ex-post controls and implementation by the AZZK											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.3.3.1	Closing pending cases ex officio (including ordering the return of state aid),	Open cases of state aid have been resolved	Agency for Protection of Competition	2022	2026		-	No additional funds required	n/a	Budget	More intensive inter-institutional cooperation;

	as the case may be)									increase the number of state aid applications in order to increase the number of ex-ante and reduce the number of ex-post state aid controls; more training for AZZK officials in DG COMP
2.3.3.2	Increasing the number of ex-ante and ex-post controls	100% of procedures initiated ex officio before 2022 closed	Agency for Protection of Competition	2022	2026		No additional funds required	n/a	Budget	Greater level of communication between state aid providers and AZZK; greater number of trainings for officials and providers; cooperation of AZZK officials with experts regarding specific state aid allocations
2.3.3.3	Strengthening compliance monitoring in the field of state aid	Negotiations under Chapter 8 (Competition) have progressed, as measured by EU progress reports	Agency for Protection of Competition	2022	2026		No additional funds required	n/a	Budget	Improving digitalization and transparency The introduction of new provisions within the State Aid Control Law, which

											require providers to enter all relevant data within clearly defined deadlines, contributes to greater transparency . It is recommended to accelerate the implementation of digital solutions for better control and supervision, which will improve the monitoring of compliance with the legal framework
SUBSYSTEM OBJECTIVE 2.4 Earnings calculation system											
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Realised value 2026.	
Comprehensive implementation of centralized payroll accounting (COZ) for all state budget users ensured		COZ implementation started in test environment for pilot institutions		140 institutions use COZ		159 institutions use COZ (Increase of 13.57% in the number of subjects and 46% in the number of employees)		↗		430 users of COZ and a module for processing classified data in use	
OPERATIONAL OBJECTIVE 2.4.1 All spending units whose employees' salaries are financed from the Budget of Montenegro are included in the information system for centralized earnings calculation											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
2.4.1.1	Migration of employee master data from existing to new COZ system	- 430 budget users using the new information system for centralized	Ministry of Finance	2022	2024		IV Q 2026	600.000 €	Regular maintenance contract and upgrades 2022-2023 145,000 € gross	Budget. Donation	Strong political will and support from the highest levels of decision-
2.4.1.2											
2.4.1.3	Conducts training for employees on the use of the COZ										

	Adapting the information system to all the specificities of new users	earnings calculation							2023-2024 145,000 € gross Total 290,000 € gross		making are essential for enabling new entities to join the system
OPERATIONAL OBJECTIVE 2.4.2 Provided maintenance of the COZ system											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.4.2.1 Ensure sustainability of the COZ system	Provided support for adapting the COZ system to changes in legal regulations in the field of earnings calculation and changes in the Government organization Provided support for timely removal of malfunctions and bugs in the application	Ministry of Finance	2023	Cont.		-	740.000€	2022-2023 €145,000 gross 2023-2024 €145,000 gross In total €290,000 gross	Budget	Timely planning and implementation of the tender procedure	
OPERATIONAL OBJECTIVE2.4.3 Upgrading the software solution for centralized earnings calculation for classified data											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.4.3.1 Upgrade the software solution for calculating earnings for institutions and organizational units with data classified with a certain level of secrecy	Enabled calculation of salaries paid from the Budget of Montenegro for 5 institutions that use data classified with a	Ministry of Finance	2023	2026		-	50.000€	-	Budget Donation	Timely preparatory actions in consultation with competent institutions in the field of protection of classified data	

		certain level of secrecy									
OPERATIONAL OBJECTIVE 2.4.4		Upgrading the software solution for centralized earnings calculation in the part that includes all personal income paid from the Budget of Montenegro									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
2.4.4.1	Upgrade the software solution for calculating earnings to include all personal remunerations paid from the Budget of Montenegro	Calculation of salaries paid from the Budget of Montenegro for all 430 entities included in the COZ has been enabled	Ministry of Finance	2024	2026		-	150.000€	Budget, Donation	Try to ensure a uniform, standardized and uniform accounting of remunerations on the level of all entities	

STRATEGIC OBJECTIVE III
ACCOUNTING, MONITORING, AND FINANCIAL REPORTING

SUBSYSTEM OBJECTIVE 3.1		Transition to accrual accounting									
Indicator		Initial value 2021.		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Established preconditions for the implementation of accrual accounting in the public sector		Accrual accounting is not in use		A draft law on amendments to the Law on Accounting in Public Sector has been adopted, which extends the deadline for the implementation of the law to January 1, 2027		Adopted by-laws establishing the prerequisites for the implementation of the Law on Accounting in Public Sector and conducted training sessions				The accounting information system is functional for accrual-based recording	
OPERATIONAL OBJECTIVE 3.1.1		Entry into force and implementation of the Public Sector Accounting Law									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.1.1.1	Adoption of by-laws for the implementation of the Law on Accounting in Public Sector	Adopted by-laws for the implementation of the Law on Accounting in Public Sector	Ministry of Finance	2024	2026		-	No additional funds required	n/a	Budget, Donation	Organization of specialized training and on-the-job training for the implementation of new accounting

											g regulations. Additional funds needed for training implementation
3.1.1.2	Analysis of the status of local government units for the implementation of the Law on Accounting in Public Sector	Analysis of the status with conclusions and recommendations for local government units for the implementation of the Law on Accounting in Public Sector	Ministry of Finance	2023	2024	2025	No additional funds required	n/a	Budget, Donation	Consider the possibility of cooperation with international partners in order to secure funds for the preparation of the Analysis. Hire a consultant to prepare the Analysis	
OPERATIONAL OBJECTIVE 3.1.2		Upgrade of the IT system to support accrual accounting									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
3.1.2.1	Preparation of a Cost Benefit Analysis for upgrading the accounting information system	Cost benefit analysis prepared for upgrading the accounting information system	Ministry of Finance	2023	2024	The State Treasury Directorate has abandoned the preparation of the aforementioned analysis because, in order to	-	20.000€	Funds not spent	Budget, Donation	Delete the aforementioned activity during the process of amending the Action

						define an IT solution for accrual accounting, a project task will be developed					Plan, and include the aforementioned cost projection for upgrading the accounting system as part of the preparation of the project terms of reference
3.1.2.2	Development of the Terms of Reference for the accounting information system in accordance with the new accounting regulations	Tender procedure started	Ministry of Finance	2024	2024	2025	35,000€	Funds not spent	Budget, Donation	Allocate a larger amount of funds, form a project team, interdepartmental cooperation, engage an external consultant/consulting firm who, in cooperation with the Ministry of Finance and public sector	

											institutions, would prepare the Project Terms of Reference
3.1.2.3	Upgrade of the IT system to support accrual accounting	Accounting information system functional for bookkeeping according to the accrual principle	Ministry of Finance	2025	2026	Not due	-	1,225,000€	n/a	Budget, Donation	-
3.1.2.4	Preparing the test environment		Ministry of Finance	2026	2026	Not due	-				
OPERATIONAL OBJECTIVE 3.1.3		Training and certification of public sector accountants									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.1.3.1	Train public sector accountants in accordance with the Regulation on the method of conducting training and taking exams for obtaining a public sector accountant certificate	Number of certified accountants	Ministry of Finance	2022	Cont.	Green	-	100.000€	Spent 24.000 €	Budget	Organize a program of continuing education for accountants in the public sector, with the aim of sustainability of training and capacity building
3.1.3.2	Preparing an analysis of the number of accountants who need to be trained and certified in the coming period	An analysis has been made of the number of accountants who need to be trained and certified	Ministry of Finance	2023	2023	Red	2025	No additional funds required	n/a	Budget, Donation	It is necessary to prepare a new Analysis during 2025

		in the coming period									
SUBSYSTEM OBJECTIVE 3.2		Management of (non-financial) state assets and cadastre									
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Register of the non-financial (state property) established		Non-financial assets are not presented		Drafts of internal acts are being prepared: "Internal Procedures for Quality Control of Collected and Recorded Data on Real Estate in State Ownership" and "Internal Procedure for Collecting and Recording Data for the Electronic Register of State Property"		Internal acts and procedures are being prepared				Register of the non-financial (state property) established)	
The cadastral information system has been upgraded		The procedure for improving data quality has not been established; The strategic document for the development of the cadastral information system has not been adopted		The Rulebook on the creation and maintenance of the immovable property cadastre has been adopted and is being implemented. Efforts are ongoing to transfer the records of the census cadastre into the immovable property cadastre. The first phase of the system upgrade project has begun, with the aim of implementing new web-based services		Implementation of the Rulebook on the Creation and Maintenance of the Immovable Property Cadastre. The web application has been upgraded, a new platform has been tested, the process of developing the IT System Strategy has been initiated, an analysis of the current state has been conducted, and the procedures for public procurement for IT system maintenance are being planned				The cadastral information system has been upgraded, and a new platform has been established	
OPERATIONAL OBJECTIVE 3.2.1		Establishment of a complete asset register and its updating.									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.2.1.1	Completion of the property register of all spending units at the central level with an assessment based on a unified method of inventorying state property in the cadastre	The IT system for managing state assets ARS is used by all users	Cadastre and State Property Administration	2022	2025		IV Q 2026	No additional funds required	n/a	Budget	Required funds in the amount of €500,000
3.2.1.2	Establish a control function to assess	Control function established	Cadastre and State Property	2023	2026		-	No additional funds required	n/a	Budget	Required funds in the

	the quality of recorded data		Administration								amount of 10,000 €
3.2.1.3	Strengthening of the Real Estate Assessment Commission	Adopted amendments to the Law on State Property and relevant bylaws, which create the prerequisites for more efficient work of the Commission	Ministry of Finance Cadastre and State Property Administration	2023	2026		-	No additional funds required	n/a	Budget	Development of a methodology for the Mass assessment of state property. Required funds in the amount of €50,000
3.2.1.4	Training of officials in the field of state property in the domain of property register management, collection and exchange of international experiences and best practices	Training of officials of the Cadastre and State Property Administration conducted	Cadastre and State Property Administration	2023	2024		IV Q 2026	30.000€	-	Budget	Involvement of a greater number of authorities and users
OPERATIONAL OBJECTIVE 3.2.2		Upgrading relevant IT systems in the field of state property management and cadastre and developing E-services									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.2.2.1	Improving the functionality of IT solutions for state asset management and data quality	Information system improved and operational	Cadastre and State Property Administration	2023	2026		-	500.000€	-	Budget, Donation	Engage expert support and strengthen inter-institutional cooperation
3.2.2.2	Improving the cadastral information system and improving data quality	The system, based on a new platform, is developed		2023	2026		-	800.000€	-	Budget, Donation	System upgrade. More committed funds.

		and operational									
3.2.2.3	Establishing new e-services (connecting notaries with the cadastre for submitting electronic documents)	Services established		2023	2025		II Q 2026	100.000€	-	Budget, Donation	Amendment of legislation, more dedicated funds
3.2.2.4	Establish interoperability with relevant IT systems	Number of institutions using e-service	Ministry of Finance		2026		-	150.000€	-	Budget, Donation	Amendment of legislation, more dedicated funds
3.2.2.5	Training of employees of the Cadastre and State Property Administration on the use of IT systems	Continuous implementation of trainings by the Administration	Cadastre and State Property Administration	2023 2023	2026		-	80.000€	-	Budget, Donation	Cooperation and visits to cadastres with good practices. More dedicated funds
OPERATIONAL OBJECTIVE 3.2.3		Amendment of legislation and development of strategic documents to ensure system and data quality									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.2.3.1	Amendment of the legal framework for state property management (regulation of one-time submission of data on already acquired property for registration in the ARS application, as well as for keeping this data up-to-date in terms of transfer and disposal)	Adopted amendments and additions to the relevant regulations and application in practice	Ministry of Finance Cadastre and State Property Administration	2023	2026		-	No additional funds required	n/a	Budget	

3.2.3.2	Amendment of the regulatory framework in terms of defining imperative norms for submitting electronic documentation by notaries							No additional funds required	n/a	Budget	Legislative change
3.2.3.3	Improve the Law on State Property	Adopted amendments to legal regulations		2024	2024		IV Q 2026	No additional funds required	n/a	Budget	
3.2.3.4	Create a strategic document for the development of the IT system for the cadastre	Strategic document adopted and implemented		2023	2026		-	100.000 €	-	Budget, Donation	Initiation of a new procedure for public procurement
SUBSYSTEM OBJECTIVE 3.3											
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Annual and periodic reports on budget execution in accordance with the program classification are prepared within the Budget Management Information System (BMIS)		Reports are not being prepared		BMIS is in the process of being upgraded, which will enable the preparation of annual and periodic reports, including gender indicators		The annual report on the implementation of the program budget for 2023 has been prepared, and the monthly, quarterly, and annual budget execution reports have been published on the Ministry of Finance website				Periodic and annual reports have been improved according to the BMIS upgrade, including gender indicators	
OPERATIONAL OBJECTIVE 3.3.1		Establishing a process for preparing and publishing transparent annual and periodic reports on budget execution									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.3.1.1	Upgrade BMIS to improve annual and periodic budget execution reports	Periodic reports on budget expenditure execution prepared according to organizational, program, functional and economic	Ministry of Finance	2022	2024		IV Q 2026	34.000 €	34.000 €	Budget	Continue further work on improving BMIS in order to improve the quality of the information

		classification; Semi-annual and annual budget performance reports prepared, including gender indicators								provided (entered) on objectives and indicators in order to improve the accuracy and completeness of budget performance reports
3.3.1.2	Increasing transparency and improved visualization of budget statements – Budget for Citizens	Budget for citizens published on the website of the Ministry of Finance	Ministry of Finance	2022	2024	IV Q 2026		Budget	Continue further work on improving BMIS in order to improve the quality of the information provided (entered) on objectives and indicators in order to improve the accuracy and completeness of budget performance reports	
OPERATIONAL OBJECTIVE 3.3.2		Establishing a process for preparing annual and periodic budget performance reports								

Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.3.2.1	Prepare half-yearly and annual reports on budget performance through BMIS	Performance report prepared in accordance with the Rulebook	Ministry of Finance	2022	Cont.		-	No additional funds required	n/a	Budget	-
SUBSYSTEM OBJECTIVE 3.4											
Indicator		Initial value		Realised value 2023.		Realised value 2024		Trend		Target value 2026.	
Improving EU funds management through the development of a unified information system for project management and monitoring – MIS (Management Information System)		Information system does not exist		Preparatory activities for the establishment of the MIS have not started		Activities related to needs analysis have begun as a prerequisite for drafting the technical specification				MIS developed and functioning	
OPERATIONAL OBJECTIVE 3.4.1											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.4.1.1	Needs analysis and development of technical specifications for MIS	The MIS information system has been tested and put into operation.	Ministry of Finance Ministry of European Affairs	2023	2024		III Q 2025	1.500.000€	-	Budget, Donation	Finalization of activities related to needs analysis and preparation of complete tender documentation, as a prerequisite for initiating the public procurement procedure, in close cooperation with IT
3.4.1.2	Conducting public procurement procedures for the development of MIS			2024	2025	Not due. After drafting the technical specification, the public procurement procedure will be launched	IV Q 2026				
3.4.1.3	Implementation of MIS			2025	2026	Not due	The beginning of the implementation of the MIS system is conditioned by the start of the use of EU				

							funds, i.e. accession to the EU.				experts and future users of the MIS system
OPERATIONAL OBJECTIVE 3.4.2		Establishing a process for monitoring EU support programs									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
3.4.2.1	Organizing data recording (entry) into MIS	The MIS information system has been tested and put into operation	Bodies that will use the MIS system (managing body, management structure, intermediary bodies, etc.)	2025	2026	Not due	The beginning of data entry into the MIS system is conditioned by the beginning of the use of EU funds, i.e. accession to the EU	No additional funds required	n/a	Budget, Donation	
3.4.2.2	Report preparation			2025	2026	Not due	Generating reports from the MIS system is conditional on the existence of data				
3.4.2.3	Strengthen the function of monitoring and achieving defined performance indicators			2025	2026	Not due	Continuously, since the start of the use of EU funds after accession				

STRATEGIC OBJECTIVE IV

EFFICIENT FINANCIAL CONTROL

SUBSYSTEM OBJECTIVE 4.1		Internal Financial Control in the Public Sector (PIFC)					
Indicator		Initial value	Realised value 2023.	Realised value 2024.	Trend	Target value 2026.	

Percentage of ministries that delegate authority for financial management and internal controls.	8,3%	10% ¹³	42% ¹⁴		80%					
Percentage of internal audit recommendations related to improving internal controls and achieving value for money	28,60%	36%	n/a% ¹⁵		40%					
OPERATIONAL OBJECTIVE 4.1.1	Improving management accountability and risk management procedures									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.1.1.1 Analysis of managerial responsibility in pilot institutions/ delegation of decision-making authority, related to the program budget, to at least two budget users at the central level	Prepared analysis with recommendations for improving managerial responsibility	Ministry of Finance	2022	2023		-	20.000 €	-	Budget Donation	
4.1.1.2 Pilot audit of delegation of responsibility and audit of performance management within ministries ("horizontal audit")	Pilot audits conducted		2022	2023		-	15.000 €	-	Budget, Donation	
4.1.1.3 Development of a methodology for internal reporting (in line with managerial responsibility, performance reporting) at the central level	Prepared methodology for internal reporting		2022	2023		-	10.000 €	-	Budget, Donation	
4.1.1.4 Develop methodological guidelines for strategic/key risks	Prepared methodological guidelines for		2022	2022		-	No additional funds required	n/a	Budget	

¹³ Information on the percentage of implementation of the Indicator (formal delegation of responsibility) measuring the fulfillment of this goal in 2023 was difficult to determine due to frequent organizational changes and employee turnover in management positions, as stated in the Consolidated Report on Governance and Internal Control in the Public Sector of Montenegro for 2023.

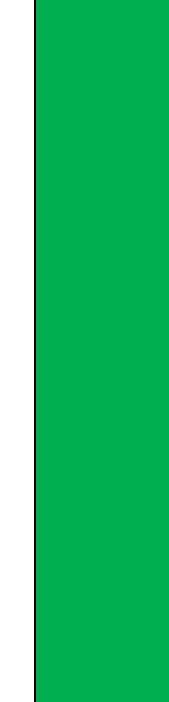
¹⁴ The Ministry of Finance has conducted activities to collect data on delegated powers in ministries. The request for information and data on delegation of powers was sent to 19 ministries, of which 13 or 68.4% responded. Of the 13 ministries, 8 or 61.5% (or 42% of the total number of ministries-19) indicated and submitted appropriate evidence of delegation of powers. The final data for 2024 will be available upon the adoption of the Consolidated Annual Report on Management and Internal Control in the Public Sector for 2024.

¹⁵ Data for 2024 will be available upon adoption of the Consolidated Annual Report on Management and Internal Control in the Public Sector for 2024.

		strategic/ke y risks		2022	2023		-	No additional funds required	n/a	Budget	Strengthenin g the capacity of employees in the Directorate for Harmonizati on of Management and Internal Controls to review the quality of management and internal controls in a broader scope
4.1.1.5	Reviewing the quality of the established system for detecting and acting on notifications of suspected irregularities, as well as evaluating and, if necessary, updating the established regulations in this area	Prepared quality review reports									
4.1.1.6	Training of managers and employees on managerial responsibility, delegation of authority and internal reporting	Number of trained managers and employees		2023	Cont.		-	No additional funds required	n/a	Budget	Develop a roadmap for the implementation of managerial responsibility based on the analysis conducted in state administration bodies.
OPERATIONAL OBJECTIVE 4.1.2											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommen dations
4.1.2.1	Strengthening the capacities of managers and employees in the field of management and internal control in companies in which the state has a majority ownership stake	Trainings held for managers and employees in companies in which the state has a majority	Ministry of Finance	2023	Cont.		-	150.000 €	15.000€	Budget Donation Project CEF Facility for Montenegro	The Ministry of Finance will undertake activities to promote training to strengthen the capacities of

		ownership stake									managers and employees in companies in which the state has a majority ownership stake in the areas of management and internal control
OPERATIONAL OBJECTIVE 4.1.3											
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.1.3.1	Strengthening the capacities of CHU employees to monitor and improve management and internal control in the public sector (training, on-the-job support, exchange of experiences from EU member states)	Continuously increasing the number of procedures for reviewing the quality of internal control management and internal audit	Ministry of Finance	2022	Cont.		-	15.000 €	Budget Donation Project CEF Facility for Montenegro	The Ministry of Finance will undertake activities to ensure that CHU employees attend training sessions and strengthen their capacities for monitoring and improving management and internal control in the public sector. The annual plan will plan the number of days for attending training sessions	
4.1.3.2	Further development of methodological	Prepared methodologi	Ministry of Finance	2022	2023		-	5.000 €	5.000 €	Budget, Donation	-

	guidelines for external quality assessment through mutual assessment	cal guidelines for external quality assessment									
4.1.3.3	Strengthening the capacity of the internal audit function at budget users, including for conducting performance audits, risk management audits, IT audits and conducting mutual quality reviews	Trainings held for conducting performance audits, risk management audits, IT audits and conducting mutual quality reviews	Ministry of Finance	2022	Cont.		-	15.000 €	10.000 €	Budget, Donation	Undertake activities to implement the project "EU 4 PFM in Montenegro" which defines activities to improve the knowledge of internal auditors as well as the implementation of the Professional Development Program for Internal Auditors, which the Ministry of Finance implements in cooperation with the Human Resources Directorate. The Ministry of Finance will also try to find other methods to strengthen the capacities of internal auditors
4.1.3.4	Advanced training to develop "soft skills" for managers and	Training held to develop "soft	Ministry of Finance	2022	2023		-	5.000 €	5.000 €	Budget, Donation	-

	employees in internal audit units	skills" for managers and employees in internal audit units									
SUBSYSTEM OBJECTIVE 4.2											
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Negotiations on Chapter 32 (Financial Control) have been provisionally closed		Chapter 32 is open		Significant progress in meeting the final benchmark		According to the 2024 Report on Chapter 32 – External Audit, the European Commission did not issue recommendations to the SAI because the SAI had fulfilled its obligations to meet the final benchmark				Negotiations on Chapter 32 (Financial Control) have been provisionally closed	
OPERATIONAL OBJECTIVE 4.2.1											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.2.1.1	Develop a Strategic Development Plan for the SAI for the period 2024-2027 and an Action Plan for the Implementation of the Strategic Development Plan for the SAI for the period 2024-2027	- Strategic Plan 2024 – 2027 with Action Plan developed - Increased level of implementation of the Strategic Development Plan of the SAI	SAI	2023	2026		-	40.000 €	10.000 €	Budget, Donation	Monitor the implementation of strategic Activities in the SAI at least twice a year and propose measures to address potential challenges and risks. Timely and successfully completed procedure for the election and appointment of the fifth member of the Senate and the President of the Senate

										by the Parliament, who would be responsible for the implementation of strategic Activities in accordance with the competencies defined by the SAI's internal acts;
4.2.1.2	Develop the SAI Communication Strategy for the period 2025 - 2028 and the Action Plan for the implementation of the SAI Communication Strategy for the period 2025 - 2028	- Developed the SAI Communication Strategy for the period 2025-2028 and the Action Plan - Increased level of implementation of the SAI Communication Strategy for the period 2025-2028 and the Communicat	SAI	2022	2026		-	40.000 €	-	Find an alternative solution for obtaining feedback on the level of satisfaction of target groups with the implementation of the current SAI communication policy (live and online); Prioritize employee

		ion Strategy 2025-2028.									obligations in the development of strategic documents;
4.2.1.3	Develop the SAI Human Resources Management Strategy for the period 2026 - 2029 and the Action Plan for the Implementation of the SAI Human Resources Management Strategy for the period 2026 - 2029	- The SAI Human Resources Management Strategy for the period 2026 - 2029 with an Action Plan has been developed - The level of implementation of the SAI Human Resources Management Strategy 2026 - 2029 has been increased.	SAI	2022	2026			40.000 €		Budget , Donation	Engage a larger number of employees in the development of the Communication Strategy.
OPERATIONAL OBJECTIVE 4.2.2		Increase the quality of audits									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.2.2.1	Create a medium-term audit plan of SAI	Increased level of implementation of the Mid-Term Performance Audit Plan 2020 – 2024; Drafted the Mid-Term Financial Audit and Regularity Audit Plan of the SAI 2023-2026 and initiated its implementation	SAI	2022	2026			30.000 €		Budget , Donation	Timely and successfully completed procedure for the election and appointment of the fifth member of the Senate and the President of the Senate by the Parliament; Introduction of a systematized method of monitoring

											the implementation of audit recommendations by the Parliament of Montenegro; The recruitment of additional audit staff depends on the timely provision and equipping of the SAI's premises
4.2.2.2	Create Guidelines for Environmental Protection Audit	Created Guidelines for environmental auditing	SAI	2022	2023	The SAI has abandoned the implementation of this Activity, because it was not recognized as a strategic priority for the period 2025-2026 in the SAI Strategic Development Plan.	-	30.000 €	-	Budget, Donation	Apply existing International Standards for Supreme Audit Institutions (ISSAI) in the field of environmental auditing, such as the INTOSAI Development Initiative (IDI) Guidelines for auditing areas related to the Sustainable Development Objectives.
4.2.2.3	Strengthen performance auditing	Increased number of performance audits, number of sectors	SAI	2022	2026		-	30.000 €	-	Budget, Donation	One of the Activities of the "EU4PFM" project is related to

		within SAI for performance audits, number of trainings and parallel performance audits								strengthening the capacity of audit staff in the field of performance audits, which will include organizing training at the entry level and at the advanced level through mentoring and practical work on audits. The trainings will be implemented in III/IV Q 2025, II and III Q 2026 and II Q 2027. Engaging a larger number of audit staff in performance audits.	
OPERATIONAL OBJECTIVE 4.2.3		Improve the digitalization of audits and the process of monitoring the implementation of audit recommendations									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.2.3.1	Acquire, develop and implement software for managing the SAI audit process	Established AMS system for managing the audit process according to the needs of SAI	SAI	2023	2026	The SAI has abandoned the implementation of this activity within the PFM Program for the period 2022–2026 due to the	-	500.000 €	-	Budget Donation The SAI plans to initiate a public procurement procedure for a system to manage the audit process in 2025. However,	

						fact that the implementation of this activity is planned for 2027 in the SAI Strategic Development Plan.				since the success of the procedure does not depend on the institution, there is no guarantee that the procedure will be carried out in a timely and successful manner.
4.2.1.2	Ensure full implementation of the Guidelines for the Preparation, Monitoring, and Control of the Implementation of the State Audit Institution's Recommendations through the Recommendations Register	Increased number of audited audit recommendations compared to the number of recommendations given	SAI	2022	2026	The SAI has abandoned the implementation of this activity because it is covered by the indicator in the updated Action Plan, "Percentage of Control of Implementation of SAI	-	50.000 €	-	Budget, Donation Evaluation of the application and innovation of the Guidelines for the Preparation, Monitoring, and Control of the Implementation of SAI Recommendations in

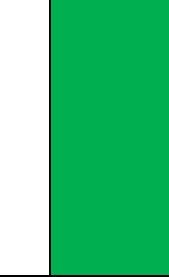
						Recommendations," so its implementation will be measured through the assessment of the indicator's fulfilment					accordance with international standards.
SUBSYSTEM OBJECTIVE 4.3											
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Negotiations on Chapter 32 (Financial Control) have been provisionally closed		Chapter 32 is open		Law on Amendments to the Law on Budget and Fiscal Responsibility		A case management system for irregularities and fraud in the context of IPA funds has been established (Chapter 32 remains open)		↔		Negotiations on Chapter 32 (Financial Control) have been provisionally closed	
OPERATIONAL OBJECTIVE 4.3.1											
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.3.1.1	Establishment of a legal basis and improvement of coordination: amendment of the Budget and Fiscal Responsibility Law and adoption of by-laws	Regular coordination meetings of the AFCOS system	Ministry of Finance	2022	2026	Yellow	-	No additional funds required	n/a	Budget Donation	Introduce regular meetings and/or working groups for the swift adoption and finalization of key legislative acts to

											accelerate the procedure for adopting legislative and other amendments necessary for the improvement of the system
4.3.1.2	Develop procedures for risk prevention, analysis, detection, reporting, coordination, and cooperation	Procedures developed	Ministry of Finance	2023	2024		I Q 2025	No additional funds required	n/a	Budget, Donation	-
OPERATIONAL OBJECTIVE 4.3.2		Improvement of the work of the AFCOS network authorities in the area of managing irregularities									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.3.2.1	Development and adoption of a Communication Strategy and communication procedures between the AFCOS system authorities and the public	Adopted Communication Strategy	Ministry of Finance	2023	2024		IV Q 2026	500.000€	250.000,00€	IPA Donation	Set clear deadlines and responsible individuals for the finalization of documents
4.3.2.2	Establish a case management system for irregularities and fraud in the context of IPA funds	Increase in the number of officers trained in managing irregularities		2023	2024		-				
OPERATIONAL OBJECTIVE 4.3.3		Strengthening the administrative capacities of the AFCOS system									
Activities	Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.3.3.1	Analysis of training needs and development of a training plan	Reduced percentage of irregularity reports returned to implementation agencies	Ministry of Finance	2023	2024		I Q 2025	No additional funds required	n/a	Budget, Donation	Expand the scope to a larger number of employees in all relevant institutions. Additionally, implement
4.3.3.2	Training on managing irregularities and reporting for authorities using pre-accession funds			2023	Cont.		-	No additional funds required	n/a		

4.3.3.3	Improve reporting on irregularities	for audit and correction		2023	2024		1 Q 2025	No additional funds required	n/a	specific training focused on new challenges in the area of managing irregularities and fraud (especially in the context of new technologies and prevention methods)	
4.3.3.4	Training on fraud, corruption, and other irregularities in the system (AFCOS network) and whistle blower protection	Continuous implementation of trainings		2023	Cont.		-	No additional funds required	n/a		
OPERATIONAL OBJECTIVE 4.3.4		Improvement of the protection of the EU's financial interests									
Activities		Result indicator	Responsible institutions	Beginning	End	Status of realization	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.3.4.1	Development and adoption of the Strategy for the fight against fraud and management of irregularities to protect the EU's financial interests for the period 2023-2026, along with an accompanying Action Plan	Adopted Strategy for the fight against fraud and management of irregularities	Ministry of Finance AFCOS	2023	2025		-	No additional funds required	n/a	Budget Donation	Strengthening the legal framework and accelerating the process of adopting key documents. Introduce regular meetings and/or working groups for the swift adoption and finalization of key legislative acts to speed up the procedure for adopting legislative and other amendments necessary for system

									improvement.
									<p>Intensifying training efforts. Continue with training but expand the scope to include a larger number of employees in all relevant institutions. Additionally, implement specific training focused on new challenges in managing irregularities and fraud (especially in the context of new technologies and prevention methods).</p> <p>Faster finalization of strategic documents and analyses. Set clear deadlines and responsible individuals for the finalization of documents such as the</p>

											Communication Strategy, Guidelines for Managing Irregularities, and the Strategy for Combating Fraud. Additionally, continuous risk assessment and regular updates of methodologies based on new findings are crucial
SUBSYSTEM OBJECTIVE 4.4											
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Negotiations on Chapter 32 (Financial Control) have been provisionally closed		Chapter 32 is open		The amendments and additions to the Law on the Audit of EU Funds have been completed and are ready for submission to the Parliament. The sub-legal acts of the AA have been identified and prepared for further adoption		The amendments and additions to the Law on the Audit of EU Funds have been completed and are ready for submission to the Parliament. The sub-legal acts of the AA have been identified and prepared for further adoption		↔		Negotiations on Chapter 32 (Financial Control) have been provisionally closed	
OPERATIONAL OBJECTIVE 4.4.1											
Activities		Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.4.1.1	Alignment of the Law on Audit of EU Funds and by-laws with audit standards and future EU requirements	Number of aligned/new legal acts related to the audit of EU funds	Audit Authority	2023	2026		-	200.000€	200.000€	TWL IPA Budget	In order to improve the legislative framework of the Audit Authority, it is necessary to adopt amendments to the Law on the Audit of EU Funds, the Law on Salaries in the Public

											Sector, which should recognize the positions and coefficients of employees in the AA, as well as adopt by-laws
OPERATIONAL OBJECTIVE 4.4.2		Strengthening capacity and increasing the efficiency of conducting audits									
Activities		Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.4.2.1	Training of auditors on the closure of the IPA II program and updates related to the IPA III programming period	Number of trained auditors	Audit Authority	2022	2026		-	No additional funds required	n/a	Budget Donation	Continuous education to ensure that the Audit Authority performs its core function as defined by the Law on the Audit of EU Funds
SUBSYSTEM OBJECTIVE 4.5		Operationalization of the Budget Inspection Function									
Indicator		Initial value 2021		Realised value 2023.		Realised value 2024.		Trend		Target value 2026.	
Negotiations on Chapter 32 (Financial Control) have been provisionally closed		Chapter 32 is open		Administrative capacities and organisation strengthened		Administrative capacities and organisation strengthened				Negotiations on Chapter 32 (Financial Control) have been provisionally closed	
OPERATIONAL OBJECTIVE 4.5.1		Establishment of a legislative framework									
Activities		Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations
4.5.1.1	Develop a regulatory and methodological framework	Development of the Budget	Ministry of Finance	2022	2026	The activity was not implemented	-	No additional	n/a	Budget, Donation	It is important to strengthen

		Inspection Development Strategy and the Budget Inspection Work Methodology				because the development of the Budget Inspection Development Strategy was abandoned, and instead, work on the Law on Budget Inspection was initiated, which was adopted in December 2024		funds required			the staffing capacities of the budget inspection so that a larger number of inspectors will be able to be involved from the beginning of the implementation of the planned activities in the future
OPERATIONAL OBJECTIVE 4.5.2		Capacity building									
Activities	Result indicator	Responsible institutions	Beginning	End	Status	New deadline	Planned funds	Funds spent	Source of funding	Recommendations	
4.5.2.1 Recruitment and training of staff	Increase in the number of inspectors and the number of training sessions	Ministry of Finance	2022	2026	The Ministry of Public Administration has taken over a unified information system for all	-	Activity 14 002 003 004 Cca. 700.000,00 €		Budget	Given that the process of appointing budget inspectors is demanding and time-consuming, it is essential to take steps to retain personnel within the budget inspection	
4.5.2.2 Establishment, development, and maintenance of an IT system for detecting and reporting irregularities in the public sector, along with training for its use			2023	2026	The Ministry of Public Administration has taken over a unified information system for all	-	500.000€	-	Budget	-	

						inspections, including the budget inspection, which will begin using it in the first quarter of 2025					
--	--	--	--	--	--	--	--	--	--	--	--