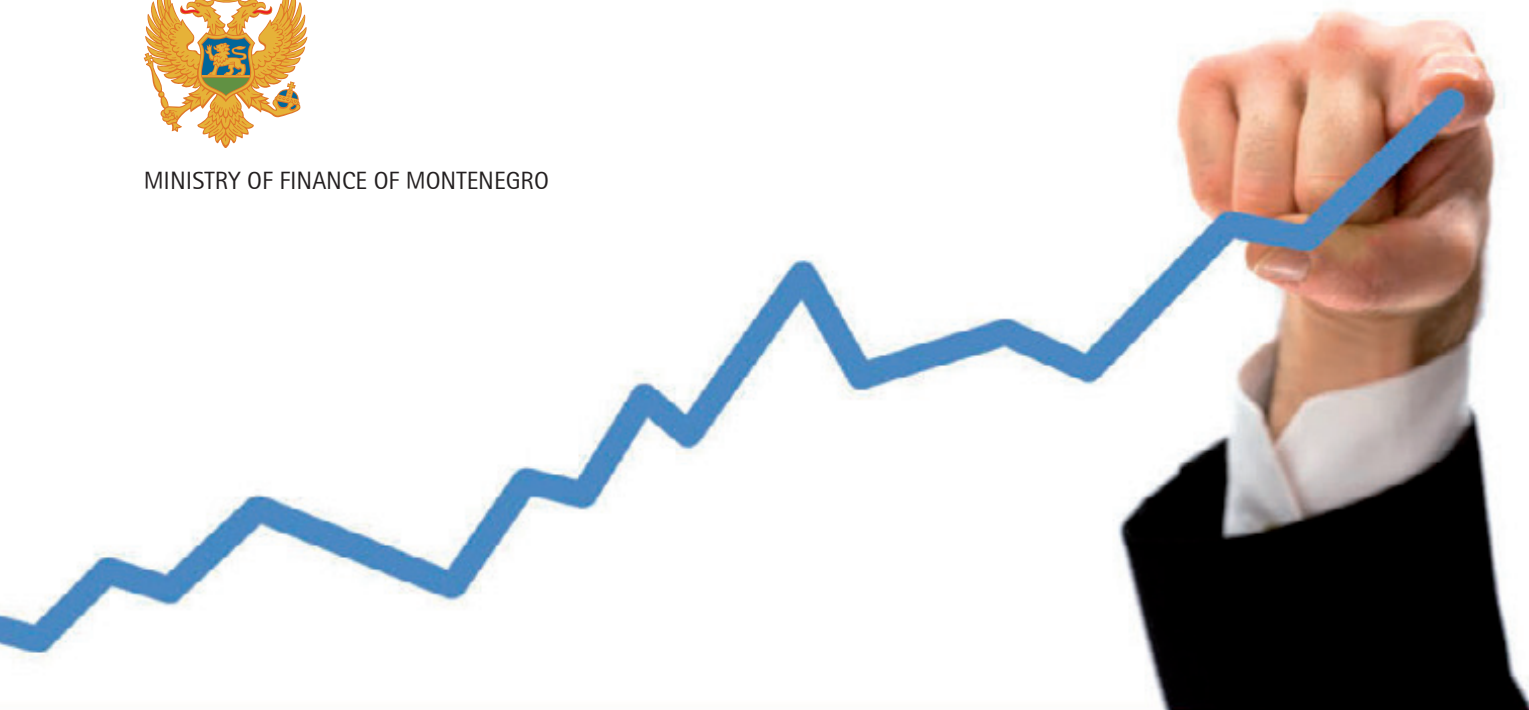




MINISTRY OF FINANCE OF MONTENEGRO



ANNUAL REPORT 2014

MINISTRY OF FINANCE OF MONTENEGRO

Annual report
2014



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Real Estate Directorate:	www.nekretnine.com.me
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Property Administration	www.uzi.gov.me

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Radoje Žugić

EDITORIAL:

Fiscal policy successfully implemented in 2014

The World Bank sets Montenegro out as an example in the region The IMF praised the “courageous fiscal measures”

Yet another year is behind us in which we have been able to respond to a number of fiscal and economic challenges and achieve the set goals, very ambitious ones. Therefore I find the previous year successful, with different attainments in different segments of economic life.

At the macroeconomic level, Montenegro continued with the success from 2013, as after a long period of economic recession the economy grew by 3.3%. The positive trend continued in 2014, despite the spillover effects of the crisis in the region and Europe. The growth in GDP is estimated at about 2%, which is slightly lower than expected, but at the same time higher than in the countries of the region, or the average growth in the eurozone countries and the EU. As a reminder, the region's countries, in addition to the effects of prolonged exposure to the economic crisis in the developed European environment, also faced with natural disasters that have caused recessionary trends in their economies. All this had an impact on small and open Montenegrin economy, so it is clear how complicated the broader context was, in which we tried and managed to maintain the positive economic trends.

The achievement of these results was contributed by the realization of economic policy measures that have been

primarily focused on fiscal consolidation and the improvement of the investment environment. Budget revenues in 2014 increased by EUR105.9 million or 5.9% compared to the plan, and by EUR108.3 million, or 8.7% compared to 2013, and by as much as EUR225.8 million or 20.0% compared to 2012.

Thanks to excellent results in terms of revenue collection, we have significantly lowered the cash budget deficit in 2014, which according to preliminary data amounted to EUR102.6 million, or about 2.9% of GDP. This result includes approximately EUR60 million (or 1.7% of GDP) in contingencies, such as repayment of arrears to the state (EUR32 million), repayment of guarantees (EUR15.3 million) and judicial enforcement (EUR15, 5 million), which have significantly worsened the results achieved. This clearly indicates it is impossible to achieve the full balance of public finances, if rationalization measures are absent on the expenditure side, and with no responsible attitude towards the money of taxpayers. If it were not for the exceptional contingencies, the central budget deficit in 2014 would have amounted to only EUR39.8 million or 1.2% of GDP.

Montenegro was highly praised for the results achieved in the area of fiscal consolidation in 2013 and 2014, by nu-



merous international institutions. Recently, Ms. Ellen Goldstein, director of the World Bank for South Eastern Europe, said: “The results of your work confirm you are the most successful in the region when it comes to fiscal consolidation. You’ve done a great job in the part of the rationalization of spending and revenue collection”. The IMF in its latest report also praised the “courageous fiscal measures” taken by the Government in previous years, which have resulted in improved fiscal discipline, and welcomed the measures foreseen in the budget for 2015.

The award for progress, in addition to praise, arrived in a financial form as well. Due to the increase of confidence of the financial markets in Montenegro, we have an interest rate of 5.375% on the Eurobond issuance, which is the lowest rate that Montenegro ever made selling this type of securities.

The economic policy pursued is aimed at improving the competitiveness of our economy and creating an enabling environment for investments, in addition to focusing on stabilizing public finances. In this way it contributes to increasing the value of GDP, which is the only realistic model for the establishment of fiscal, macroeconomic and financial stability in the long term.

Bearing in mind the above, the Ministry of Finance is actively involved in fiscal policy, which, through appropriate incentives, should contribute to the dynamics of economic growth. In this way we, at the end of 2014, defined the medium-term strategy, whose main objective is to create the preconditions for active management of sectoral

policies and attracting investment. The strategy rests on three basic elements: the introduction of fiscal preference for sectoral priorities, finding new sources of income and change in the taxation system in a way that less negatively affects the economic growth, through the rate structure of public revenues. The main goal is to release the potential for growth, which, along with supporting reforms in other areas, will contribute to a more efficient valorization of our vast resources and boost economic growth in 2015 and the subsequent years. According to our forecasts, expectations are that the average annual growth rate of GDP in the coming four years will be at a level of about 3.8%.

The economic policy of the Government in 2015 will continue to be directed towards implementing measures that should contribute to a more dynamic economic growth and job creation. In this regard, we continue to attract investment and implement important structural reforms that will improve the business environment, and the competitiveness of our economy. At the same we hope for the infrastructure improvements.

These are the essential questions of the future of our society and every individual. Economic growth, new investments, raising the quality of infrastructure, exports and other economic parameters, contribute to job creation, affect the amount of wages and pensions, personal and social standard in the country and the future of the country.

Radoje Žugić, PhD
Minister of Finance



Tatjana Bošković

Amendments to the personal income Tax Law

The Parliament of Montenegro adopted on 27 December 2014 the Law on Changes and Amendments to the Law on Personal Income Tax ("Off. Gazette of Montenegro", number 60/14), enforced on 1 January of the current year. The Law was adopted on a proposal from a group of MPs of the Parliament of Montenegro, with the main reasons for the passage of this law being the lowering of tax rates on personal income and the introduction of new sources of taxation.

A higher taxation rate on personal income has been introduced through the amendments to the Law on Personal Income Tax of 8 February 2013, stipulating that personal income, in the monthly gross amount above 720 euros, is to be taxed at a rate of 15 percent. This was a temporary measure of fiscal consolidation that was to be applied until 31 December 2013, but the validity of which was extended to 2014. The latest amendments to the Law on Personal Income Tax plan for the extension of the application of the tax rate of 13 percent in 2015, i.e. a reduction of 2 percentage points. The application of the above rate is to reduce the tax burden on earnings while at the same time ensuring the sustainability of the budget.

The latest amendments to the Law on Personal Income Tax introduced a new source of income taxation on gambling winnings. Income from gambling winnings is any winning from the games of chance (in cash, in kind or rights). The tax rate for gambling winnings amounts to 15%.

Expenses are not recognized in determining the taxable income from gambling. In the event that the winning consists of goods, services or rights, the taxable income is a market value of goods, services or rights at the moment of the winning.

Tax on gambling winning is charged and withheld by the payer of the winning at each payment of the winning, for each individually paid gambling winning, with the tax to be paid no later than the next working day from the date of the payment of the winning.

A taxpayer is required to report winnings realized in the form of goods, services or rights, in an annual income tax return submitted at the end of the calendar year, and no



later than 30 April. The taxpayer is obliged, when submitting the annual tax return, to pay the tax on the winnings in kind.

The law provides for the penalties, ranging from 2,000 to 20,000 euros, for the organizers of the games of chance who fail to calculate, incorrectly calculate, or fail to withhold or pay income tax from gambling. The law provides for penalties of 250-2000 euros for violations by the individuals failing to submit income tax return to the competent tax authority by the end of April of the current year for the previous year, who incorrectly calculate, or fail to pay tax simultaneously with the filing of tax returns.

For the improved and more efficient implementation of the Law on income tax due to legislative changes, the Ministry of Finance has adopted Guidelines amending the Instructions on the method of calculation and payment of taxes and contributions from and on personal income from employment ("Off. Gazette of Montenegro" no. 2/15), which clarifies the application of the new tax rate of 13 percent, and the Ordinance on amendments to the Ordinance on the

form, content, manner of filling in the form of a single report on calculated and paid taxes on personal income and contributions for social security ("Off. Gazette of Montenegro" no. 1/15 and 2/15). The aforementioned regulations introduce a new code, the basis for the calculation of 088, relating to the gambling winnings, and provide clarification regarding the recordings of these revenues. An organizer of the games of chance is to fill in only one row for the winnings of all gamblers in one month (period), showing the calculation period, the code of the basis for the calculation, the total amount of the winnings of all gamblers for the month in which the payment is made, representing the difference between the realized income and payment amount (stake), and the total amount of tax charged and withheld on the winnings of all gamblers, while other columns of the special part of IOPPD form need not be filled.

*Tatjana Bošković
Independent Advisor I
at the Directorate General for Tax and Customs System*



Dunja Nelević

The beginning of the independent management of IPA components III (Regional Development) and IV (HR Development)

During 2014, the authorities involved in the financial management and control of IPA components III and IV were intensively implementing activities aimed at improving the existing legal and institutional framework. Emphasis was placed on the elimination of all findings identified in the reports of the European Commission. The findings in the audit reports ranked as high-risk were fully eliminated during 2014. One of the findings related to the insufficient number of employees in charge of carrying out activities in view of the implementation of programs financed from the EU pre-accession funds, i.e. inconsistency of the current situation with the real needs and the results of the workload analysis. The line ministries have taken the necessary actions, in line with the recommendations, thereby providing a minimum of employees necessary for the respect of the principle of distribution of powers and carrying out the necessary controls. Also, the Ministry of Finance has solved the issue of adequate working space for a certain number of employees engaged in the IPA affairs, eliminating high-risk findings relating to the Implementing Authority for IPA Component IV. Simultaneously, authorities were working to fix the medium and low-risk findings, which were removed by amendments to the Handbook on Procedures, and by organizing additional training.

Taking into account the progress made, the results of checks carried out by the auditors of the Directorate-General for Regional Policy (DG REGIO), and all the corrective actions and measures taken, the European Commission on 25 April 2014 adopted the Decision on conferral of management powers for pre-accession funds in the case of the Operational Programme Regional Development 2012-2013 - IPA component III. Operational Programme defines the priorities to be funded:

1. Environment
2. Traffic
3. Technical assistance.

In early July 2014, the auditors of the Directorate General for Employment, Social Affairs and Inclusion (DG EMPL) have stayed in Montenegro to inspect the compliance with the recommendations from their report. Based on the current situation and progress in the elimination of recommendations, the European Commission on 28 July 2014 adopted a the Decision on conferral of management powers for pre-accession funds in the case of the Operational Programme Human Resources Development 2012-2013 within the IPA component IV. The priorities defined in the Operational Programme are as follows:



1. Effective and inclusive active labor market measures;
2. Improving the knowledge, skills and competencies for employability and competitiveness;
3. The improvement of social inclusion;
4. Technical Support

After receiving a positive opinion of the European Commission, i.e. issuing of the Decision on conferral of management powers for pre-accession funds in the case of IPA components III and IV, the signing of the financing agreements by relevant representatives of the European Commission, the National IPA Coordinator signed on 5th December 2014 financing agreements whereby the funds have become available to the Montenegrin authorities. With the entry into force of the financial agreements, Montenegro has assumed certain obligations relating to the financial contribution and the responsibility for lawful and purposeful spending of allocated funds.

IPA Component III

EU part - 22,235,679.00 euros
National co-financing - 3,923,947.00 euros
Total: 26,159,626.00 euros

IPA Component IV

EU part - 5,583,000.00 euros
National co-financing - 985,240.00 euros
Total - 6,568,240.00 euros

Therefore, all the procedural and legal preconditions for the implementation of the priorities and measures of the above mentioned operational programmes have been created. What is awaiting us is a withdrawal of funds and compliance with the provisions of the Financial Agreement.

It must be noted that the promptness of national institutions, definition of realistic deadlines, identification and elimination of all potential risks, as well as the capacity of future users, will all reflect on the success in the withdrawal of funds.

Dunja Nelević
Head of the Directorate for National Fund



Milanka Otović

Collection of tax receivables by levying upon the taxpayer's property

Considering the overall economic situation and the lack of liquidity in Montenegro, intending to avoid block age of accounts and allow business performance to the tax payers in a conditions difficult for the operating, and intending to achieve a more efficient collection of taxes that are a significant portion of the budget revenues, in 2013 the Ministry of Finance proposed to the Government an adoption of the Regulation on the procedure of collection of tax receivables by levying upon the taxpayer's property. Such a proposition resulted in the conditions for the tax payers to more regularly settle their future tax liabilities and, when having their tax liabilities reduced, the basis for the calculation of interest due to earlier debt ceases to exist.

The legal basis for the adoption of the regulation was enshrined in the provisions of the Article 15 of the Law on Budget of Montenegro for 2013 (Official Gazette of Montenegro No.66/12), which stipulates that the tax receivable can be collected by levying upon the tax payer's property with the consent of the Government, and the proposal of the Ministry of Finance. During the preparation of this document, no EU regulation existed as a relevant document with which the mentioned draft Regulation had to

be harmonized with.

Article 1 of the Regulation stipulated that the tax receivable that were past due as at December 31, 2012 may be settled by the property of a tax payer under the procedure prescribed by this Regulation. Tax debt, in terms of this regulation, were considered the liabilities arising from the taxes (principal and interest), which are the revenue of the Budget of Montenegro, in the amount exceeding EUR 100.000,00.

The property of a tax payer was considered to be the residential and business buildings, residential unit and business facilities.

In accordance with this Regulation, a tax payer was required to submit a request for payment of the tax debt to the competent tax authority depending on the place of the tax payer's registration. The request for payment of the tax debt from the taxpayer's property should contain the name and seat of the legal entity i.e. the name and residence of a physical entity, the tax identification number (in Montenegrin: poreski identifikacioni broj - PIB) of the taxpayer, the amount of tax debt, type of property, the value of the property proposed for tax debt offsetting. Along with the request for tax debt payment, the taxpayers were



required to submit an excerpt from the property records certificate of the ownership over the taxpayer's property (without any burdens or restrictions) not issued before seven days from the date of the request, a certificate on the settled liabilities (electricity, water consumption, etc.) issued by the competent organizations, and a report of a certified appraiser on the value of property proposed for the tax debt settlement. In accordance with the Regulation, upon receipt of a proper request the Tax Administration was obliged to determine the state of the tax debt of the taxpayer, to forward the request and supporting documentation to the Ministry of Finance not later than 30 days from the date of receipt of the request. Also, the request and attached documents forwarded to the Ministry of Finance shall be accompanied with a report that particularly contains an amount of tax debt, information about the time frame in which the tax applications were filed i.e. about the deadlines missed for filing the tax applications or tax credits balances. After assessing the merits of the request and the appropriateness of the property listed in the request for offsetting the tax debt with the taxpayer's property, the Ministry of Finance is obliged to send a proposal for payment of the tax debt to the Montenegrin Government for its approval. The mutual rights and obligations arising from the payment of the tax debt with the taxpayer's property were regulated by the contract concluded by the Ministry of Finance with the taxpayer. The contract particularly defines a method of settling tax debt and conditions of transfer of ownership to the taxpayer's

property. The deadline for concluding the contract shall be ten days from receipt of an approval issued by the Government of Montenegro.

In accordance with the Regulation on the procedure of collection of tax receivables by levying upon the taxpayer's property, a deadline for submitting the requests was 31 July 2013, and, within the given deadline, there were submitted by the following companies: Gradnja promet doo Danilovgrad, Ibon Group doo Nikšić, PKB AD Herceg Novi, Specijalna bolnica "Codra" Podgorica, Opština Budva, "Voda u kršu" doo Bar, Luka Bar AD Bar, Lovćen invest doo Podgorica, Cijevna komerc doo Podgorica, Putevi doo Podgorica, MMK Standard Nikšić, PUT Bar, Opština Šavnik, Opština Pljevlja, Zetogradnja doo Podgorica, HM Durmitor Žabljak, Rokšped doo Podgorica, FK Budućnost Podgorica, Tehnoput doo Podgorica, Fab live doo Podgorica, Security Guard Montenegro doo Podgorica.

Out of the total number of the received requests, the Government issued its approval in 10 cases, 7 were rejected, while four cases are still being processed by the Ministry of Finance.

Accordingly, the total tax debt that was collected was in the amount of EUR 9,599,687.90.

Milanka Otović,
Head of the Directorate for State Property and
Legislative Affairs in the Directorate for Property
and Legal Affairs



Milica Klikovac

The Law on State Surveying and the Cadastre of Immovable Property

The Law on State Surveying and Cadastre of the Immovable Property shall govern the state surveying and the cadastre i.e. the following: cadastre of immovable, water supply utility lines cadastre, main state map and topographic maps, survey of state borderlines, National Spatial Data Infrastructure etc.

A state surveying shall mean development of technical documentation and execution of geodetic works in the process of gathering and determining spatial data on immovable property (position, form, manner of use) and rights on immovable property in one or more cadastre territorial units or parts thereof, and carrying-out other activities determined by this Law.

Furthermore, cadastre of immovable property shall mean a single public record whereat immovable property and property rights on immovable property and obligation rights are registered in accordance with law, while the land cadastre is a record of the factual state of immovable property (possession) that includes inventory cadastre.

The body directly involved in the implementation of this law is the Real Estate Administration of Montenegro, which, among others, performs the administrative ta-

ks related to the preparation of the immovable property cadastre, registering the rights in the Cadastre of the Immovable Property and maintenance of the cadastre of the immovable property, preparation of the basic state map and topographic maps, as well as the geodetic works in the medium-term program of work and annual work plans.

The Law on State Surveying and Cadastre of the Immovable Property was first adopted in 2007, and last amendments were made in 2014. On 18 December 2014, the Government of Montenegro adopted the Draft Law on Amendments to the Law on State Surveying and Cadastre of the Immovable Property.

The reasons for this law enacting are contained primarily in the need to rectify certain deficiencies and business barriers that have been observed so far in applying the effective law, and to enhance the legal certainty. Also, the reason for the amendment of the law is an intention to harmonize it with the laws that, in the meantime, entered into force.

The proposed law will primarily address the issue of duality licenses in engineering and technical fields, bea-

ring in mind that the Law on State Surveying and Cadastre of Immovable Property regulates specific area of the state survey and cadastre of immovable property, and, therefore, it does not treat the engineering surveying, which is governed by special regulations. Abolition of the duality of licenses in this area will remove and administrative barriers as well.

Furthermore, this law increases the efficiency of work of the Real Estate Administration of Montenegro, through the principle of timeliness and obligations of data disclosure as well as through the penalties for officials of the administrative authority for failure to act in a prescribed manner.

The Draft of this Law will shorten the process of making data available for public review, and a procedure at the request of a notary will be implemented in a simplified procedure and appeal in these cases does not delay the execution, and, therefore, the proceedings will be safer and more efficient.

In addition, this Draft of the Law stipulates that the usable area shall be calculated according to the current standards, which will increase the property tax base, and,

therefore, the property taxation of physical and legal entities who are holders of rights to real property pursuant to the regulations governing property taxes.

It should be specifically noted that the amendments to this law reinforce the fines for violations both to the geodetic organizations, and other companies and legal entities, as well as responsible persons in administrative bodies.

The main goal to be achieved with this draft is make the registration procedure more efficient and transparent, to eliminate certain disadvantages and business barriers, and to harmonize this law with the laws that came into force in the meantime, i.e. primarily Law on Notaries and the Law on Spatial Planning and Construction.

Milica Klikovac
Independent Advisor III
of the Directorate for Property Affairs



Antonio Krčalović

European integrations in 2014



Introduction

The intense activities of the Ministry of Finance in the field of European integration and international cooperation were continued during 2014, during the regular meetings of the subcommittee and the Stabilisation and Association Council, through the programming and implementation of the projects from the IPA funds, as well as through continuous activities with the purpose of meeting the EC requests for a transfer of responsibility for the EU funds management. Regular reporting on monitoring the fulfilment of obligations arising under the provisions of the Stabilisation and Association Agreement and the preparation of Annex to the EC report on the progress of Montenegro for 2014 were also regular activities of the Department for European Integrations.

Negotiations on the EU accession

Representatives of the Ministry of Finance or the institutions that are being supervised by the ministry are managing the activities of six working groups (public pro-

curement, taxation, customs union, financial control, budgetary and finance provisions and statistics). The Ministry of Finance has one representative in the Negotiating Group. Officials of the ministry are involved in 18 working groups for the negotiations out of the 33 chapters that are negotiated. If we take into account the working groups that are the representatives of the institutions within the ministry or those supervised by the ministry included in, it can be said that the Ministry of Finance is included in the work of almost all working groups.

During the reporting period, Montenegro has continued to maintain a dynamic pace of the accession process. On two intergovernmental conferences, held in June and December, negotiations were opened for five chapters that are primarily related to economic and financial issues: Free movement of capital, Financial Supervision, Statistics, Customs Union and Finance and Budgetary Provisions. In the forthcoming period, it could be expected that the negotiations will commence in a variety of other chapters that are in the competence of the Ministry of Finance, bearing in mind that Montenegro has entered the

negotiations, in a huge number of areas, from a position of considerable level of harmonization of legislation with the EU acquis. However, in a future period, significant challenges remain to strengthen administrative capacity and complete the legal framework, so as that the negotiations on the chapters could also be temporarily detained. It is important to note that certain chapters, in particular the taxation and customs union, will require significant investment, especially in information technology, for which it will be necessary a financial and technical support from the IPA program.

Report on the Progress for 2014

With regards to the economic criteria, the EC estimated that Montenegro has taken further steps towards a functioning market economy. Taking into consideration the above mentioned, it is estimated that the state should be prepared to face the competitive pressure and market forces within the EU during the medium term. In this context, the Commission has recommended that it is necessary to continue to address the existing weaknesses

through the implementation of appropriate structural reforms. Within the report, the EC underlined that the economy in 2013 went out of the recession. The EC has pointed out that it must continue with the fiscal consolidation in order to reduce public debt. With regard to the structural reforms, the EC recommended that it should continue with the reform of the labor market, increasing mobility of workers and strengthening the effectiveness of active employment measures. Also, it is necessary to improve the quality of education, including vocational education and training. To support the development of the private sector, the EC stressed that it should continue with the measures aimed at simplifying the regulatory and legal environment, with the purpose of reducing the barriers and administrative costs.

Regular annual meetings with the EC

In 2014, formal communication with the EC was continued in the form of the Subcommittee on Economic and Financial Affairs and Statistics. Representatives of the European Commission welcomed the efforts to preserve ma-

macroeconomic stability and the announcement of the adoption of the Law on consensual financial restructuring, as well as preserving the stability of the banking sector. The EC stressed the importance of fiscal consolidation measures and emphasized the need to continue with these efforts, as well as to define the adequate preventive measures. EC welcomed the progress that has been made in improving the business environment and encouraged the Government to continue its efforts related to the elimination of barriers. The EC stressed that, despite the progress achieved, it is necessary to continue with measures of labor market reform.

IPA

In 2014, the activities were continued on programming of priorities that are to be financed from IPA programs in the new financial perspective 2014-2020 (IPA II). In relation to this segment of work, the Department for European Integration has actively participated in the preparation of the Indicative Strategy Paper (ISP) for Montenegro for IPA 2014-2020. In the process of preparing the ISP, the Project Implementation Unit in the Ministry of Finance consulted and informed all stakeholders within both the ministries, institutes, administrations and directorates in the finance sector, and the financial regulators. Although its preparation was based on intensive cooperation and communication between Montenegro and the European Commission, ISP is held by the European Commission, which adopted it on August 18, 2014.

Since January 2014, the Montenegrin institutions have worked intensively on the preparation of a national program IPA 2014. In this process, the Department for European Integration participated in three working groups: Justice, Home Affairs and Fundamental Rights, Democracy and Governance and Competitiveness and Innovation.

After five iterations held between the European Commission and Montenegro, on November 27, 2014, the IPA Committee of the EC confirmed the proposal of action documents package for 2014. The projects in the field of Democracy and Governance were provided by the Ministry of Finance, Customs Administration, Tax Administration, Public Procurement Directorate, the State Audit Institution and the Audit Authority, and in the field Competitiveness and Innovation by the Central Bank, Insurance Supervision Agency and the Commission for Securities.

An important element of the strategic framework for IPA II consists of sectorial planning documents, which did

not exist during the financial perspective 2007-2013 but which will form the basis for the multi-annual programming within the IPA II in the sectors identified in the ISP. Sectorial planning documents are "living" documents that will be adopted by neither the European Commission nor the Government of Montenegro, but those will be constantly revised and supplemented in order to most efficiently present the needs of a sector and ensure a better connection between the ISP and national programs per year. The first drafts of sectorial planning documents for seven sectors of IPA II were submitted to the European Commission on May 30, 2014. After the comments given on the first drafts, received from the in October 2014, sector working groups have been working on their improvement. Improved versions of sectorial planning documents were submitted to the Commission on November 28, 2014.

Bilateral cooperation programs

Bilateral program of cooperation of the Ministry of Finance of Montenegro and the Netherlands for 2014 was signed in September 2014 and comprised the training in the following areas: Program Budget and Success Management, Harmonization with the EU acquis in the field of vocational pension insurance and payment of excise taxes. Bilateral programs are funded by the Ministry of Finance of the Netherlands, and this type of training is a very useful supplement to the technical assistance provided to the ministry by the other sources, especially from the IPA funds. Therefore, when defining the annual program, what is taken into account is the complementarity with other sources of expert support. Bearing in mind the flexibility of this support, specific and narrow topics that require additional knowledge and exchange of experiences may be targeted, but also prepared the ground for implementation of more demanding reforms, which will be implemented over a longer period of time and which will be supported by other donors.

As for the bilateral cooperation with the Czech Republic, the Ministry of Finance of this country organized the training of Montenegrin officials in the areas of internal audit, customs union and financial services.

Antonio Krcalović
Head of the Department for European Integration



Snežana Mugoša

Realization of public spending at the local level in the third quarter of 2014

Pursuant to the provisions of Article 74 of the Law on Local Self-Government Financing, the municipalities are obliged to submit to the Ministry of Finance their quarterly reports on planned and generated revenues, planned and occurred expenditures and budget indebtedness, no later than 30 days after the quarter expiry. On the basis of the reports submitted, the Ministry of Finance prepares a report on public spending at the local level for a certain period.

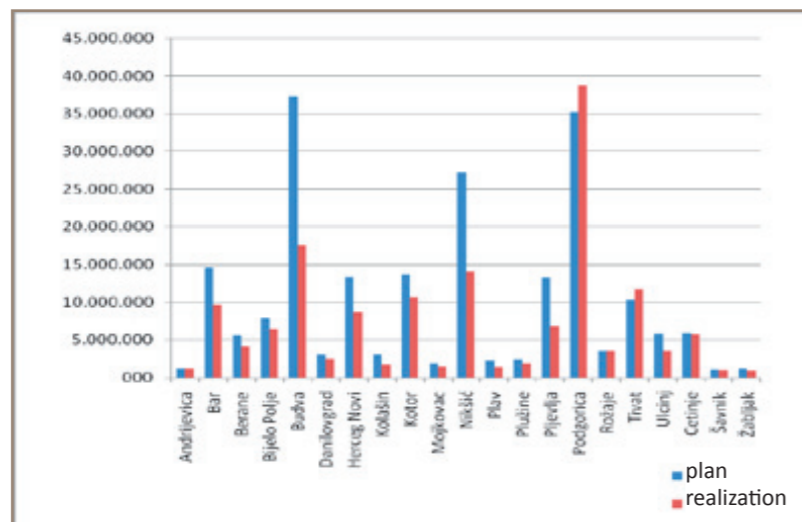


ACTUAL REVENUES OF LOCAL SELF-GOVERNMENT IN THE PERIOD I-IX 2014

The following table illustrates an overview of planned and generated revenues of municipalities' budget for the period January-September 2014:

Municipality	The revenues of the local self-government in the III quarter of 2014 (in mil. of EUR)		
	Plan	Realization	% of Realization
Andrijevica	1,17	1,16	99,04
Bar	14,59	9,71	66,56
Berane	5,60	4,11	73,45
Bijelo Polje	7,91	6,45	81,53
Budva	37,30	17,59	47,15
Danilovgrad	3,10	2,49	80,43
Herceg Novi	13,28	8,73	65,72
Kolašin	3,06	1,73	56,67
Kotor	13,76	10,68	77,58
Mojkovac	1,84	1,52	82,75
Nikšić	27,23	14,08	51,71
Plav	2,24	1,40	62,31
Plužine	2,41	1,85	76,52
Prijevlja	13,27	6,84	51,53
Podgorica	35,20	38,79	110,20
Rožaje	3,55	3,55	100,17
Tivat	10,36	11,70	112,94
Ulcinj	5,80	3,56	61,36
Cetinje	5,93	5,71	96,31
Šavnik	1,05	1,01	95,88
Žabljak	1,16	0,91	79,04
TOTAL	209,79	153,55	73,19

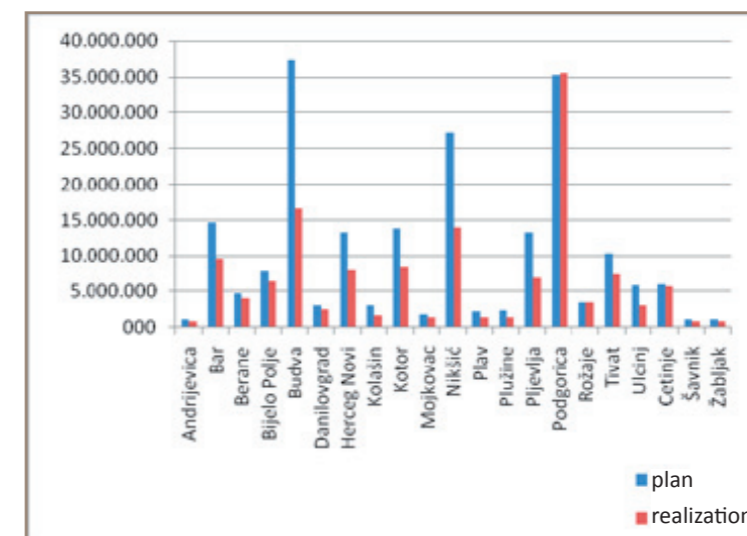
Total revenues of the local self-government for the first nine months of 2014 were planned in the amount of EUR 209.79 million, while the total realization was in the amount of EUR 153.55 million i.e. 73.19% referring to the plan for the mentioned period.



EXECUTION OF LOCAL SELF-GOVERNMENT EXPENDITURES DURING THE PERIOD I-X 2014

Total local self-government expenditures for the period from January to September 2014 were planned in the amount of EUR 208.83 million, while total execution of municipal budgets for the specified period amounted to EUR 140.16 million, which represents 67.11% of the execution referring to the plan for the mentioned period.

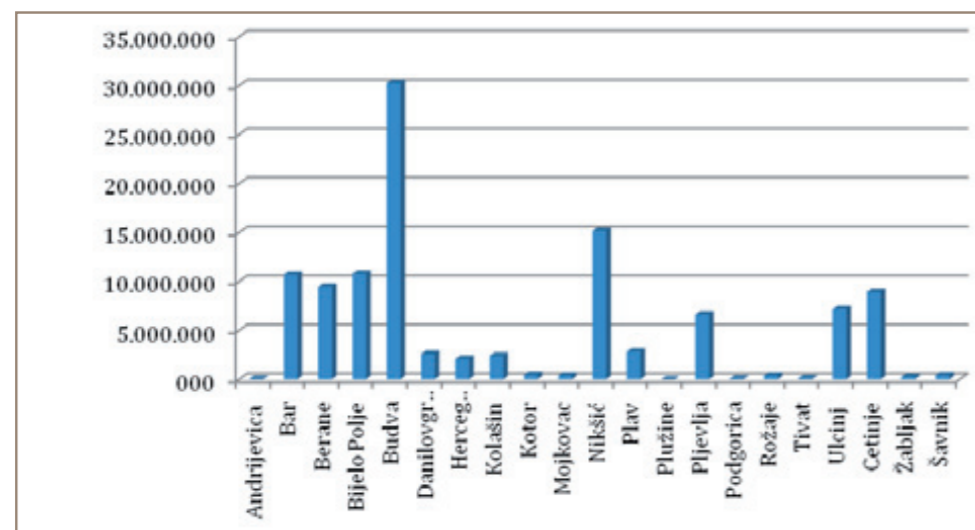
Municipality	The expenditures of the local self-government in the III quarter of 2014 (in mil. of EUR)		
	Plan	Execution	% of Execution
Andrijevica	1,15	0,83	71,96
Bar	14,59	9,60	65,83
Berane	4,67	4,04	86,44
Bijelo Polje	7,91	6,42	81,21
Budva	37,30	16,52	44,29
Danilovgrad	3,10	2,45	79,19
Herceg Novi	13,28	8,04	60,51
Kolašin	3,06	1,73	56,59
Kotor	13,76	8,47	61,54
Mojkovac	1,83	1,40	76,54
Nikšić	27,24	13,99	51,35
Plav	2,24	1,36	60,63
Plužine	2,41	1,38	57,01
Prijevlja	13,27	6,92	52,14
Podgorica	35,20	35,57	101,07
Rožaje	3,55	3,44	97,00
Tivat	10,36	7,51	72,55
Ulcinj	5,80	3,13	53,91
Cetinje	5,93	5,70	96,23
Šavnik	1,05	0,83	79,25
Žabljak	1,16	0,83	71,84
TOTAL	208,83	140,16	67,11



OUTSTANDING LIABILITIES OF THE LOCAL SELF-GOVERNMENT AS OF SEPTEMBER 30, 2014

According to data provided by municipalities and submitted to the Ministry of Finance, the total outstanding liabilities of the local self-government as of September 30, 2014 were in the amount of EUR 111.14 million.

The outstanding liabilities by the municipalities as of September 30, 2014 (in mil. of EUR)	
Andrijevica	0,06
Bar	10,69
Berane	9,45
Bijelo Polje	10,78
Budva	30,27
Danilovgrad	2,59
Herceg Novi	2,10
Kolašin	2,41
Kotor	0,46
Mojkovac	0,38
Nikšić	15,18
Plav	2,83
Plužine	0,00
Pljevlja	6,63
Podgorica	0,08
Rožaje	0,40
Tivat	0,12
Ulcinj	7,14
Cetinje	8,91
Žabljak	0,24
Šavnik	0,41
TOTAL	111,14



*M.Sc. Snežana Mugoša,
Head of the Directorate for monitoring the budgets of local self-governments,
regulatory agencies and public companies and other implicit budget obligations*



Ivona Mihajlović

Info web activities of the Ministry of finance for year 2014



17 January 2014 - Be Responsible Campaign - EUR50,000 collected for investments of general public importance

Acting on complaints of citizens reported in the framework of the project "Involving Citizens in Combating Gray Economy", inspection services up to 17th January 2014 imposed fines in excess of EUR100,000 on entities failing to issue fiscal receipts, engaging in moonlighting or those in breach of consumer rights. According to the decision of the Government, half the value of any fines imposed as a result of citizens' reports via mobile or web applications "Be Responsible" or call centers of the Inspection Directorate (080

555 555) and the Tax Administration (19707), is to be invested in projects of general public importance. The funds raised for the realization of investments of general public importance amount to 50,000 euros. Until December 31, citizens have submitted a number of proposals for investments in projects of general public importance, including the purchase of shortage medical equipment, adaptation/furnishing of children's institutions or residential care homes, or institutions caring about people with disabilities. After substantiating the above mentioned proposals and determining their viability in cooperation with institutions and organizations responsible for their implementation, the proposals will be shortlisted and made available for voting to all proposal submitters through mobile and web applications "Be Responsible" or call centers of the Inspection Directorate and the Tax Administration. Public campaign "Be Responsible. It's up to you. 0% Gray Economy", which calls on public to take participation in the project and raise funds for investments in socially useful projects will last until 1 May 2014. The campaign "Be Responsible. It's up to you. 0% Gray Economy" is part of the project "Involving Citizens in Combating Gray Economy", implemented in collaboration of the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP) in Podgorica.



17 January 2014 - The Ministry of Finance published the Annual Report 2013

22 January 2014 - Seven new kindergartens by 2018

Tracing the first electronic petition of citizens via the portal Citizens' Voice, EUR17 million will be invested over the next three years in the construction of seven new kindergartens and the renovation of the existing ones, in four municipalities: Podgorica, Bar, Ulcinj and Podgorica. To provide funding for the purpose, the Ministry of Finance, together with the Development Bank of the Council of Europe (CEB), signed a loan agreement worth EUR10 million, while the remaining EUR7 million will be provided by the Government of Montenegro in the form of land and associated utility connections. The aim of the project is to provide the opportunity to enroll about 1,600 children aged 6 in seven new kindergartens, and to improve conditions for 8,000 children in the existing kindergartens. CEB loan is provided under favorable financial terms, with an interest rate in the range from 2 to 3 percent, with a repayment period of 20 years and a grace period of 5 years.

31 January 2014 - A short list of citizens' proposals to divert funds from gray economy to socially useful purposes determined

Based on the proposal of citizens and civil sector representatives in the framework of the campaign "Be Responsible. It's up to you. 0% Gray Economy", the list of investment proposals of general public importance was established, open for voting to the applicants via mobile apps and the website "Be Responsible," in the continuation of the campaign. The list includes the following projects: the purchase of gastro and colonoscopy equipment for the Institute for Childhood Diseases, Clinical Center of Montenegro; the purchase of teaching equipment and exterior furniture for

all public preschools in Montenegro; the reconstruction of the psychogeriatrics building at Residential Care Home in Risan; the furnishing and decorating of daycare centers for children and youth with disabilities in Cetinje, Nikšić, Plav and landscaping of the park at Ćemovsko polje. According to the rules of the campaign, starting from 1 February to 31 March 2014, citizens who report on entities failing to issue fiscal receipts, engaging in moonlighting or violating consumer rights, will have the opportunity to vote on the investment proposals and thus divert funds from the gray economy to concrete socially responsible projects. Acting on complaints of citizens reported within the framework of the project "Involving Citizens in Combating Gray Economy", inspection services have so far imposed fines in excess of EUR100,000, thereby providing funding for a project receiving the most votes of applicants.

31 January 2014 - Pre-Accession Economic Programme of Montenegro 2013-2016 sent to Brussels

The Ministry of Finance submitted to the European Commission in Brussels the Pre-Accession Economic Programme of Montenegro 2013 - 2016. The Pre-Accession Economic Programme (PEP) is a key document that a candidate country for the EU accession should prepare in the framework of multilateral fiscal surveillance. It defines the goals of the economic policy, macroeconomic and fiscal framework and structural reforms for the period 2013-2016. The program presents two macroeconomic and fiscal scenarios, the base and low-growth scenarios. It is estimated that the Montenegrin economy is to achieve a real growth of 2.6% in 2013. The key assumptions of the base macroeconomic scenario are based on the continuation of fiscal consolidation and the running of an investment cycle. Real growth for 2014 is projected at 3.6%. The Ministry of Finance has extensive cooperation with the European Commission in the framework of the Economic Dialogue, which in addition to the preparation of the PEP, includes economic projections made three times a year.

31 January 2014 - January's revenues exceed the plan and achievements of the previous year

The January budget revenues amounted to EUR70.3 million, an increase of EUR7.9 million or 12.6% compared to the plan. Revenues in January 2014 at the same time increased by EUR15.6 million, or 28.4% y-o-y. Besides the significant increase in revenues, the structure of improvements was also positively evaluated. The increase was recorded in the collection of corporate income taxes, revenues from value added tax and revenues from contributions. The growth in the mentioned sources of revenues indicates that a slight

increase in economic activity has been reported compared to January last year, while the collection of tax revenues was improved as a result of continuous efforts by relevant authorities, aimed at combating all forms of gray economy.



31 January 2014 - Seminar for beneficiaries of strategic projects within the IPA Adriatic Cross-Border Cooperation Programme

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) organized a seminar for beneficiaries of the strategic projects within the IPA Adriatic Cross-Border Cooperation Programme. Specifically, at the first call for proposals for strategic projects within the IPA Adriatic Cross-Border Cooperation Programme, 11 projects were approved, implementation of which will include 14 Montenegrin institutions, together with beneficiaries from other participating countries of the program. The implementation of the above projects aims to protect natural and cultural resources of the participating countries of the program, which, along with the strengthening of economic, social and institutional cooperation between partner countries in the program, leads to the strengthening and integrating of existing infrastructure networks of great importance for all participating countries in the program. The total committed budget for this call for Montenegrin beneficiaries amounts to EUR4,164,286.85. The aim of the seminar is to introduce end-users of strategic projects within the IPA Adriatic Cross-Border Cooperation Programme to the basic rules and procedures for the implementation of projects.

31 January 2014 - Intesa Bank interested in cooperation with Montenegro

Director General of the State Treasury Mr. Miodrag Radonjić and his associates met with the representatives of Intesa Bank (San Paolo) from London, Mr. Nerijus Damanskas and Mr. Eimaitis Simonas and the representatives of the Bank of Zagreb (part of Intesa Bank Group), Mr. Hrvoje

Bujanović and Mr. Goran Kursani. Director Radonjić introduced the representatives of these financial institutions to the macroeconomic and fiscal situation in Montenegro and the perspectives of development, as well as plans related to the provision of funding for the state budget this year. The representatives of Intesa Bank have expressed a positive attitude towards the activities of the Ministry of Finance and praised Montenegro's progress when it comes to improving fiscal stability. Mr. Damanskas expressed willingness of the financial institution to improve cooperation with Montenegro and provide funding for the state budget, and in other areas. They agreed they should focus on improving cooperation in the future.



6 February 2014 - Statement by the Director General of the Directorate of Budget in the Ministry of Finance, Mr. Nikola Vukićević, on the Decision on borrowing and issuing guarantees of Montenegro for 2014

"The Government today adopted a Decision on borrowing and issuing guarantees of Montenegro for 2014. The Decision represents the operationalization of the provisions of the 2014 Budget Law, adopted by the Parliament in late 2013. The Budget and now the Decision specify that the Government is allowed to borrow EUR118 million during 2014 for capital and development projects, of which EUR10 million from the Council of Europe Development Bank, EUR20 million from the European Investment Bank, EUR20 million from the European Bank for Reconstruction and Development and EUR68 million from the World Bank. All projects are specified in the Decision by lenders and by amounts planned to be borrowed. Regarding funding, it is envisaged that the Government may borrow up to the amount of EUR240 million, which amount will be used to cover the regular budget spending, including also the refinancing of existing debt or repayment of debt and liabilities from the previous period, so that the new debt or net debt will not amount to EUR240 million, but less the difference between that amount and the amounts used for debt repayment. Also, the Decision stipulates that the government

can borrow from the Chinese Exim Bank the amount of EUR800 million to finance the construction of priority part of the highway, the Government may issue guarantees up to EUR25 million for cable project that will connect Tivat and Podgorica and it is envisaged to take over debts in the amount of EUR6.1 million.”



6 February 2014 - Statement by the Ministry of Finance spokeswoman Ms. Marija Radenović on determining Draft Law on Hydrocarbons Tax

“The government adopted today the Draft Law on Hydrocarbons Tax, which introduces a new tax levy and creates a policy of taxing the profit from the performance of upstream operations, including: the extraction of hydrocarbons (oil, gas, etc.) from the deposits; the construction, use of installations and ancillary equipment for the production and delivery of hydrocarbons, oil and gas and others. Bearing in mind that this represents the exploitation of non-renewable natural resources and the practice of States that have adopted this type of tax (starting from the ground established within the document Fiscal Policy on Upstream Hydrocarbon Industry), it is proposed that the tax rate for income from upstream operation amounts to 59%. The proposal is based on the model of an extra tax on income earned from performing upstream activities, while the gain realized from the exercise of other activities not directly related to the upstream, would be taxed pursuant to the provisions of the Law on corporate profit tax. Hydrocarbons taxpayer is a company or a foreign company carrying out upstream operations, on the basis of a concession contract for the production of hydrocarbons. The tax base is the difference between the income derived from the performance of upstream operations and expenses recognized in accordance with this Law. The Law further regulates the method of calculation and payment of tax on hydrocarbons, as well as adequate penal policy. Revenues from taxes on hydrocarbons shall be distributed in the proportion of 20:80% to the Budget of Montenegro and the Fund for Hydrocarbons which will be formed in the future. The way of distribution and use of the funds by the Fund will be defined by special regulation.

The proposed solution is a continuation of the creation of an efficient fiscal system that includes a stable, predictable and transparent tax policy in the long term and at the same time creates conditions for reliable and attractive environment for investment in exploration and production of hydrocarbons in Montenegro.



11 February 2014 - Seminar on “State Aid and Regional Development”

The seminar on “State Aid and Regional Development” was organized on 11 February 2014 by the Ministry of Finance and SAM Project (Strengthening State Aid Management in Montenegro), co-financed by the European Union and implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH). The aim of the seminar was to introduce the representatives of institutions, providers of state aid, to the substance of the new rules in the field of regional state aid and the preparation of new schemes in this regard, as well as guidelines for better and more efficient preparation of the document Regional Development Strategy of Montenegro 2014-2020.

27 February 2014 - Campaign Be Responsible - EUR100,000 raised for two investments of general public importance

Acting on complaints of citizens reported within the framework of the project “Involving Citizens in Combating Gray Economy”, inspection services up to 27 February 2014 imposed fines in excess of EUR200,000 on entities failing to issue fiscal receipts, engaging in moonlighting or violating consumer rights. According to the decision of the Government, half the value of any fines imposed by the reports of citizens via mobile and web applications “Be Responsible” or call centers of the Inspection Directorate (080 555 555) and the Tax Administration (19707) will be invested in projects of general public importance. Therefore,

the funds for the realization of two investments of general public importance have been raised in the total amount of up to EUR100,000, and fundraising will continue until the end of the public campaign on May 1, 2014. This provides the possibility to raise additional funds, depending on citizen activism and the amount of the fines imposed by their reports, for more than two projects from a set list of proposals that get the highest number of votes of the applicants. According to the rules of the campaign, citizens who until March 31, 2014 report on the entities failing to issue fiscal receipts, engaging in moonlighting or violating consumer rights will have the opportunity to vote on the investment proposals. These are the following projects:

- Acquisition of gastro and colonoscopy equipment for the Institute for Childhood Diseases, Clinical Center of Montenegro;
- Acquisition of didactic equipment and exterior furniture for all public preschools in Montenegro;
- Reconstruction of the psychogeriatrics in the Residential Care Home in Risan;
- Furnishing and decorating daycare centers for children and youth with disabilities in Cetinje, Nikšić, Plav; and
- Landscaping of the park at Čemovsko polje.

The campaign is part of the project “Involving Citizens in Combating Gray Economy”, implemented in collaboration of the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP) in Podgorica.



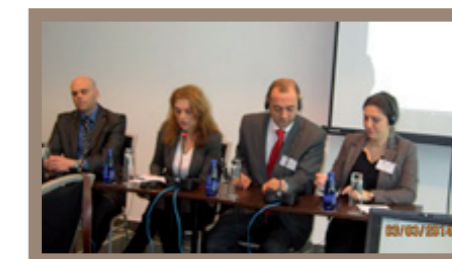
27 February 2014 - First round of negotiations for the conclusion of the Treaty on the Avoidance of Double Taxation between Montenegro and the Kingdom of Spain

In the period from 25 to 27 February 2014, the first round of negotiations between the delegations of Montenegro and the Kingdom of Spain have been held in Podgorica, concerning the conclusion of the Treaty on the Avoidance of Double Taxation and Prevention of Tax Income Evasion. During negotiations, agreement was reached on most of the matters governed by the Treaty. Both delegations

expressed their readiness to conclude the Treaty as soon as possible, as it would provide for the elimination of double taxation on income of residents of both Contracting States, the removal of tax barriers to foreign investment, application of the principle of equal tax treatment of natural and legal persons of the Contracting States, promotion of scientific, cultural and sports cooperation and political relations of the Contracting States.

28 February 2014- Budget revenues maintained an upward trend in February - The plan and achievement of the previous two years exceeded

According to preliminary data from the Ministry of Finance, budget revenues for the first two months of 2014 amounted to EUR151.7 million - EUR21.2 million, or 16.3% more y-o-y. Revenue of EUR151.7 million exceeded the ambitious plan for the first two months of 2014, by 6.7%, or EUR 9.5 million, as well as the achievement of 2012, by 30.2%, or EUR35.2 million in absolute terms. The largest contribution to growth was recorded in revenues from value added tax, which for the first two months 2014 amounted to EUR63.6 million, which is, in relation to the plan, by 14.1%, or EUR7.8 million more, and by 27.7%, or EUR13.7 million more y-o-y. Reasons for positive deviation in revenues during the first two months of the current year are the realization of the fiscal consolidation measures, growth in the economic activities, as well as improved collection of tax revenues, as a result of activities that the competent authorities apply in the suppression of the gray economy. A decline was recorded in revenue from excise duties, compared to the planned amount, indicating that the market of excise products still generates significant shadow economy, and will be subject to special attention by the competent authorities in the future.



3 March 2014 – The meetings of working groups in the field of internal audit held in Budva

PEMPAL Internal Audit Community of Practice, in cooperation with the Ministry of Finance, organized the 27th meeting of the working group on “Risk Assessment” and

the 28th meeting of the working group on “Evaluation of Quality” in the area of internal audit. The Director of the Directorate for Central Harmonization at the Ministry of Finance Ms. Ana Krsmanović opened the aforementioned meeting through an introductory statement stressing the importance of the PEMPAL Community for Montenegro. The objectives of these meetings were exploring and sharing experiences of PEMPAL Member States, as well as the exchange of ideas and techniques in risk assessment and evaluation of quality in the area of internal audit.

11 March 2014 - Campaign Be Responsible - Expanded scope of Be Responsible application users

Advanced technology solutions of the website and mobile applications “Be Responsible” are available from the beginning of March to iPhone and iPad device users so they can join the fight against the gray economy. Developed by the Creative Team of the Faculty of Electrical Engineering (ETF), the iOS app is compatible with the latest development standards of iOS 7 operating system, and can run on the iPhone and iPad devices with the operating system iOS 6 or more. Citizens can report on the cases of gray economy over the Web, Android and iOS apps “Be Responsible” and by dialing the call centers of the Tax Administration (19707) and the Directorate for Inspection Affairs (080 555 555).

14 March 2014 - The campaign of increased supervision over the trade of tobacco products yielded results

The Ministry of Finance held a third meeting of the Working Team for combating gray economy at the tobacco market, composed of the representatives of the Tobacco Agency, Tax Administration, Customs Administration, Directorate for Inspection Affairs and the Police Directorate, formed at the initiative of the Commission for the suppression of gray economy. The meeting concerned the results of implemented activities in increased supervision over the trade of tobacco products, which, in accordance with the agreement of the previous meeting of the Team were intensified in the previous week. According to data from the Directorate of Inspection Affairs, in the period from 3-10 March, market inspectors, assisted by members of the police, conducted 505 inspections in which 55 irregularities were established, related to the lack of evidence of procurement of goods subject to trade. In all 55 cases, measures have been taken to seize the goods of a total value of EUR7,206.55. Inspectors have submitted 25 requests for misdemeanor proceedings, while a misdemeanor warrant was issued in one case. The highest number of irregularities, according to the records of inspection bodies, were registered in Podgorica.

31 March 2014 - Campaign Be Responsible - Citizens voted for projects of social significance, EUR100,000 euros for first-ranked

Acting on complaints of citizens reported in the framework of the project “Involving Citizens in Combating Gray Economy”, inspection services until 31 March 2014 conducted more than 800 controls and imposed fines exceeding EUR270,000 on entities failing to issue fiscal receipts, engaging in moonlighting and violating consumer rights. By the Decision of the Government, half of the funds are earmarked for investment in projects of social importance, for which the applicants voted from 1 February to 31 March 2014. From a total of 397 votes, the most votes went to the project for the procurement of gastro and colonoscopic equipment for the Institute for Childhood Diseases of the Clinical Center of Montenegro, a total of 156 votes, followed by project of furnishing and decorating daycare centers for children and youth with disabilities in Cetinje, Nikšić and Plav, with 79 votes. EUR50,000 will be invested in the implementation of the two mentioned projects as provided in the Rules of the Campaign. In order to implement these projects, the Ministry of Finance will provide adequate budget and sign contracts with those institutions, with defined deadlines for the provision of equipment, i.e. execution of works. The Institute for Childhood Diseases, Clinical Center of Montenegro, is in charge of the acquisition of the gastro and colonoscopic equipment, while Day care centers in the municipalities of Cetinje, Nikšić and Plav are in charge of the implementation of the runner-up project. The campaign “Be Responsible. It’s up to you. 0% Gray Economy” united the state institutions, civil sector and citizens in the fight against this negative social phenomenon, which created a successful partnership in addressing this important social issue. One indicator of the success of the project is that Android and iPhone apps “Be Responsible”, developed by the Faculty of Electrical Engineering, were downloaded by about 1,800 citizens in a little more than three months. Raising funds to be invested in other projects from the list of proposals based on the number of votes continues until 1 May 2014. If the current trend of citizens’ participation in the campaign continues, it is expected that funds will soon be raised for the third project: Landscaping of Čemovsko polje, which was initiated by the NGO Green Home and Ozon. The total value of this investment is 50,000 euros, and so far more than 35,000 euros were provided. The campaign is part of the project “Involving Citizens in Combating Gray Economy”, implemented in collaboration of the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP) in Podgorica.



3 April 2014 - Statement by the Director General for Central Harmonization at the Ministry of Finance Ms. Ana Krsmanović after the Cabinet meeting on the occasion of determining the Draft Law on Amendments to the Law on internal financial controls in the public sector

“The reason for amending the Law is the need to improve the system of internal financial controls in the public sector, as one of the key elements of the fiscal sustainability of the budget, and to fulfill the obligations from Chapter 32. As the institutions in the public sector had a lot of difficulty in engaging the internal auditors in the previous period, it is our objective, in accordance with the standards, to improve the conditions for employment of internal auditors through these amendments, and to appoint the necessary number of internal auditors in the public sector. Changes to the law also relate to adjustment of the terminology or enhancement of standards, in order to strengthen the managerial accountability, which is one of the key challenges in our process of negotiations with the European Union, as well as challenges for the better functioning of the state administration... As for the Action Plan, planned activities related to ensuring the sustainability of public finances in the short and medium term through adequate financial management, planning, reporting, performance measurement and establishment of control mechanisms that will give managers a sufficient degree of security in delegating responsibilities of the tasks. Reforms related to the organization modes of public administration and budget accounting process in the public sector as a process of improving and strengthening the accountability of managers are inseparable from the further improvement of the system of internal financial controls. Therefore all of the activities mentioned, which the Ministry of Finance in cooperation with all public sector institutions will implement in the future, need to ensure complementarity of the reforms and contribute to responsible, transparent, efficient and cost-effective management of national resources and later the European Union funds.”



4 April 2014 - Seminar on State Aid for the Judiciary

The Ministry of Finance, with the support of the German organization GIZ, a partner in the SAM project (Strengthening State Aid Management), organized the Advanced Seminar on State Aid intended for the justice sector. The theme of the second seminar of the kind was “Utilization of tax measures and interventions of the State under market conditions - whether and when the state aid is present?”. The President of the State Aid Control Commission, Mr. Mitar Bajčeta, in his opening speech expressed hope that the meeting, which aims to further raise awareness of the Montenegrin judiciary in the field of state aid, will contribute to more easily recognizing the situations in which the rules of state aid apply, in the event of: tax measures and State participation in the share capital of the companies; providing loans and guarantees; the sale of state land and buildings, and the privatization of public enterprises. Mr. Bajčeta expressed the belief that the representatives of the judicial system will be ready to take the necessary actions in a timely manner, in case a proceeding is initiated before the court, in accordance with national legislation. The guests were welcomed by SAM Project Leader, an expert on state aid Ms. Daiga Lagzdina, who reminded of the importance of aligning state aid rules with other rules governing the legal system of a country, but also stressed the importance for the important social actors, such as judicial officials, to understand the complex policy in this area. The lecturer was Mr. Peter Stavicki, Permanent Representative of the Republic of Hungary to the EU, who in addition to a meaningful lecture, encouraged a lively exchange of views and experiences of the participants in this field, during which they clarified certain doubts in the understanding of the area, which has shown the increased level of awareness of the participants. The seminar ended with the conclusion that it is necessary to strengthen cooperation in this field and encourage the exchange of experiences and the introduction of new facilities through the organization of similar events.

11 April 2014 - Be Responsible campaign prolonged - The resources for the landscaping of Čemovsko polje provided

The campaign “Be Responsible. It’s up to you. 0% Gray Economy”, which is part of the project “Involving Citizens in Com-

bating Gray Economy” will be extended until the end of 2014.



Since the beginning of the project, citizens have pointed to more than 1,000 irregularities in the field of issuing fiscal bills, the moonlighting and the violations of consumer rights, on the basis of which the inspectors imposed fines in excess of EUR300,000. Following the decision of the Government, half of the amount, EUR150,000 will be invested in three projects of general public importance, which received the highest number of votes of citizens: the purchase of medical equipment for the Institute for Childhood Diseases at the Clinical Center of Montenegro, the furnishing and decorating of daycare centers for children and youth with disabilities in Nikšić, Cetinje and Plav and the landscaping of Čemovsko polje. Citizens can point to the irregularities in the field of gray economy through the website, Android and iOS apps “Be Responsible” and by dialing the call centers of the Tax Administration (19707) and the Directorate for Inspection Affairs (080 555 555). The project “Involving Citizens in Combating Gray Economy” is being implemented in cooperation between the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP) in Podgorica.



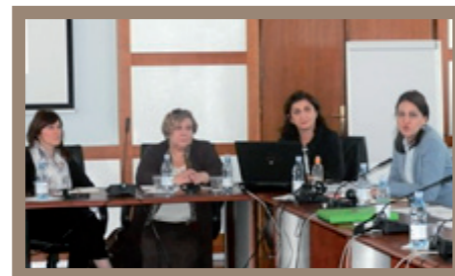
28 April 2014 - Campaign “Be Responsible”: Funding for the Residential Care Home in Risan provided

Within the project “Involving Citizens in Combating Gray Economy” funds were raised for the implementation of the fourth project - the reconstruction of the Department of Psycho-

geriatrics at the Residential Care Home in Risan. Residential Care Home “Grabovac” in Risan exists there since 1947 and was until recently the only state-run institution of the kind in Montenegro. 317 people are accommodated in the Home. The building of the Department of Psychogeriatrics is outdated and needs to be overhauled, and the estimated value of the procurement is about EUR48,000. Due to the significant participation of citizens in reporting about the cases of gray economy and the action of inspection bodies, more than EUR200,000 were so far collected for the projects of general public importance, while half the amount by the decision of the government, was allocated for the financing of projects of general public importance proposed and voted for by the citizens themselves. The campaign “Be Responsible” is realized within the framework of the project “Involving Citizens in Combating Gray Economy”, implemented in collaboration of the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP) in Podgorica. The project will be implemented and supported by the British Embassy in Podgorica of May 2014.



30 April 2014 - The Ministry of Finance published Bulletin XXXI



6 May 2014 - Training on Financial Management and Control organized

The Ministry of Finance organized a training on financial management and control, as part of development assistance

provided by the Croatian government to the Republic of Montenegro, and the implementation of a bilateral agreement signed between the Ministries of Finance of the Republic of Croatia and Montenegro. Training participants were welcomed by the Ambassador of the Republic of Croatia in Montenegro, H.E. Ms. Ivana Sutlić Perić. The aim of the training is to transfer the experiences of the Republic of Croatia in the area of financial management and control, with special emphasis on the areas of managerial accountability and risk management. The training was held by Mrs. Mladenka Planinić and Mr. Ivan Kurjan, the representatives of the Central Harmonization Unit at the Ministry of Finance of the Republic of Croatia.



6 May 2014 - Seminar on the Audit of IPA Funds

The Directorate of Finance and Contracting of the EU Assistance Funds (CFCU) at the Ministry of Finance, this year also in collaboration with the Human Resources Management Authority, as well as the German consultancies GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and IEP (Institute für Europäische Politik), organized a two-day Seminar on IPA Funds Audit. The main objective of the seminar was to familiarize the participants with the roles and responsibilities of the Audit Authority and the Internal Audit Unit in respect of the audit of IPA funds, rules and procedures of their work, the differences in the audits to be performed by the said bodies, as well as cooperation with other IPA bodies. Participants had the opportunity to learn about the practical examples of different methodologies in implementing audits. Lectures were given by the representatives of the Agency for the Audit of European Union Programmes Implementation System, Mr. Neven Šprlje, Director of the aforementioned agency, and Ms. Biserka Šerbinek Milinković, Assistant Director. The seminar was intended for the representatives of the Audit Authority, officials involved in the Internal Audit Units in the ministries which established Project Implementation Units (PIU), the representatives of the Project Implementation Unit (PIU), officials for the implementation of the IPA III and IPA IV, the representatives of the Directorate of Public Works, the representatives of the

Ministry of Foreign Affairs and European Integration, as well as the representatives of the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU).



16 May 2014 - The Standard and Poor's confirmed the credit rating of Montenegro

Credit rating agency Standard and Poor's has published a new report on Montenegro, confirming its earlier credit rating - BB-/B. The report states that Montenegro exceeded rating agency analysts' expectations regarding the achieved economic growth and budgetary performance in 2013. According to experts, the results achieved should contribute to the reduction of government debt in the future. Standard and Poor's notes Montenegro's progress in the process of fiscal consolidation, as well as in improving the business environment, and highlights that the process of European integration and the implementation of structural reforms will bring further improvement in this area. The success in fighting the recession, i.e. the attainment of economic growth of 3.5% in 2013 is particularly highlighted. A significant driver of growth of the Montenegrin economy is, in S&P's opinion, the tourism sector, as it has great potential for further development. The rating agency analysts expect that the direct foreign investment in the coming three years will reach about 13% of GDP (per year), while the growth rate for the same period, is expected to be about 3.3%. Standard and Poor's analysts underline, however, that the external position of Montenegro is still weak, due to the high level of the balance of payments deficit, which is characterized as a key vulnerability, as well as the lack of monetary flexibility. It is realistic to expect that the upcoming infrastructure projects will increase imports, leading to a slight increase in the current account deficit in the period from 2014 to 2017, but as was pointed out in the report these projects will undoubtedly increase the capacity of the economy, especially in the energy sector and tourism. The professional team of the S&P agency recognized the construction of the highway as a fiscal risk, which may have implications on the national debt and external indicators. The report particularly commended a surplus of public spending for the first time in six years, which, excluding guarantees paid during 2013 amounted to 0.4% of GDP. This success, according to S&P experts, was

contributed most by the implementation of a set of measures of fiscal consolidation. The confirmation of Montenegro's rating by a reputable rating agency is a good news and an additional incentive for continued implementation of policies aimed at further stabilization of public finances. We expect, however, that in the upcoming period, positive trends and results achieved will be identified to an even greater extent and will be adequately expressed through a higher opinion of the Montenegro's credit rating. The Ministry of Finance remains committed to creating and implementing economic policies aimed at fiscal sustainability, bank stability and strengthening the competitiveness at micro and macro level.



3 June 2014 - Seminar on risk management of projects financed through the IPA funds

The Directorate of Finance and Contracting of the EU Assistance Funds (CFCU) at the Ministry of Finance in cooperation with the Human Resources Management Authority and German consultancies GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and IEP (Institute für Europäische Politik), organized a two-day seminar on Risk management of projects financed through the IPA funds. The seminar was organized in order to familiarize participants with the basic rules that should be followed in identifying, managing and controlling risks at the level of projects funded by the EU, as well as the procedures used for reporting and monitoring risks. Also, the purpose of the seminar was to familiarize the participants with the most important activities to be undertaken to mitigate the potential risks and impacts of risk in different stages of projects. The seminar participants had the opportunity to familiarize themselves with the basic procedures in determining and comparing the degree of risk of various IPA projects. Lectures were held by Mr. Davor Kozina, Head of the Methodology and Standards within the Department for Harmonization of Internal Audit and Financial Control at the Croatian Ministry of Finance.



4 June 2014 - Successfully completed first phase of the campaign "Be Responsible;" imposed fines in the amount of EUR500,000 following citizens' complaints

Within the project "Involving Citizens in Combating the Gray Economy", the citizens in the past six months reported on more than 1,500 cases of gray market abuse to the competent authorities, resulting in inspection controls and the imposition of fines in the amount of EUR500,000. As required by the rules of the campaign, half of the amount, EUR250,000, will be invested in the implementation of all five proposed projects of general public importance. After the successful completion of the first phase of the campaign Be Responsible, the government decided to continue with the campaign until the end of 2014, which will allow for further fundraising for the realization of projects of general public importance, nominated by votes and supported by the citizens themselves. To this end, a new round of consultations with citizens and relevant institutions will be conducted to discuss how to invest funds raised in the continuation of the project and to introduce a new category of irregularities, which citizens will be able to report during the upcoming tourist season - "Irregularities in bathing areas".



13 June 2014 - Campaign "Be Responsible" won first prize at a prestigious competition in Washington, DC

The United States National Association of Government Communicators (NAGC) has awarded public campaign "Be

Responsible. It's up to you. 0% Gray Economy" with the First Prize in the category of Mobile Communications at the annual contest "Blue Pencil & Gold Screen Awards." The prestigious award was presented to the Montenegro's campaign in the competition with the best communication projects that were nominated this year by the American public institutions at the federal, state and local levels. Winning statue was presented to the coordinator of the campaign from the Bureau of Public Relations of the Government of Montenegro, Mr. Vuk Vujnović, at a ceremony organized at the National Press Club in Washington. "This success is primarily indebted to responsible citizens who not only assisted the competent authorities to be better and more efficient in the fight against the gray economy, but also diverted a significant amount of money from the gray zone into socially responsible projects. Also, we share this award with our partners at the Faculty of Electrical Engineering, University of Montenegro, UNDP Office in Montenegro and the British Embassy in Podgorica, without whose advanced academic knowledge, technical and financial support this campaign would not have been possible," said Mr. Vujnović. Explaining the reasons for the award of this important recognition, NAGC President Mr. John Verrico said: "The jury was impressed by the success with which the Government of Montenegro managed to combine resources and knowledge that exist in the Montenegrin society and motivate citizens to get involved in solving one such important and sensitive economic issue." The award-winning campaign is conducted in the framework of the project "Involving Citizens in Combating the Gray Economy", which the Government of Montenegro implements in cooperation with the Faculty of Electrical Engineering in Podgorica, UNDP Office in Montenegro and the British Embassy in Podgorica.



26 June 2014 - Statement by the Director General for Economic Policy and Development in the Ministry of Finance Ms. Iva Vuković after the Cabinet meeting adopted the Report on the implementation of the Development Directions of Montenegro 2013 - 2016, in 2013

"...By the adoption of the Development Directions, Montenegro has fulfilled its obligation in determining the socio-economic development vision as a candidate for membership in the European Union. Development Directions are made

in accordance with the Strategy Europa 20-20, which was a long-term response of the European Union to the crisis, which has set as a priority objective the improvement of the lives of citizens while respecting certain priorities. The Development Directions have been prepared in accordance with the three priority directions of development, namely: smart growth, sustainable growth and inclusive growth. In this framework, we defined 19 development policies and 72 measures necessary to achieve long-term development of Montenegro...The results of the report indicate that there was a considerably more favorable macroeconomic environment in 2013 than in the period when the main document was adopted. Therefore, the results show that the structure of investments in 2013 significantly improved compared to the structure identified in the Development Directions 2013-2016. The document also provides a review of the investments at the state and local levels, which increased the value of this document. Our obligation now is to in future update investments on quarterly basis and ensure the allocation of funds by years up to 2016. The report contains the investment structure showing that there was an improvement in favor of smart growth, as growth from 2% in the initial document reached 9.32%, sustainable growth is 66.6%, while within the inclusive growth 24% investments remain..."



2 July 2014 - Seminar on "de minimis"

The Ministry of Finance and Project "SAM" (State Aid Management - strengthening of management capacities in state aid), have organized a seminar on "Concept de minimis aid" (small amount of aid). The aim of seminar was to help the participants to learn basic principles of state aid policy, and general concept of "de minimis aid", including principle of accumulation. De minimis aid (small amount of aid) is used in order to describe small amounts of state aid that do not require compliance with any rule in terms of the maximum intensity of aid or eligible costs. The seminar was opened by the Leader of the Project "SAM", Daig Lagzdin, and in addition to the theoretical part of the training, Dace Berklode and Ester Hargita have organized practical exercises within working groups. The seminar, organized with the intention to improving the level of awareness of institutions that are providers of state aid on the adoption

of principle de minimis aid with focus on current regulations, procedural requirements, and limitations that must be respected, is one of series of seminars designed as a part of the "SAM" Project, co-financed by the European Union and implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH).



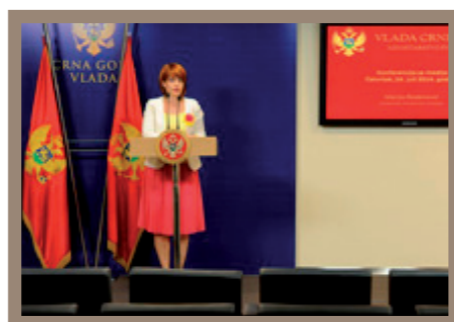
3 July 2014 - The second round of negotiation for signing Double Taxation Avoidance Agreement between Montenegro and Portugal was held

During the period from 1st to 3rd July 2014, in Podgorica was held second round of negotiations between delegations of Montenegro and Portugal Republic for the conclusion of Agreement on Avoidance of Double Taxation between Montenegro and Portugal Republic, as well as on the prevention of tax evasion on income.

During negotiations, agreement was reached on tax issues that remained open after first round of negotiations, except in part that relates to the protection of personal data. Both delegations expressed their readiness to immediately come to the conclusion of the contract, which would ensure the elimination of double taxation of income of a resident of both Contracting States, the removal of tax barriers to foreign investment, applying the principle of equal tax treatment of natural and legal persons of the Contracting States, the promotion of scientific, cultural and sports cooperation, as well as the political relations of the Contracting States.



22 July 2014 - Ministry of Finance published Bulletin XXXII



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

„...In 2014 we continued with significant activities in fight against the grey economy, primarily through the work of the Commission for Combatting the Grey Economy and through the work of more operational teams, formed with the aim of focusing the activities on those segments in which the degree of perception of grey economy is the highest, such as: labour market, market of excisable products, issuance of fiscal receipts and the like. These activities are defined in the Action Plan for Combatting the Grey Economy and are divided into two major groups: operational and legislative activities. Those activities were also followed by strong media campaign, aimed at raising awareness of the citizens on harmful effects of the grey economy within which was realized Project "Be responsible", which allowed the participation of civil society in fight against the grey economy.... All these implemented activities had significant effects on the economic growth which, according to preliminary data from the Ministry of Finance, in the first half of the year, reflected in income amounting EUR 574.7 million, which is EUR 30 million more than planned and EUR 56.1 million more comparing to the same period of the last year.

These data suggest that this systematic approach in the fight against the grey economy is justified, because in addition to increasing budget revenues other two objectives are being achieved: improving fiscal discipline and creating fair conditions for business ... The Government has also adopted a Decision on the allocation of conditional grants that represent transfers by the state to local governments for implementation of infrastructure projects and co-financing of certain development projects, which are mostly funded by donations. Montenegro is currently implementing the intermunicipal development grant program, which is intended for all muni-

cipalities and which includes the implementation of the five joint projects with a total value, according to one estimate value, EUR 2.6 million. Most of the funds is provided by the funds of the European Union, the IPA funds, while the obligation of the state was to co-finance the amount of EUR 0.44 million. This obligation partly conducted by the state last year when the budget allocated EUR 200 thousand, and by the current decision, which was adopted by the Government, for this purpose there has been allocated EUR 198 thousand to be paid by the end of the year, while the remaining part of the funds will be provided through the budget for 2015. Completion of these projects is expected by September 2015, and their implementation will improve infrastructure, inter-municipal cooperation, and their implementation will increase the competitiveness of local governments and ultimately improve the living conditions of the local population. "

8 August 2014 - Large quantity of tobacco seized

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

8 August 2014 - Continued intensive controls of tax payers

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

In 110 out of them irregularities were found, because of which were issued 113 fines, with total amount of EUR 202.330, as well as 17 orders for criminal proceedings. In addition, the measures imposed prohibition of activities to six persons, or sealing the four facilities. The focus of the inspectors of the Tax Administration was directed to the taxpayers in the northern municipalities: Berane, Plav and

Gusinje, where within the inspections, 02 and 03 August, observed numerous irregularities in accordance with the law imposed adequate measures.



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

Campaign "Be responsible. It's up to you. Grey Economy 0%" was promoted in Podgorica, on the coast and at the border crossings, through distribution of leaflets, putting up the posters and citizen surveys on the subject of proposing socially useful projects where should be invested half of the amount of fines imposed by the reporting of citizens. The campaign was supported by numerous companies and institutions. With a great support of the Police Department of the Ministry of Interior Affairs, the campaign was also promoted at the busiest border crossings: Sukobin, Dobrakovo i Ranče. Tourists who enter the country received bilingual leaflets in order to learn how they can react if there is an irregularity in the bathing areas, avoidance of issuing fiscal receipts or violation of consumer rights. Promotional materials is also available at the airports in Podgorica and Tivat, and in ports of Kotor and Bar. During the citizen surveys a large number of projects of social importance was collected. Since the beginning of Phase II of the Campaign there was collected 117,000 EUR for new projects.



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

In cooperation between the Ministry of Finance of Montenegro and SAM Project (Strengthening of institutional

capacities of Montenegrin state aid authorities “State Aid Management in Montenegro”), was held seminar “State Aid and Structural Funds”.

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

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

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

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

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

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

a short list of initiatives of citizens is determined based on the following criteria: general social importance (it’s required that the project involves an investment in the field of general interest), sustainability (it is essential that the relevant public institution, which is able to ensure sustainability of the proposed initiative, confirms its readiness to support and realize the proposed investment according to clearly defined deadlines and within the planned budget) and equal regional representation (final list of proposed projects was prepared by taking into account the equal regional representation of projects). The list, prepared according to the above criteria was unanimously determined by the Representatives of Montenegrin Government, Faculty of Electrical Engineering in Podgorica UNDP Montenegro and contains the following projects: Supply of medical equipment for resuscitation of infants; Supply of apparatus for mechanical ventilation (respirator) for infants; Construction and equipping of a part of the Special Hospital for Psychiatry “Dobrota”, in Kotor; Equipping the city parks and day care centres with mobiliaria for children with disabilities; Procurement of equipment allowing employment of persons with disabilities; Equipping the Day Care centres for children and youth with disabilities in Bijelo Polje, Mojkovac and Ulcinj; Procurement of sound traffic lights for persons with visual impairment; Support of old persons on the territory of Old Royal Capital Cetinje; Project “Safe pensions”; Line of credit for start-up of businesses for women and youth in less developed areas; Supply of vessels composting household waste in Montenegro; Establishment of an educational centre for waste management in Podgorica; Project “Let’s clean up Montenegro”; Establishment of Youth Centre in Podgorica; Renovating and equipping of parks and playgrounds in Nikšić; Reconstruction of sports and recreation fields in Berane; Construction of shelters for abandoned animals and pet pensions. Citizens who, during the period from 18 September to 15 December 2014 report the irregularities regarding fiscal accounts, moonlighting, violation of consumer rights or irregularities in the bathing areas, will have the opportunity to vote for investment proposals and thus reallocate funds from the grey economy to the particular socially useful purposes.



19 September 2014- Seminar “Pilot audits in municipalities”

The Ministry of Finance held training for internal auditors

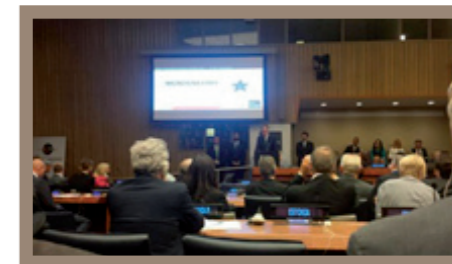
at local and central level, on “Pilot audits in municipalities”. The training was organized in collaboration with Project „Strengthening the Management of EU Funds and General Administrative Procedures”. The aim of the training was to familiarize the internal auditors with the planned pilot audits, and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



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

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

of begging of investment activities with the involvement of local resources, primarily in the construction sector, as well as the implementation of the structural reforms which are planned in the following period...”



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

In competition of the best projects in 33 countries around the world that promote citizen involvement in implementing public policy, the campaign „Be responsible. It’s up to you. Grey Economy 0%“ has won the second prize of the Open Government Partnership’s international initiative, at a ceremony held in New York. The prestigious award was given to the Montenegrin campaign due to its contribution to boosting cooperation between civil and public sectors, and active involvement of citizens in implementing public policy. “The Be Responsible campaign teaches us an important lesson – namely, that meaningful and effective collaboration with citizens can provide public authorities with the resources, skills and credibility they need to implement policies more successfully,” Mr Vujanović pointed out. He stated that this project would not have been possible without advanced academic knowledge of representatives of the Faculty for Electrical Engineering in Podgorica, significant support from the UNDP Montenegro and the British Embassy in Podgorica, dedicated work of inspection services, vision and leadership of the Finance Ministry. Also, President of Montenegro thanked responsible citizens and media for their continued support for the campaign “Be Responsible”, as well as non-government organisations, the Centre for Democratic Transition, Institute Alternative, Citizens’ Alliance, Environmental Movement Ozone and NGO Green Home, which supported Montenegro’s candidacy for this prestigious international award.

29 September 2014 - AFCOS seminar

Delegation of the Ministry of Finance, members of AFCOS network, participated the AFCOS seminar held in Sofia, Bulgaria from 24 to 26 September 2014. During the semi-

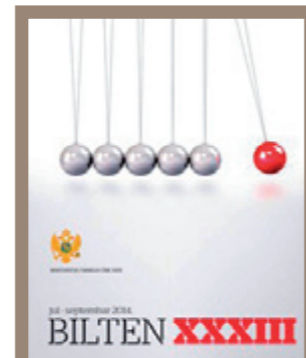
nar which is organized annually by the European Anti-Fraud Office (OLAF), the participants had the opportunity to familiarize themselves with the organizational structure and functioning of AFCOS Member States and candidate countries of the EU. During the seminar there were held group discussions in which participants were exchanging their experience which represented a good opportunity to promote cooperation between countries when it comes to the protection of EU's financial interests, which is main task of this network. Impact of current legal initiatives on protection of the EU's financial interests, cooperation between OLAF and competent national authorities, Anti-fraud Strategy aimed at protection of financial interests, and current challenges regarding irregularity reporting were some of the topics of working groups.

13 October 2014 - Montenegrin delegation with officials from the IMF and the World Bank

During the fall session of the International Monetary Fund and the World Bank, the Montenegrin delegation met with the Deputy Managing Director of the IMF Mr. Min Zhu, Vice-President of the World Bank Ms. Laura Tuck, Executive Director of the Dutch Constituency in the IMF Mr. Frank Heemskerk, World Bank Country Director for Montenegro Ms. Ellen Goldstein, Director of IFC (International Finance Corporation) for Europe and Central Asia, Mr. Tomas Telma, MIGA Executive Vice President Mr. Keiko Honda, IMF Director for Europe Mr. Paul Thomsen et al. The Governor of the Central Bank of Montenegro Mr. Milojica Dakić introduced all of them to the current economic situation in Montenegro. He pointed out that this year a GDP growth of between 2% and 2.5 % is expected. He added that banks are liquid and solvent, and the banking system safe and stable. Mr. Zhu said he will personally pledge to provide technical support to Montenegro and expressed satisfaction with the implementation of the recommendations from the previous programs of technical support. He also stressed the importance of resolving the NPL and adequate credit support by banks for economic growth. With the Vice President of the World Bank, Ms. Laura Tuck, the delegation discussed the current economic situation in Montenegro, challenges for economic growth and the future plans of engagement of the World Bank in Montenegro. The possibility of application of innovative financial instruments was also discussed. At a meeting with Ms. Ellen Goldstein, the Director of the World Bank for Montenegro, the CBM Governor emphasized the excellent cooperation between Montenegro and the World Bank. Ms. Ellen Goldstein stressed the positive results of fiscal consolidation carried out in the previous period. They also discussed the future projects to be supported by the World Bank in Mon-

tenegro. It was agreed that discussions on the issue will continue during Ms. Ellen Goldstein's visit to Montenegro, expected in November.

At a meeting with the IFC, the possibility of support from the institution in the privatization of the shipyard Bijela has been discussed. Also, it was agreed in principle to provide technical assistance for the implementation of Podgorica model. With MIGA representatives, Mr. Dakić discussed the possibility that this institution grants guarantees for loans to small and medium-sized enterprises in the amount of about EUR70 million. They also discussed the possibility of granting a guarantee for development projects in the tourism and energy sectors. At a meeting with the representatives of the IMF it was agreed in principle to provide technical assistance to Montenegro in the area of creating a system of early warning indicators and market risk management.



14 October 2014 - The Ministry of Finance published Bulletin XXXIII



29 October 2014 - Montenegro in the new Doing Business report improved position by six places

The World Bank published a Doing Business Report in 2015, covering 189 national economies. Montenegro was ranked 36th in the new report, among 189 countries and thereby made progress by six places compared with last year's Report. Our country had a constant improvement in the aforementioned reports of the World Bank, achieving a progress in ranking in the period from 2008 until today by even 54 positions. Montenegro's progress in the latest report was achieved primarily thanks to the reforms achieved in the field of "dealing with construction permits," due to the activities carried out in order to reduce the fees for the provision of utility services and the elimination of com-

penetration for the urban-technical conditions of the municipality. Within this indicator, Montenegro has advanced 27 places from last year's revised 165th place to 138th.

A slight decline in the position, due to changes in the methodology of calculation was achieved in the following indicators: "getting credit", "paying taxes" and "trading across border" (down one place), "resolving insolvency" (-2), "getting electricity" (-4) and "starting a business" (-8). This year's Doing Business 2016 report introduced changes in 8 of the 10 set indicators: dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, enforcing contracts and resolving insolvency, primarily by introducing the qualitative aspects of regulations.

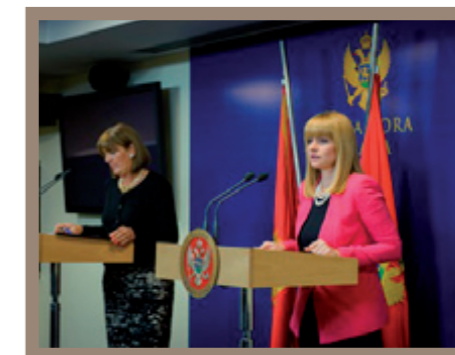
3 November 2014 - The representatives of unions at a meeting in the Ministry of Finance

Assistant Finance Ministers for the Treasury, Central Harmonization, the Financial System and the Improvement of the Business Environment at the Ministry of Finance, Miodrag Radonjić, Ana Krsmanović and Bojan Bošković, met with union representatives of Education, Health, Defense and Armed Forces and the University of Montenegro. The Ministry of Finance met with union representatives to examine the possibility of increasing the salaries of employees in the public sector. The representatives of the Ministry of Finance pointed out that the department is open for a constructive dialogue with the unions that will result in the introduction of greater discipline and a more equitable system of payment of wages, for the purpose of creating a sustainable fiscal system. In this sense, the importance of the new Law on salaries in the public sector was accentuated, which will fully ensure respect for the principles of fairness and transparency in the reward system. In view of the current requirements for increasing the wages, the obligation prescribed by the Law on Budget and Fiscal Responsibility was once again highlighted, in accordance with which it is prohibited to make new borrowing for the purpose of settling the current expenditures.

The Ministry of Finance reiterated at the meeting to give full support to the consideration of current demands for increased wages, provided that the necessary resources are provided from the system of internal reserves and possible further rationalization. Therefore, the union representatives are encouraged to contact the appropriate ministries in charge of identifying internal reserves and finding space for additional savings. After completion of these activities and the potential finding of available resources within the departments, the Ministry of Finance is fully open and ready to engage in finding models for their redirection to increased earnings.

3 November 2014 - Moody's affirms Montenegro's rating, changing the outlook from stable to negative

Credit rating agency Moody's affirmed in its latest report the credit rating of Ba3 for Montenegro, with the change in the outlook, from stable to negative. The report noted that the affirmation of the Montenegro's rating was contributed primarily by a higher level of GDP per capita compared to other countries with the same grade rating, as well as taking the effort in terms of joining the European Union, which reinforces the overall institutional system of the country. The report also commended the acceptance of the fiscal rules of the European Union by Montenegro, as well as leadership in terms of investment, keeping in mind that our country has the highest level of foreign investment per capita in the region, with significant projects in the tourism and energy sectors. In terms of challenges for Montenegro, Moody's listed, first of all, the implications of the fiscal system on the basis of borrowing for highway construction. Also, as in previous reports, it pointed to the challenges of the Montenegrin economy in terms of its scope and a low degree of sectoral diversification. Moody's analysts believe that the low level of domestic savings and a significant share of NPL (non-performing loans) in the banking sector are the limiting factors of the domestic economy. Change in the outlook from stable to negative reflects the position of the Agency that the new borrowing based on loans for the construction of a highway will influence fiscal stability, causing the growth of public debt, and increasing the sensitivity of the Montenegrin economy and finances to external shocks.



6 November 2014 - Statement by the Director General for the Financial System and Improvement of the Business Environment, Ms. Bojana Bošković after a Cabinet meeting regarding the acceptance of the "Government for citizens and businesses" project

The session of the Government adopted the project proposal with the working title "Government for Citizens and

Businesses,” which is yet another in a series of projects that involve collaboration between the government and civil society in the formulation of public policies. Therefore, the project involves the launch of a broad dialogue with the aim of identifying, eliminating excessive regulation and unnecessarily complicated and lengthy procedures in public administration at the local level, which hamper access to public services for citizens and cause unnecessary costs to enterprises. The main tool for initiating this project will be an online platform independently administered by the representatives of the civil sector in Montenegro. This online platform will be developed by the British model of a project called “Red Tape Challenge”, which was declared as an example of best practice in terms of identifying procedures that harm citizens and businesses, and cooperation between the civil and public sectors in defining public policy. The results of this public dialogue will be presented to the Council for the improvement of the business environment, regulatory and structural reforms, which will determine the proposals for the elimination of barriers and then propose them to the Government. The project is being implemented in two phases, the first phase has already been completed and implied the presentation of British experience, and the second phase includes the launch of the beta version of the online platform, for which funds from the Fund for Active Citizenship were obtained, where the best design solution will be rewarded and used in the further phase of the project. What we have changed in relation to the British experience is that the project will be related to business barriers at the local level, as we thought we need to implement the recommendations of the European Commission and the World Bank this way, which have suggested that at the national level we have made a satisfactory level of reform, but that now all reforms should address public services and business sector regulations, at the local level. In this regard, we have identified three municipalities as pilot municipalities, which will take participation in this project, namely the Municipality of Budva, Danilovgrad and Žabljak. They have demonstrated a high level of awareness of the need to participate and be municipalities that will be tailored to citizens and businesses. What is worth noting is that this project will be implemented with the support of partners, first of all, UNDP and the British Embassy in Podgorica. What is good is that this will be a way for the formulation of public policies in cooperation between the civil and public sectors, so that the whole project will be managed by the representatives of civil society, where the moderators of particular sessions will moderate activities, which include proposals by the business community on how to improve the business environment and will then be discussed at the meeting of the Council for Regulatory Reform and Government sessions”.



7 November 2014 - Seminar on the topic „State Aid and Public Companies”

In cooperation with the Ministry of Finance and SAM (State Aid Management in Montenegro) Project, co-financed by the European Union and implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH), a seminar on the topic State Aid and Public Companies has been organized. The aim of the seminar was to raise awareness about the impact of state aid on the operations of public companies. SAM Project leader, an expert on state aid, Ms. Daiga Lagzdina, in her opening speech stressed that the concept of state aid is essential for understanding the EU competition law. EU Member States generally cannot grant state aid, however, the Treaty on the Functioning of the European Union provided a number of exceptions to this prohibition when state aid may be granted, but under strict conditions. Expert of SAM project, Ms. Ester Harghita, explained that the state aid rules apply in cases where the state aid is granted to public companies or by public enterprises. Therefore, in such cases, a thorough examination of the implications of state aid is necessary.



12 November 2014 - Campaign Be responsible: Over half a million euros for projects of common interest

Thanks to the active participation of citizens in the fight against the gray economy, in the course of the campaign “Be Responsible. It’s up to you. 0% Gray Economy” over

half a million euros were diverted from the gray zone to socially responsible projects. Citizens have reported to the competent authorities on more than 3,500 gray economy cases, which resulted in inspection supervisions and the imposition of fines worth over one million euros. Under the rules of the campaign, half of the amount, 500,000 euros, will be redirected to projects of general public importance proposed and voted for by the citizens themselves. We recall that in the first phase of the project we already invested EUR250,000. Citizens who, until 15 December 2014, report on the failure of entities to issue fiscal receipts, moonlighting or violation of consumer rights, will have the opportunity to vote for 17 new projects which will be implemented through funds collected in the second phase of the campaign. The campaign “Be Responsible. It’s up to you. 0% Gray Economy” is realized within the project “Involving Citizens in Combating the Gray Economy”, which is implemented in collaboration of the Government of Montenegro, the Faculty of Electrical Engineering and the Office of the United Nations Development Programme (UNDP), with the support of the British Embassy in Podgorica.

14 November 2014 - Standard and Poor’s downgraded the credit rating of Montenegro

Credit rating agency Standard and Poor’s published a new report on Montenegro, lowering the earlier credit rating from “BB-” to „B+”. Also, Montenegro’s stable outlook was confirmed, indicating that further movement of the rating is based on stable positions. Rating reflects the view of the Agency that the state faces growing fiscal risks, caused by an increase in government debt for the construction of the highway. Indebtedness which was caused by highway project, according to S&P analysts, increases the sensitivity of the Montenegrin economy and finances to external shocks and limits the absorption capacity, especially when one takes into account the fact that Montenegro is characterized by the absence of emission function and passive monetary policy. On the other hand, the report recognized and praised Montenegro’s progress in the consolidation of public finances in recent years, which, if we exclude the cost of highway, resulted in low levels of deficit. According to the forecasts by S&B analysts, Montenegro will grow at an average rate of 3% in the period to 2017, which will, in part, be contributed by some positive aspects of highway construction, primarily the engagement of domestic construction. Recalling the fact that Montenegro in the last Doing Business report on the ease of doing business progressed by 6 positions, S&P analysts are consistent in recognizing that our country is attractive for investment, while further investments, especially in the field of tourism, energy, agriculture, would accelerate economic growth in the future.



19 November 2014 - A meeting of the Subcommittee on Economic and Financial Issues and Statistics held in Brussels

A meeting of the Subcommittee on Economic and Financial Issues and Statistics was held in Brussels, as one of the joint subcommittees established to regularly monitor and analyze the implementation of the Stabilization and Association Agreement. The representatives of the Montenegrin institutions presented to the European Commission the progress made in the past 12 months, in the following areas: macroeconomic stability; public finance; movement of capital and payments system; development and reform of the financial system; strengthening the competitiveness of the economy; statistics; public internal financial control and external audit. The representatives of the European Commission welcomed the efforts to preserve macroeconomic stability and banking sector, as well as the announcement of the adoption of the consensual financial restructuring. The European Commission has underlined the importance of fiscal consolidation measures and emphasized the need to continue with these efforts, and to define adequate preventive measures. The EC also praised the progress that has been made in terms of improving the business environment and encouraged the Government to continue its activities in order to further eliminate barriers to business. In particular, they emphasized the need to continue the implementation of measures in the reform of the labor market.



15 December 2014 - Successfully completed the second round of the Training Program for internal auditors in the public sector

The successful attendees of the second generation of the training program for internal auditors in the public sector in Montenegro were handed the certification of the Chartered Institute for Certified Public Finance and Accountancy CIPFA. In opening the ceremony, Director General for Central Harmonization at the Ministry of Finance, Ms. Ana Krsmanović, said that the establishment of an effective system of internal audit is a prerequisite and a key instrument of responsible and professional management of public funds, which ensures transparency and professionalism to the highest level. Welcoming the success of the candidates, the Ambassador of FR Germany H.E. Ms. Gudrun Steinacker praised the efforts of the Montenegrin government to approach European standards in the field of internal audit, and expressed readiness of the country she represents to support the continuation of the training to internal auditors. - CIPFA certificates are an official confirmation of expertise, knowledge and skills in the areas of internal audit and the most effective way to fight corruption, said the Director of the Center for Excellence in Finance (CEF), Ms. Mira Dobovišek. CIPFA Assistant Director, Mr. Gary Gilbert, recalled that the awarded certificate represents the highest international standard in the management of public finances, which will provide the trainees and the institutions where they work a high quality service delivery.



16 December 2014 - Seminar on the topic "State Aid and the Services of General Economic Interest"

The Ministry of Finance and SAM Project organized a Seminar on the topic "State Aid and the Services of General Economic Interest - UOEI". At the beginning, the participants were welcomed by the project leader Ms. Daiga Lagzdina, the representative of the Delegation of the European Union to Montenegro Ms. Donka Prodanova, as well as chairman of the State Aid Control Commission Mr. Mitar Bajčeta. One of the participants of the seminar was an expert of the SAM project, Mr. Mikolaj Stasiak, who on the occasion explained how state aid control becomes particularly important when the services are provided by a company and financed by public funds, bearing in mind that excessive compensa-

tion could enable service providers to cross-subsidize their other commercial activities and thereby distort competition. The aim of the seminar was to raise awareness about the concept of "UOEI" and the applicable rules of the EU in the field of state aid, through presentations from experts in the field and with special emphasis on local case studies conducted.



22 December 2014 - The meeting of the Commission to combat the gray economy

The third meeting on combating the gray economy was chaired by the Director General for Tax and Customs System at the Ministry of Finance, Mr. Novo Radović. The meeting was an opportunity to consider the reports of work teams on implementation of the 2014 Action Plan, as well as reports of inspection services on the activities undertaken and measures implemented. Also, the meeting discussed the implementation of the "Involving Citizens in Combating the Gray Economy" campaign, as well as the implementation of software for recording and billing of tourists tax. It was noted that the activities in combating gray economy, with measures of fiscal consolidation have given excellent results in the past, and that the progress is most evident in the field of public revenues. It was noted that there are still areas of risk, and that special measures should be taken to fight the gray economy in the labor market and trade in tobacco products. In this sense, one of the key topics of the meeting related to the prevention of gray economy by introducing criminal liability for the payment of wages, without accrued taxes and contributions, which in addition of doing harm to the budget, contributes to endangering existential questions of employees (right to pension and health insurance). This measure will, in the opinion of the Commissioners, reduce tax evasion and introduce a greater degree of fiscal discipline. When it comes to the market of tobacco products, which registers increased irregularity, the conclusion was adopted for the Customs Administration, in cooperation with the Tax Administration and the Directorate for Inspection Affairs, to coordinate activities in the preparation of the National Strategy to combat the illi-

cit trade in excise products, which will in a systematic and comprehensive way provide solutions for the narrowing of gray zones in this field. In addition, the Commission will propose to the Government of Montenegro to adopt new regulations on the conditions for the postponement of tax payments, which will enable postponement only with the provision of adequate collateral, in order to facilitate the collection of taxes. Given the importance and effects of the campaign Be Responsible, which through civic activism enabled diverting significant resources from the gray zone to socially responsible purpose, a decision was adopted on the continuation of the project, by the model and conditions of funding determined by the government. They jointly agreed that the coordination between the competent authorities for the subject area is at a high level, but it leaves room for the strengthening of cooperation.



25 December 2014 - Statement by the Director General of the Directorate for Tax and Customs System Mr. Novica Radović after the Cabinet meeting on determining the Draft Law on Amendments to the Law on Value Added Tax, the Draft Law on Amendments to the Law on Tax Administration, the Draft Law on Coffee Tax and the Draft Law on Amendments to the Customs Law

"The Ministry of Finance is actively involved in fiscal policy, which, through a process of consolidation of the revenue and expenditure side of the budget and appropriate incentives, should contribute to the health of public finances and increase the economic growth. In this direction, we worked on defining the medium-term strategy in the implementation of fiscal policy in the previous period, complying with the principles of predictability and accountability, as well as with the fiscal rules established by the Law on Budget and Fiscal Responsibility, the main objective of which is to create the preconditions for keeping active sectoral policies and attracting investment. To this end, the Ministry has prepared draft amendments to four laws in the area of tax policy, which the government considered and adopted at

today's meeting. These are the Law on VAT, Customs Law, the Law on coffee tax and the Law on Tax Administration. The main novelties of the Law on VAT and Customs Law relate to the introduction of appropriate fiscal incentives for sectoral priorities, namely: tourism, energy production and food processing industry. Amendments to the Law on VAT introduced the possibility for investors to be entitled to use the zero rate by investing in these sectors, when purchasing products and services for the construction and equipment of the hotels with five or more stars, or an energy facility for electricity generation and food processing plants. A similar solution has been implemented in the Customs Law, these sectors are released of VAT on purchases at import, and customs duties. Amendments to the Law on VAT propose certain exemptions from payment of VAT, for the purchase of debt, services, games of chance, imports of small consignments of goods of non-commercial nature contained in consignments sent free of charge by individuals from abroad to natural persons in Montenegro, and imports of goods contained in travelers' personal luggage if not commercial, which represents alignment with the EU acquis. An important act passed today is the Law on Amendments to the Law on Tax Administration, whose implementation will contribute to a more efficient administration, simplification of tax procedures by shortening deadlines, improving process of control and billing, the extension of the tax authorities powers, the transfer of authority in the area of Excise Tax from the Tax Administration to the Customs Administration. In addition to these effects, the amendments to the Law on Tax Administration will certainly contribute to the suppression of the gray economy and improving tax compliance, through stricter sanction to perpetrators of violations of tax, as well as the introduction of instruments to prevent corruption, which stipulates the obligation for tax officials to submit the property card and the disclosure of tax crimes and their perpetrators. The Government considered and adopted today the draft of a new tax law, the Law on Coffee Tax. The main reason for the adoption of the new law is the need for sustainability of public finances. In fact, bearing in mind that the provisions by which coffee was taxed as excise product were repealed on 1 January 2015, so it was proposed to adopt a special law, by following the basic elements underlying the tax system, as well as the principles of the Stabilization and Association Agreement. Coffee taxpayers, pursuant to the provisions of the proposed law, are the producers and importers of coffee, which is put into free circulation on the territory of Montenegro.

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Activities implemented by CFCU* during the year of transfer of the responsibility for component IV management

* - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)



For the CFCU the prior year represented a year of challenges and verification of results achieved in many years of efforts to establish a decentralized system of EU funds management. Specifically, after the submission of the application package for the transfer of decentralized management of IPA component IV in 2013 by Montenegrin administration to the European Commission (EC), the Auditor of the Directorate-General of the European Commission for Employment, Social Affairs and Inclusion performed two audits. The first audit was conducted in 2013, after the filing of the application for transfer of decentralized management responsibility, and the second one in mid-2014, which was followed by a decision of the European Commission (EC) to grant an accreditation to the Montenegrin administration, as a license to independently implement the EU funds provided under the Operational programme **"Human Resources Development 2012-2013"**.

The decision of the European Commission to transfer the responsibility to Montenegro, dated 28 July 2014, represent the result of an assessment stating that the Montenegrin administration is able to independently conduct procurement and contracting procedures, as well as a verification of eligibility and accuracy of claims for payment (i.e. invoices), as well as a compliance with the provisions of the relevant contracts.

Specific objectives and priorities of the Operational Programme are based on the general objective of the program concerning the promotion of sustainable human resources development, modernization and development of the education system for training and research in Montenegro in accordance with the policy and standards of the EU, with a particular focus on the employability of the young. The general objective of the Operational Programme will be implemented through **four priorities, which will be supported with EUR 6,567,240.00**.

Year 2015-2017	Total Public Expenditure	Contribution of the Community (IPA)	National Public Contribution	The Rate of IPA co-financing	The Type of the Contract
	1=(2)+(3) euro	(2) euro	(3) euro	4=(2)/(1)%	
Priority 1.	2.298.884,00	1.954.050,00	344.834,00	15	
Measure 1.1.	2.298.884,00			15	Services/ Grant scheme
Priority 2.	2.298.884,00	1.954.050,00	344.834,00	15	
Measure 2.1	1.149.442,00			15	Services/ Contract on Procurement of Goods
Measure 2.2	1.149.442,00			15	Services/ Grant scheme
Priority 3.	1.313.648,00	1.099.999,28	194.117,52	15	
Measure 3.1	1.313.648,00			15	Services/ Grant scheme
Priority 4.	656.824,00	558.300,00	98.524,00	15	
Measure 4.1.	299.000,00			15	Services
Measure 4.2.	355.824,00			15	Direct Grant
Total OP Human Resources Development	6.567.240,00	5.582.154,00	985.086,00	15	(5) Services (3) grant scheme (1) Contract on Procurement of Goods (1) Direct Grant

Table 1: Allocation of funds for IPA Component IV „Human Resources Development“

In accordance with the defined priorities/measures of the Operational Programme, Montenegro has an obligation to ensure certain **co-financing in the amount of at least 15% for the contracts used to finance the provision of cer-**

tain services, equipment purchase or donation. For the realization of all the contracts within the Operational Program, the prescribed contribution of the EU was in the amount of EUR 5,582,154.00, while the amount of national co-financing amounted to EUR 985,086.00. In order to meet the prerequisite for the use of these funds, CFCU has made a plan of a national and EU co-financing portion, for the projects under IPA Component IV within the budget of Montenegro. Those planned funds will be used for a **financial monitoring of the contracts implementation**, or paying the contractors / grant beneficiaries.

As it can be seen from the presented table, the priorities and measures of the operational programme will be implemented mainly through contracts on services (5 contracts), grant schemes and contracts for procurement of goods. These contracts are realized according to the accredited procedures for procurement, contracting and payments, which are based on the rules set forth by the EC. These are demanding procedures, which require multiple verification (by the CFCU and the Delegation of the European Union - DEU), and, therefore, these procedures are time consuming. Consequently, the representatives of the CFCU, being the implementing body, and the beneficiary institutions (the body for priority/measure) started the activities on preparation of tender documents, even before the official recognition that the system, on whose establishment the activities were performed during the past few years, was established in accordance with the EC requirements, which allowed the independent management of EU pre-accession funds followed by ex-ante control by the DEU.

Accordingly, during 2014, four packages of tender documents for the service contracts and one package of documents for allocation of a grant agreement were prepared, while the activities on preparation of the remaining tenders are in progress. The efforts input during 2014 yielded results, shortly after the award of accreditation, so that the first notice for service contracts were already announced in mid-November 2014¹, while the remaining documentation is being rapidly harmonized in order to receive a final approval from the DEU and, afterwards, to announce it.

In addition to management of component IV, it was planned for the CFCU to have the role of Implement-

ing Authority for IPA Component I and II. By mid-2014, the activities were performed on harmonization of systems for the management of these components with the EC requirements. However, despite the positive results achieved, the European Commission stated an opinion that, because of the already advanced stage of the implementation of projects from these components, the transfer of responsibility for the management of pre-accession funds to national institutions would be meaningless.

In any case, the next financial perspective, IPA II (2014-2020) is coming, under which Montenegro will have on disposal a slightly higher amount than the one given for the period 2007-2013, and the granted accreditation for component IV and activities conducted thereof will be extremely useful in terms of preparing the Montenegrin administration for the forthcoming duties. Also, the CFCU will have even more difficult task: to justify the trust of the EC regarding the managing of EU citizens funds.

Previous efforts and the achieved results are an indication that a successful implementation of the planned activities can be expected in the future. Taking into account that we have limited time for implementation of all activities, it is of a high importance to emphasize that a good coordination and close cooperation among both national and the EU partners will be crucial for a successful performance and justification of a given trust.

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The Expropriation Law

The Expropriation Law prescribes for the expropriation procedure, which implies a dispossession or restriction on the ownership rights of real estate, when required so by the public interest, through fair compensation. The expropriation of immovable property entitles the expropriation user to use such property for the purpose for which the expropriation has been done for. Immovables, in respect of this Law, are considered to be land, buildings and other construction facilities.

The process of expropriation and authorities in charge for its implementation are regulated by the Expropriation Law.

Expropriation can be complete and incomplete. The complete expropriation of property exists when the owner of expropriated immovable property shall be changed, while incomplete expropriation can establish easement on immovables and land lease for a specified time.

Expropriation can be carried out for the needs of the State, municipality, state funds and public enterprises, unless otherwise specified.

Fair compensation for expropriated property can be determined in cash or by exchange in property or co-ownership of other corresponding immovables.

The Expropriation Law was first adopted in 2000, and in addition to the amendments which were subsequently adopted, the Ministry of Finance in December 2014 has sent to the Government of Montenegro a Draft Law amending the Expropriation Law, which was adopted by the government at the meeting of 15 December 2014.

The reason behind the amendments to the Expropriation Law is that the expropriation procedure, from the moment the decision on declaring the public interest has been made to the registration of title of the expropriation user, took a long time in practice, as the condition for registration of title was also a proof of compensation paid, in addition to the final expropriation decision.

Due to the length of the procedure, the State/expropriation user was unable to implement the decision on declaring the public interest previously issued, or was unable to use expropriated property for the purpose for which the expropriation has been made. Therefore, amendments to the Expropriation Law have been proposed in order to eliminate barriers to business.

The proposed provision introduces the possibility of rapid and complete realization of public interest so that the state becomes the owner of property by the entry into force of the decision on declaring the public interest, with the expropriation user immediately entering into possession. On the other hand, this provision also protects the interest of the owner of immovable property, who is deprived of the right of ownership or faces a restriction to his rights, as the owner would not be put in a less favorable position than before the expropriation, given that the state is bound to ensure him equal conditions until the payment of just compensation. More precisely, if the expropriated property is a residential or other real estate which served to perform an activity, the state must provide to the former owner a temporary housing accommodation or other immovable property for the performance of the activity.

Also, if the expropriation user is unable to ensure these conditions to the former owner of the expropriated property, it shall provide him with a monthly fee for housing, or benefit equal to one twelfth of revenues generated from the business activity carried at the real estate in the year preceding the expropriation.

Solutions contained in the Draft Law shall have a positive impact on all participants in the transaction, bearing in mind that the expropriation procedure will be shortened and will be more efficient and faster. On the other hand, as already stated, the Law would protect the interest of the owner of real estate deprived of or facing a restricted right of ownership, as the owner will not be put in a disadvantaged position compared to the one prior to expropriation, for the State will provide equal conditions to the owner by the time of the payment of just compensation.

The main goal to be achieved is to shorten the length of the expropriation process from the moment the decision on declaring the public interest has been issued to the registration of title of the expropriation user, and is to ensure efficient and purposeful achievement of public interest.

Milica Klikovac

**Independent Advisor III at the Directorate
of Property and Legal Affairs**

1 - The announcements are available on the web pages of CFCU, Delegation of the European Union, as well as the web page of EUROPEAID.



Ivana Maksimović

Activities regarding the establishment of a decentralized system for IPA Component V - Rural Development

Acquiring the status of a candidate for membership in the European Union, in mid-December 2010, Montenegro has acquired the right to use funds from all five components of the Instrument for Pre-Accession Assistance - IPA, of the European Union. Thus the conditions for the use of IPA Component V are met.

Acquiring the status of a candidate itself does not automatically imply the possibility of using the funds, but it is necessary to fulfil additional requirements relating to the preparation of strategic and programming documents for these components, as well as the requirements for obtaining an accreditation for decentralized management of funds from these components.

The most important step in establishing a system for the decentralized management of IPA components is the definition of appropriate structures and holders of certain activities. First of all, this implies the appointment of key actors for decentralized management and definition of

the Operational Structure.

During the prior period, the Operational Structure for IPA Component V was defined, and the Government of Montenegro also appointed key actors in the process of introducing a decentralized system of management of EU funds. Those are, first of all, the National IPA Coordinator (NIPAC), the Competent Accrediting Officer (CAO), the National Authorizing Officer (NAO), the managers of IPARD Agency and Management Authority.

In late 2013, an independent auditing company was selected for the implementation of the phases of conditions assessment, as well as the assessment of compliance, which has audited the established management and control systems in the case of IPA Component V.

The conducting of the independent audit began on 14 January 2014, and it was finalized with the formal submission of a report on 20 June 2014.



The audit procedures included an analysis of the documentation relating to the established management and control system, interviewing of the Operational Structure employees, as well as officials from the National Fund.

The engaged auditing company conducted two audit missions. The first mission referred to the assessment phase, after which the national authorities had a two-month period to remedy the identified deficiencies on the system.

The National Fund and the Operational Structure, in cooperation with short-term experts engaged through a twinning project, have been working on the implementation of the recommendations and improvement of the Handbook of Procedures.

The second mission of the independent audit company referred to the phase of the assessment of compliance of the established system with the accreditation criteria, which resulted in the submission of the Final Report to the National Authorizing Officer.

As the final report comprised a number of recommendations to the Operational Structure, categorized as high risk findings, the National Fund, in cooperation with the Ministry of Agriculture, has prepared an Action Plan for the elimination of recommendations adopted by the Government of Montenegro in September 2014.

Bearing in mind that the previous financial perspective has come to its end, and the new programming peri-

od covering the period 2014 - 2020 begins, the European Commission brought the documents relating to the new IPA perspective during 2014, which will cause changes in the existing national legal framework. Dynamics of changes to existing and adoption of new documents depend on the dynamics of the relevant documents adoption by the European Commission (IPA Implementing Regulation, the Framework Agreement, Sectorial Agreement and IPARD).

The necessary steps for submission of accreditation package to the European Commission are given in the table below:

	Necessary steps	Responsible institution	Status
1.	The signing of the Framework Agreement between the EC and the Government of Montenegro	European Commission/ Government of Montenegro/ Parliament of Montenegro	In progress
2.	Signing of the Sectorial Agreement between the EC and the Government of Montenegro	European Commission/ Government of Montenegro	The first draft November 2014
3.	Preparation and approval of the IPARD programme	European Commission/ Government of Montenegro	Preparation in progress

All the illustrated requires a modification of the existing Handbook on Procedures for the implementation of the IPARD programme that will be in accordance with the above-mentioned documents. Version 2.0 of the Handbook of Procedures is in preparation process (based on the drafts of the mentioned legal documents) and its completion and approval by the National Authorising Officer and Managers of IPARD Agency and the Managing Authority is expected by June 2015.

Following the implementation of the Action Plan for the elimination of the recommendations given in the audit report, implementing the self-assessment and possible additional engaging of an independent audit company, the National Authorizing Officer will assign a National Accreditation and submit to the European Commission an accreditation package and a request for transfer of responsibility for the decentralized management of the funds allocated by IPA component V.

After the submission of accreditation package, it is expected a mission of the Auditor of the Directorate-General of the European Commission for Agriculture and Rural Development, whose administrative reviews, interviews and checks on the spot will result in a report preparation. If the report prepared by the DG AGRI auditor is positive and does not contain any restraining findings, we can expect the transfer of responsibility for self-management of the funds allocated by the IPA component V.

Program of Agriculture and Rural Development of Montenegro within the IPARD 2014-2020

As the use of funds includes the adoption of the IPARD Programme, the Ministry of Agriculture and Rural Development has prepared the IPARD program during 2013. The program has been prepared in accordance with the regulations for the 2007-2013 programming period and complies with all Directorates of the European Commission. Taking into account the start of a new programming period of the European Union (2014-2020), defining a new Common Agricultural Policy (EU), as well as the limitations that existed for the implementation of the IPARD program, the Ministry of Agriculture and Rural Development began the preparation of the IPARD program for the new programming period 2014-2020.

IPARD program was prepared under the provisions of

the Regulation of the Commission for the new programming period 2014-2020, which replaced the European legislation for the programming period 2007-2013.

The Governing Body based the development of programs and selection of measures that will be an integral part of the program on the strategy of agricultural development, sectorial studies, SWOT analysis, as well as other strategic documents.

Based on the above mentioned, and based on the experiences of other IPARD beneficiaries countries during the previous programming period, the measures proposed under the IPARD program are: the following

- Investment in physical capital of agricultural holdings,
- Investment in physical capital referring to the processing and marketing of agricultural and fishery products,
- Diversification and Business Development at the agricultural holdings,
- Technical assistance

During the preparation of IPARD program for Montenegro, the recommendations of the Directorate General for Agriculture and Rural Development of the European Commission (DG AGRI) were adopted in terms of participatory processes and transparent activities on the selection and definition of measures through which the project investment will be financed.

The consultation process is in progress, so as that all the stakeholders (research institutions, agriculture producers, technical bodies) could provide their comments on the proposed measures.

*Ms Ivana Maksimović,
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Kana Tomašević

Mediterranean transnational program: Invitation for submission of the projects in the field of maritime availability

INTRODUCTION

Montenegro, as a candidate country, exercising its right to use the funds of the Instrument for Pre-accession Assistance, under Component II, is participating in the five neighborly bilateral programs (Montenegro - Croatia, Montenegro - Serbia, Montenegro - Bosnia and Herzegovina, Montenegro - Albania, Montenegro - Kosovo), then in Adriatic Cross-Border Program and, finally, in two transnational programs (Mediterranean program - MED and Transnational Cooperation Programme for South East Europe - SEE). Each of these programs has its own priorities, managing bodies, joint structures for a given program including the representatives of all participating countries, as well as the applicable rules.

MEDITERRANEAN TRANSNATIONAL PROGRAM GOALS, IMPORTANCE AND ACTIVITIES PERFORMED SO FAR

As for the Mediterranean Transnational Program, it should be noted that it is part of the European territorial

cooperation for the period 2007-2013. The program involves 13 countries: Italy, France, Greece, Cyprus, Spain, Portugal, Slovenia, United Kingdom (Gibraltar), Malta, Croatia, Montenegro, Albania and Bosnia and Herzegovina. The objectives of that program can be summarized as follows:

- improve competitiveness in a manner that ensures economic growth and employment for future generations (Lisbon strategy);
- promote territorial cohesion and environmental protection in accordance with the policy of sustainable development (Gothenburg objectives).

Four priorities were allocated within the Mediterranean program, all with a clear transnational dimension:

- **Innovations:** creation and development of scientific and technological networks, improving regional capacities for research, technological development and innovations;
- **Environment:** activities on water management, energy efficiency, risk prevention and environmental pro-

When submitting the projects, it should be taken into account that the structure of the project is very simple and the division of tasks is clear. The following shall be avoided: separate work packages, a large public tenders, numerous partnerships and too demanding goals and activities. In priority 4, the emphasis is on creating a network for the implementation of the Framework Directive on Maritime Spatial Planning and / or examining the possibilities for the application of other relevant EU Framework Directive in the Mediterranean area. The important policy documents that should be used when writing and submitting projects are the following: Description of the targeted invitation for the projects (Terms of Reference - ToR), the Operational Programme and Implementation Guide.

As for the partnership, the minimum requirement is 3 partners from 3 countries participating in the Mediterranean transnational program, while for the priority 4, the partners may be local, regional and national authorities and their associations. Each partner must designate a person who works on the project, submit his/her CV and the Terms of Reference (annex of the application form). The leading partner shall be a public body or authority and physically located in the eligible area of the program. The budget of a partner can be a maximum of EUR 100 thousand (ERDF). The Budget of a leading partner can be a maximum of EUR 150 thousand, a maximum of 50% of the budget can be allocated to one country. In the structure of the budget, the oversimplified budget is proposed, i.e. only costs of the categories listed below:

- Human resources (staff salaries and external experts, when eligible) - 65%;
- Transport and accommodation - 20%;
- Overheads - 10%;
- Services - 5%;
- Organization of events, seminars and public forums.

The budget should include travel expenses and human resources for participation in the "capitalization and communication" project.

The invitation for projects submission is open until 10 January of the following year. The project is to be applied through the Presage Cte information system, whereas the hard copy version should be sent via post and electronic version via e-mail. The following shall be submitted: ap-

plication form, so-called Letter of Intention and "pedagogic file" for each partner, and finally, "State aid" or "de minimis" declaration for each partner, each signed and sealed in the original version.

CONCLUSION

The complexity of the Mediterranean transnational programs, in a geographical sense, has become a priority, and an additional value through highly successful and innovative projects. All four priority areas have achieved significant results through dozens of projects (for each priority). Also, strong foundations for future cooperation IPA countries and EU member states have been created, whereas the transnational effect and the results of projects implemented by the Montenegrin institutions within the Mediterranean transnational programs will be the key for the new transnational programs and activities for the capitalization of all transnational partners.

*Kana Tomašević,
The Controller of the First level
of Transnational Programs
(Mediterranean program and South East Europe
Cooperation Program)*



Jelena Jovetić

Leasing market of Montenegro - Report for the period 01 January - 30 September 2014 -

Market participants

During the period from 01 January to 30 June 2014, the leasing market of Montenegro was not subject to the amendments to the regulatory framework. In the reporting period, leasing services on the leasing market of Montenegro were provided by the following six leasing providers, four of them are leasing companies having the status of a legal entity and two banks: S-Leasing, Porsche Leasing, NLB Leasing, Hypo Alpe Adria Leasing, as well as Hypo Alpe Adria bank and Prva banka Crne Gore founded in 1901. On the other hand, Hypo Alpe Adria Leasing, NLB Leasing and Prva banka Crne Gore founded in 1901 were not active on the leasing market, related to the approval of new investments during 2014.¹

Investment structure

In the reporting period as of and for the period ended September 30, 2014, the leasing market recorded 766 newly concluded contracts, in the total amount of EUR 11.175.422,39.

During the third quarter of 2014, the Montenegrin leasing market has recorded the total number of 178 newly concluded contracts, the value of which amounted to EUR 2.787.213,30 EUR. As of September 30, 2014 the total number of active contracts was 5,476, the value of which amounted to EUR 135.307.746,82.

1 - Prva banka Crne Gore founded in 1901, starting from 2011, operated only on collection of on the basis of earlier concluded contracts. Hypo Alpe Adria Leasing from 2012, while NLB Leasing stopped approving new placements in the third quarter of 2014 and directed the policy of the collection of already contracted placements.

Table 1. Number of active and newly concluded contracts

Active and newly concluded contracts	Newly concluded contracts period 30 June - 30 September 2014		Active contracts as of 30 June 2014	
	Number	Value	Number	Value
UKUPNO	178	2.787.213,30	5.476	135.307.746,82

Leasing users

In the third quarter of 2014, the number of newly concluded contracts was by 52,79% reduced if compared to the number of contracts concluded in the second quarter of 2014. On the other hand, the number of newly concluded contracts in the second quarter of 2014 was by 2,68% lower in comparison to the same period of 2013, while their value was by 8,7% higher.

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

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

Leasing users	Newly concluded contracts in the period of the second quarter of 2014		Newly concluded contracts in the period of the third quarter of 2014		Growth rate of contracts number
	Number of contracts	%	Number of contracts	%	
Legal entities	289	76,66	109	61,24	-62,28
Physical persons	87	23,08	66	37,08	-24,14
Entrepreneurs	1	0,27	3	1,69	200,00
Total	377	100,00	178	100,00	-52,79

Table 3: Active contracts by leasing users

Leasing users	Active contracts as of 30 June 2014		Active contracts as of 30 June 2014		Growth rate of contract number
	Number of contracts	%	Number of contracts	%	
Legal entities	2.951	51,31	2.816	51,42	-4,57
Physical persons	2.777	48,29	2.638	48,17	-5,01
Entrepreneurs	23	0,40	22	0,40	-4,35
Total	5.751	100,00	5.476	100,00	-4,78

The decline in the number of concluded contracts in the third quarter in comparison to the previous quarter of the current year is a result of a feature of the Montenegrin economy, i.e. the fact that the tourism as an economic activity has a significant participation in the total economy.

Out of the total number of active contracts, about 51% relate to contracts entered into with legal entities, while 48% of the contracts is concluded with the physical entities. The data are similar to the comparative overview from the previous quarter, indicating a continued policy of leasing companies to direct their business strategy approximately equally to physical entities as well as to legal entities in order to diversify risk and ensure optimal structure of clients. The value of active contracts as of 30 September 2014 is by 2,32% lower than the value of active contracts recorded on 30 June 2014.

Value and number of concluded contracts by leasing type

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

Table 4: Newly concluded contracts by leasing type

Leasing type	Newly concluded contracts in the period of the second quarter of 2014				Newly concluded contracts in the period of the third quarter of 2014				Growth rate (number) (3)/(1)	Growth rate (value) (4)/(2)
	Value of concluded contracts (1)	%	Value of concluded contracts (2)	%	Value of concluded contracts (3)	%	Value of concluded contracts (4)	%		
Operational leasing	66	21,22	741.861,47	15,86	17	10,56	370.434,47	15,33	-74,24	-50,07
Financial leasing	311	82,49	4.676.122,79	86,31	161	90,45	2.416.778,83	86,71	-48,23	-48,32
Total:	377	100,00	5.417.984,26	100,00	178	100,00	2.787.213,30	100,00	-52,79	-48,56

During the third quarter of 2014, the value of newly concluded contracts amounted to EUR 2.787.213,30, representing a reduce at around 48,56% if compared to the previous quarter of this year. Out of the total number of concluded contracts, around 86% or EUR 2.416.778,83 refers to the value of the financial, while the rest refers to the operating leasing. It is important to note that the aforementioned newly concluded contracts values are disclosed as a net investment value, representing the total value of contracts reduced by the value of client's share.

Subject of leasing

Based on the structure of the number of totally concluded contracts per leasing subject, it is evident that the passengers' cars have the highest percentage of around 84,27% in the total amount of leasing investments.

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

Leasing subject	Newly concluded contracts				
	Number of newly concluded contracts in the period of the second quarter of 2014 (1)	Leasing subject	Number of newly concluded contracts in the period of the third quarter of 2014 (1)	Leasing subject	Number of newly concluded contracts in the period of the first quarter of 2014 (1)
Passengers cars	333	88,33	150	84,27	-54,95
Commercial vehicles	32	8,49	24	13,48	-25,00
Construction machinery and equipment	11	2,92	3	1,69	-72,73
Ships	1	0,27	1	0,56	0,00
Real estate					
Other					
Total	377	100,00	178	100,00	-52,79

The percentage of the commercial vehicles in the total number of concluded contracts amounts to around 13,5%, while the percentage of construction machinery and equipment is around 1,7%.

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

Leasing subject	Value of newly concluded contracts (EUR) in the period:				
	Number of newly concluded contracts in the period of the second quarter of 2014 (1)	%	Number of newly concluded contracts in the period of the third quarter of 2014 (2)	%	Growth/fall rate (2)/(1)
Passengers cars	4.198.267,23	77,49	2.149.658,34	77,13	-48,80
Commercial vehicles	737.158,75	13,61	300.671,91	10,79	-59,21
Construction machinery and equipment	426.865,69	7,88	262.359,77	9,41	-38,54
Ships	55.692,59	1,03	74.523,28	2,67	33,81
Real estate					
Other					
Total	5.417.984,26	100,00	2.787.213,30	100,00	-48,56

Passengers cars shows the highest percentage also in the total value of newly concluded contracts of around 77%, while the percentage of commercial vehicles is around 10,8%, and leasing of construction machinery and equipment is around 9,4%.

If we analyse the active contracts as on 30 September 2014, it is evident that the passengers cars category has the highest percentage of around 80% regarding the number of contracts, while in terms of the value, the highest percentage is in the real estate category amounting to 51%.

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

Leasing subject	Number of active contracts				
	Active contracts as on 30 June 2014 (1)	%	Active contracts as on 30 September 2014 (2)	%	Growth/fall rate (2)/(1)
Passengers cars	4597	79.93	4391	80.19	-4,48
Commercial vehicles	674	11.72	634	11.58	-5,93
Construction machinery and equipment	261	4.54	236	4.31	-9,58
Ships	21	0.37	18	0.33	-14,29
Real estate	195	3.39	189	3.45	-3,08
Other	3	0.05	8	0.15	166,67
Total	5,751	100	5,476	100	-4,78

Considering the sectorial structure of investments concluded in the third quarter of 2014, predominant are the contracts within the trade sector with the percentage amounting to 38,5%.

Table 8. Sectorial structure of newly concluded contracts

Sector	Number of newly concluded contracts				
	The second quarter of 2014 (1)	%	The third quarter of 2014 (2)	%	Growth/Fall rate (2)/(1)
Agriculture, Forestry and Fishery	1	0,35	1	0,92	0,00
Construction	9	3,11	3	2,75	-66,67
Trade	49	16,96	42	38,53	-14,29
Accommodation and meal	3	1,04	8	7,34	166,67
Other services	139	48,10	18	16,51	-87,05
Traffic	81	28,03	21	19,27	-74,07
Financial activities	0	0,00	2	1,83	
Industry	3	1,04	3	2,75	0,00
Health, Education and Social Welfare	2	0,69	3	2,75	50,00
State Administration	0	0,00	1	0,92	
Other sectors	2	0,69	7	6,42	250,00
Total	289	100,00	109	100,00	-62,28

Beside the trade, the sectors that comprised the structure of the investments were the following: traffic at about 19%, then the services at about 16%, as well as the services of accommodation and meal provision as about 7%.

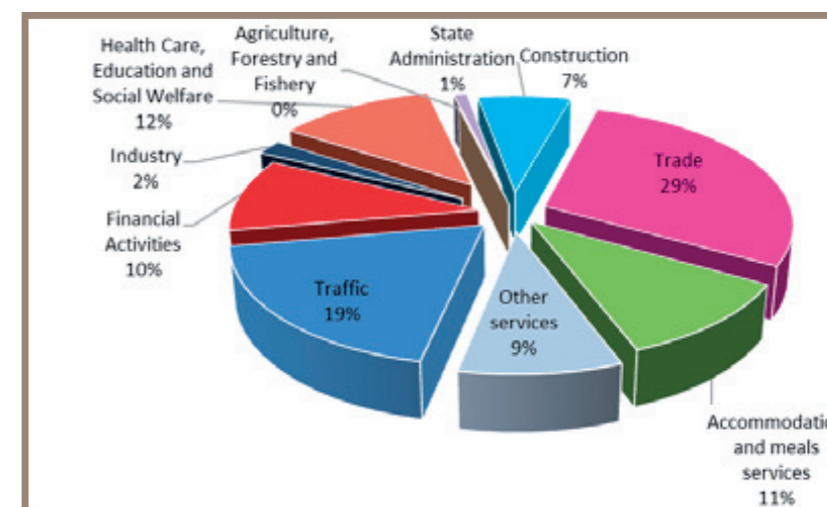
Table 9. Sectorial structure of active investments

Sector	Active investments				
	30 June 2014 (1)	%	30 September 2014 (2)	%	Growth/Fall rate (2)/(1)
Agriculture, Forestry and Fishery	42	1,42	43	1,53	2,38
Construction	366	12,40	356	12,64	-2,73
Trade	917	31,07	892	31,68	-2,73
Accommodation and meal	151	5,12	149	5,29	-1,32
Other services	640	21,69	599	21,27	-6,41
Traffic	275	9,32	252	8,95	-8,36
Financial activities	23	0,78	26	0,92	13,04
Industry	205	6,95	186	6,61	-9,27
Health, Education and Social Welfare	33	1,12	34	1,21	3,03
State Administration	35	1,19	35	1,24	0,00
Other sectors	264	8,95	244	8,66	-7,58
Total	2,951	100,00	2,816	100,00	-4,57

In terms of the number of active contracts according to the sectorial structure, the highest percentage in the total number of active investments is held by the trade (at around 31%), the services of accommodation and meal provision (5%) and other services (at around 22%), traffic (at around 9%).

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

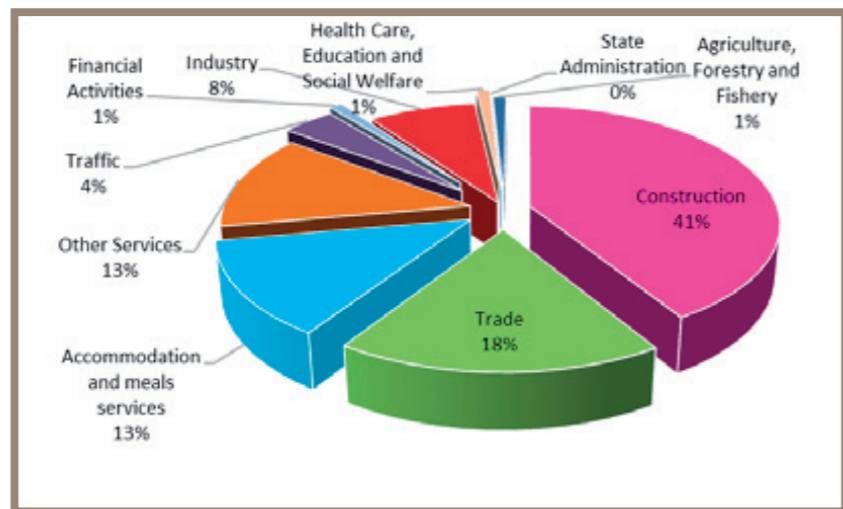
Graph 1: Structure of the value of newly concluded contracts in the third quarter of 2014



In terms of the value of newly concluded contracts according to the sectorial structure, the highest percentage of a total value of investments belongs to the trade (29%), traffic (19%), financial activities (10%), other services (9%), construction (7%), as well as the services of the accommodation and meal provision (11%).

Graph 2 illustrates the overall sectorial structure in terms of the active contracts as of 30 September 2014, with the highest percentage taken by the construction, trade, accommodation and meal, other services and industry.

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

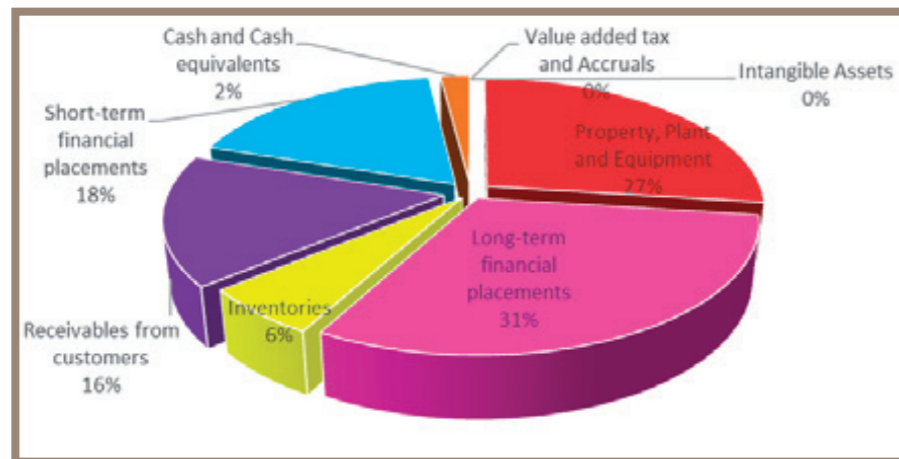


Balance sheet

The total assets of the four leasing companies as of 30 September 2014 were in the amount of EUR 106.658.172,39 and was lower by 6,12% when compared to the end of the second quarter of 2014. However, the comparative data of assets obtained from the leasing market are not relevant, bearing in mind that a significant portion of the balance sum of the aggregate market balance is kept within the financial reports of the leasing providers with the highest market participation of Hipo Aple Adria Bank. In the total assets structure, a slightly higher percentage referred to the fixed assets (57,9%), while the percentage of the current assets was about 42%. In comparison to the data as of 30 June 2014, the fixed assets are reduced by 6,1%, while the current assets are reduced by 6,3%.

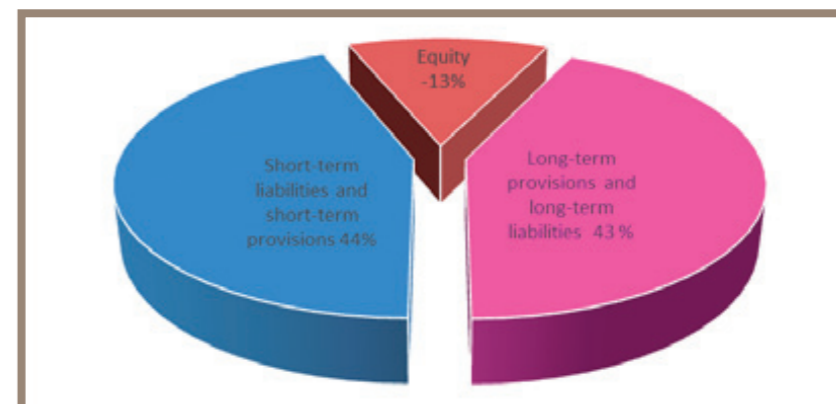
The graph 3 evidently illustrates that the long-term financial investments amounting EUR 32.755.034,54 (31%) represent the most important item of assets, followed by real estate, plants and equipment amounting EUR 28.840.610,47 (27%), short-term financial investments amounting 19.122.589,77 (18%), receivables from customers amounting EUR 16.967.356,89 (16%), inventories EUR 6.526.834,79 (6%), as well as the cash and cash equivalents in the amount of EUR 2.143.073,19 (2%).

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



As for the structure of liabilities of the four leasing companies as of 30 September 2014, the highest percentage referred to the short-term reserves and short-term liabilities amounting to EUR 63.663.474,66, i.e. 44%, while the long-term provisions and long-term liabilities amounted to EUR 61.635.494,28, i.e. 43%, while the capital was at 13%. In comparison to the data as of 30 June 2014, the capital recorded the decrease by about 23%, long-term provisions and long-term liabilities by 1,6%, while short-term reserves and short-term liabilities by 3,6%.

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



Income Statement

As of 30 September 2014, the four leasing companies have generated the operating income in the amount of EUR 8.101.903,10, the financial income in the amount of EUR 1.676.950,14 and disclosed the income from other activities in the amount of EUR 503.759,57. On the other hand, in the same period, operating expenses were realised in the amount of EUR 10.245.007,01, financial expenditures in the amount of EUR 2.212.290,43, as well as the other expenditures in the amount of EUR 832.127,18.

As of 30 September 2014, the leasing companies have disclosed the final result, i.e. loss on the market, in the amount of EUR -3.006.811,81. A positive result at the end of the reporting period of 2014 was accounted for by the two out of four leasing companies. Poor collection of receivables led to a significant increase of provisions, thus having contributed to the growth of the expenditure side of the income statement, which is particularly prominent compared with the data at the end of the second quarter of 2014, when the result was positive with EUR 568,493.70 of the final result. It is significant that, due to the accounting rules of the parent foreign company, after the risk assessment of the receivables, one participant in the market predicted in its balances a significant level of provision of about EUR 3 million, which resulted in a negative financial result of the overall market. Simultaneously, it should be noted that the total result of the income statement, illustrating revenues and expenditures of the leasing companies, does not include a part of the data calculated through the balances of banks engaged in the leasing operations, having in mind that the Hipo Alpe Adria Bank is providing the leasing services within its portfolio.

The leasing market during the third quarter of 2014 was featured by a decrease in the number of concluded contracts if compared to the previous quarter, as well as a decrease in their value. Comparative data in relation to the previous quarter of the same year indicate a consistent trend in movements of economic activity in Montenegro during the period of the second quarter, i.e. primarily the orientation of the economic potential to the tourism industry. Therefore, the end of the tourist season had resulted in a reduction in conclusion of new placements of the leasing companies.

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Stoja Roćenović



Methodology of the Internal Audit performance in public sector with a special focus on the methodology for EU funds Audit

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (Definition of the IIA)

The legal framework for internal audit in the public sector of Montenegro consists of the Law on internal financial controls in the public sector (“Official Gazette of Montenegro”, no. 73/08, 20/11, 30/12 and 34/14) and by-laws prepared pursuant to this law.

The public sector, in terms of the mentioned law, is comprised of the beneficiaries of the Budget of Montenegro, budgets of municipalities, state funds, independent regulatory bodies, shareholding companies and other legal entities with the state or municipalities being their majority owners.

The framework for the performance of internal audit consists of a Code of Ethics and International Standards for the Professional Practice of Internal Auditing, which are estab-

lished by the International Institute of Internal Auditors.

The methodology of the internal audit performance in the public sector entities is regulated by the Internal Audit Manual of the Ministry of Finance, in accordance with the International Standards for the Professional Practice of Internal Auditing. The Manual serves as assistance for internal auditors in understanding the principles and rules of audit techniques, which they will apply in their work, as well as the adoption of common technical terminology. Head of Internal Audit may develop additional internal procedures that describe the activities for the implementation of internal audit, in accordance with the specifics of the subject and the guidelines and methodology issued by the Central Harmonization Unit of the Ministry of Finance.

Central Harmonization Unit of the Ministry of Finance, when necessary, updates the Internal Audit Manual so that the methodology shall reflect the legislative changes and best professional practice of internal auditing.

In December 2014, the fourth edition of the Internal Audit Manual has been issued, updated with the methodol-

ogy for the audit of programs and projects financed from the EU funds. This was a result of an obligation stipulated by the provisions of the Article 37 of the Law on internal financial control in the public sector pursuant to which the public sector entities that are the beneficiaries of the EU funds shall to apply also the requirements set forth by the European Commission when determining the financial management activities and control and internal audit activities, particularly in the planning and reporting process in relation to these funds.

Internal audit in the of European Union programs management system

The internal audit units of public sector entities are obliged to conduct internal audit for the entities and other beneficiaries that are implementing the programs and projects wholly or partly financed from EU funds, including all other participants who received funds for programs and projects of the European Union. In performing the audit these shall apply the international auditing standards, the provisions of international treaties for the use of funds and corresponding regulations in the field of management and control of funds from the European Union.

The Regulation on the organization of decentralized management of Instrument of the Pre-Accession Assistance of the European Union (“Official Gazette of Montenegro”, no ...) stipulates that internal audit bodies involved in IPA components shall be performed by the internal audit unit of the state administration in which the persons or certain authorities were appointed.

The Internal Audit Unit provides the leading managers with an independent evaluation of the effectiveness and efficiency in the functioning of the system at lower levels and modes of organization. The aim of the internal audit bodies in charge of implementing EU programs is the provision of an in-

dependent expert opinion on internal controls system within the entity relating to the implementation of projects and programs, on the efficient and effective use of financial resources and recommendations for improvement in the fields in which they perceived deficiencies.

The Head of Internal Audit Unit in the entities involved in the management of EU programs is responsible for development of additional internal procedures that describe the activities for the implementation of internal audit in accordance with the specifics of the subject and the guidelines and methodology of the Ministry of Finance. In addition to the additional procedures, it is necessary to provide data related to the organizational arrangements of the internal audit unit and internal auditors who perform the audit of EU programs. This may include an organizational chart public of the public sector entity with a clear illustration of the internal audit status; authority of the internal audit unit; job descriptions of the systematized jobs in the internal audit unit and review of the occupied job positions; CVs of internal auditors involved in auditing processes in the EU programs management system; analysis of the workload of employees within the internal audit unit (Workload Automation - WLA); training plans; registers of training; plans for the replacement in case of absence, etc.

Internal Audit Planning

Strategic and annual planning of internal audit in the EU programs management system is a complex activity that requires a good knowledge of management system of EU programs within the subject, other participants of the operating structure, the national regulations and EU legislation, as well as a continuous awareness about the course of project implementation, any difficulties encountered in implementation, as well as any other relevant assumptions.

Strategic planning methodology shall be applied for determination of priorities in auditing processes and activities that are participated by the public sector entities within their competence in the EU programs management and implementation system.

In accordance with the stages described in the methodology of strategic planning in the Manual of Internal Audit, the internal auditors shall determine all activities and processes that take place in the subject and refer to the management of EU programs, and identify and assess the risks related to those activities and processes. When determining and assessing the risks, the auditors will, with their own assessment and findings, use all the available documentation (reports / notes from meetings, findings of external audit, etc.).

In addition to risk assessment and ranking of priorities for auditing, when making strategic plans, the internal auditors shall take into account everything required by the regulations and documents for project implementation in the management of EU programs, i.e. everything that must be completed during the each calendar year in accordance with the above mentioned documents, as well as the requests for conducting the audits given by the National Authorizing Officer as the body responsible for the effective functioning of the management and control systems.

Head of the internal audit of public sector entities who participates in the management of EU programs shall plan the performance of the audits relating to the management of EU programs in the annual internal audit plan, based on risk assessment.

In addition to the audits that are, in accordance with the risk assessment, regarded as a priority for performance, the annual plan must comprise a planning of the audits that are defined as those which must be performed on annual basis pursuant to the regulations and the implementing documents in the EU programs management system, as well as those audits required by the NAO.

Types of audits in the EU programs management system

In accordance with the IPA regulations, the task of the internal audit is to ensure that the managers are provided with independent appraisals referring to the operating of their systems at the lower organizational levels. Therefore it applies described system audit and operations audit.

The purpose of the system audit is to assess whether the effective system of management and control within the EU was established. In performing the audit of a system, the target for auditing shall be the business processes that take place in the management of EU programs, in terms of organizational requirements for its development, staff capacity, system of coordination, communication between the participants of the process etc.

Given that the system of management and implementation of EU programs involve a great number of entities, the business processes are taking place in several entities. The internal audit of one entity may audit the system with the reference to one part of the process that takes place in this entity.

During the performance of the audit of operations, audit work shall include the audits of appropriate samples of operations or transactions and procedures testing. The overall objective of the operations audit is to check and issue the auditor's opinion on whether the following conditions are met:

- Whether the operations meet the selected criteria for the operational program,
- Whether those have been carried out in accordance with the approved decisions on approval, as well as whether those meet the eligibility requirements that relate to their functionality and application or to the objectives to be achieved,
- That the expenditure incurred corresponds to the accounting records and supporting documentation,
- That the costs reported by beneficiaries are in accordance with the legislation of EU and national legislation.

If internal auditors monitor the implementation of recommendations given by other institutions, such activities need to be planned in the annual internal audit plan.

Performance of the monitoring of implementation of the recommendations given by other institution shall be reported by the head of the internal audit unit to the Head of the entity, who in conformity with the signed agreements, submit the audit reports to other participants who bear responsibility for effective functioning of the EU programs management system.

The process of internal audit reporting

The form and content of the audit report, as well as the steps in the process of reporting, shall be fully implemented by the Internal Audit Units of the entities involved in the EU programs management system. However, after the submission

of the Final Auditors' report to the head of the entity and the persons responsible for the revised process, it is also available to other participants in the management structure.

Reporting on the findings of internal audit in the EU programs management system is further governed by the following signed agreements – Operational Agreements, Implementation Agreements and the Agreements on reporting of persons responsible for the management and implementation of IPA programs on the findings of internal audit within the body of operational structures.

Operational agreements shall be concluded between the bodies constituting the operational structure. Implementation agreements shall be concluded between the National Authorizing Officer and the head of the operational structure.

Operational agreements and implementing agreements, inter alia, impose an obligation of a regular reporting on the findings of internal audit within the system of pre-accession funds in the following way:

- The bodies responsible for priority / measure are accountable for regular reporting on the findings of the internal audit of the authority responsible for the operational program, whereas
- The body responsible for the operational program shall ensure the monitoring and reporting of the National Authorizing Officer on the findings of internal audit and measures taken.

Components IIIa, IIIb, IIIc and the system of reporting on the findings of internal audit within the body of the operating structure are in more details stipulated by the agreement on reporting to the entities responsible for managing and implementing the findings of internal audit within the body of Operational Structure. The agreement shall be signed by the head of the operational structure, as the person responsible for the management and implementation, as well as by the heads of all the bodies in the operational structure system. The heads of the bodies within the operational structure submit the final audit reports to the head of the operational structure. On the basis of an implementation agreement, the head of the operational structure submits the received final audit reports to the National Authorizing Officer.

System of reporting organized in such a manner allow the information on findings and recommendations of the internal audit to be distributed to all those within the system respon-

sible for effective managing, i.e. to the entity's manager, the head of the operational structure, as well as to the National Authorizing Officer.

In performance of individual audits, the internal auditors of the public sector of Montenegro apply the methodology prescribed by the Internal Audit Manual (Fourth Edition).

The methodology of the internal audit performance based on the audit system, which aims at assessing the effectiveness of the established risk management process, through risk assessment and internal controls in relation to the risks, as no efficient risk management process contributes to achieving the stated objectives of the subject.

A system audit is a structural analysis and assessment of the extent to which the systems of internal controls ensure an achievement of the objectives of the subject. A control represents each activity of management staff or other employees undertaken with the goal of risk management and increase the likelihood of achieving stated objectives of the subject. The risk is in the system, the chance or possibility of failure to achieve one or more objectives of the entity, as well as the potential for adverse events that may threaten

The methodology of the internal audit operating based on the audit of the system implies the performance of individual audits through the following main stages of the audit: audit planning, system evidence, system rating, testing, formulation of audit findings, audit reporting and action plans.

In order for internal audit in the public sector to meet its target, it is necessary that internal auditors, during the performance of individual audits,:

- act in accordance with the Code of Ethics of Internal Audit
- apply the national regulations and international standards for the professional practice of internal auditing,
- apply the international auditing standards and the provisions of international agreements for the use of funds and corresponding regulations in the field of management and control of funds from the European Union
- apply the prescribed methodology for the Internal Audit performance, and
- establish a procedure of monitoring the implementation of given recommendations.

Ms. Stoja Roćenović, the Head of the Directorate for Harmonization of Internal Audit



Tamara Marković

Activities implemented within the office of the First Level Control for IPA Adriatic Cross border cooperation programme

Introduction

Within the IPA Component II, in the framework of the financial perspective 2007-2013, Montenegro participates in the IPA Adriatic cross-border cooperation program. That program, which is based in Italy, is the result of joint work and cooperation of the eight countries of the Adriatic region (Italy, Greece, Slovenia, Croatia, Montenegro, Serbia, Albania, Bosnia and Herzegovina).

The Montenegrin institutions, being the beneficiaries of the project are participating in the mentioned program, have the obligation to report the expenses incurred during the implementation of projects carried out in cooperation with partner institutions from other countries – participants in the program. Therefore, for the purposes of Montenegrin institutions, the Office of the First Level Control¹ has been established, with its main task of checking the eligibility of project costs of the Montenegrin users. Namely, through the control of documentation submitted by the user of the project, the Office, in accordance with the relevant EU, programming and national rules, evaluates the eligibility of the costs and issues a confirmation of acceptability of those costs i.e. Declaration on Validation of Expenditure - DVE, pursuant to which the users may seek reimbursement of the spent funds from the competent authorities in Italy.

All activities related to the implementation of approved projects (reporting of costs by the user, checking of their acceptability by the controllers, etc.) are entered into the electronic reporting system,² which contains the information on all approved projects and represents a source of relevant financial data (the amount of the granted funds, the amount of the spent funds, the amount of the eligible costs, the amount of funds approved for reimbursement, etc.). In this regard,

1 - The Office of the First Level Control for IPA Adriatic Cross-Border Cooperation Program was established in July 2011 within the Department of Finance and Contracting of EU Assistance Funds (CFCU), and pursuant to the Resolution of the Government dated 31 March 2011 in the framework of the CFCU, two controllers were appointed.
2 - Management and Information System - MIS

the mentioned reporting system represents the basis for both the preparation of the various analyses and estimations related to the consumption of users who implement the projects, and the preparation of various analysis regarding the efficiency of structures involved in the implementation of the program.

Activities conducted within the Office of the First Level Control

Within IPA Adriatic Cross-border cooperation program, three requests for project proposals submissions were announced, i.e. two for common projects and one for strategic projects. When it comes to the participation of Montenegrin institutions in the requests for common projects, total number of 38 projects were approved for financing, whose implementation, together with the participation of the beneficiaries from other countries in the program, will be conducted through the participating of 46 Montenegrin users (national institutions and companies, municipalities, non-governmental organizations, tourism organizations, universities, etc.). Below is given an overview that illustrates the total number of users and the allocated budget for the implementation of approved common projects by all countries participating the program.

Table 1. Overview of number of users and the total budget of the countries participating IPA Adriatic Cross-border cooperation program for the implementation of approved common projects³

Country	The Number of Users	Total Budget (EUR)
ALBANIA	79	19,567,711.07
BOSNA AND HERZEGOVINA	48	10,036,989.90
CROATIA	117	30,542,227.73
GREECE	24	6,235,532.08
ITALY	260	91,446,808.71
MONTENEGRO	46	9,892,840.42
SERBIA	25	4,309,657.45
SLOVENIA	40	12,544,723.06
		184,576,490.42

All projects from the first request for common projects, except for one, have been completed. As for the projects in which the Montenegrin beneficiaries were involved, fourteen projects were successfully implemented, which were actively participated by the sixteen Montenegrin institutions. All final progress reports were completed through the reporting system (MIS) and the Declarations on Validation of Expenditure were issued for all final reports submitted to the Office of the First Level Control in 2014. Delivery of the remaining final reports to the Office for the First Level Control is expected to be finalized by the end of January 2015. When it comes to the second request for common projects, all 20 projects, conducted by a total number of 25 Montenegrin institutions, is currently active. These projects are planned to be finalized by the end of 2015.

In addition to the common projects, the funding assistance under the IPA Adriatic Cross-border cooperation program has been approved to 11 strategic projects, in whose implementation, in the capacity of partners, is involved 14 Montenegrin institutions. The total value of projects from this request is about EUR 73.8 million, out of which the amount of about EUR 4.2 million, i.e. 5.6% of the total funds⁴, has been allocated for the Montenegrin institutions. The implementation of strategic projects is in progress and completion, thereof, is planned for the end of March 2016.

All the approved projects i.e. the activities that are predicted within are defined in accordance with the objectives and priorities of the program itself⁵. The implementation of the related projects is of a great importance, not only to improve

3 - The Letter from the Program Management Authority number RA/288100 dated November 19, 2013

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

5 - Priorities within the IPA Adriatic Cross-Border Cooperation Program: Priority 1 - Economic, social and institutional cooperation, Priority 2 - Natural and Cultural Resources and Risk Prevention, Priority 3 - Accessibility and networks.

the capacity of institutions that implement it, but for the Adriatic region in general. Namely, the orientation of all partner countries project participants to the joint goals, realized by the implementation of activities of the planned projects, directly affects the strengthening of the sustainable development of the Adriatic region, through the following⁶:

- Strengthening of the research and innovations, with the aim of improving the competitiveness and better development of the Adriatic region through economic, social and institutional cooperation;
- Promotion, improvement and protection of natural and cultural resources through a joint management of technological and natural risks with the aim of not only the protection and improvement of these resources, but also the joint maximization of their use;
- Strengthening and integrating of the existing infrastructure networks and development transport, information and communication services, which not only will contribute to strengthening the economy of the entire Adriatic area, but also to encourage exchange outside of it.

The afore mentioned indicates a significant contribution of the mentioned projects in achieving a sustainable economic development of all countries of the Adriatic region.

In order to successfully perform the implementation of the projects, according to the plan within a given timeframes, it is of an extreme importance not only an effective system of reporting to the beneficiaries the results achieved, but also an adequate and functional system of first level control. Namely, the project beneficiaries are obliged to submit to the Office of the First Level Control a report on completed activities and costs incurred at least four times a year, while the Office has the obligation to perform the administrative checks and checks on the spot within three months from the date of submission of those reports, as to assess the eligibility of expenditure declared, with the aim of protecting both the EU financial interests and the interests of the grant funds beneficiary countries, which are assigned to its institutions through these projects.

During 2014, the Office of the First Level Control has been delivered a total number of 158 reports of completed activities. The related reports refer to the projects from all of the three requests (the first and the second request for common projects, the first call for strategic projects), as well as to the technical support project, whose beneficiary is the Ministry of Foreign Affairs and European Integration as the structure responsible for the proper functioning of the IPA Adriatic cross-border cooperation programs in Montenegro. It is important to emphasize that the Office of the First Level Control reviewed all the reports submitted in 2014 within the deadlines specified pursuant to the provisions of the program policies, and issued a total number of 222 Declarations on Validity of Expenditures.⁷

Taking into account the total number of projects approved by the program participants country, then the number of beneficiaries who participate in their implementation, as well as the total allocated budget, below is given a brief reference to the amount of funds allocated to the countries participating in the program, then the amount of funds spent and the amount of funds that are approved for reimbursement, both at the program level, and individually at the level of each participating country.

Table 2. Summary of the amounts reported, reviewed and the expenditures approved for reimbursement⁸

Country	Total Budget (€)	Reported Expenses (%)	Expenses checked by the Office of the First Level Control (%)	Expenses to be Reimbursed (%)	The amounts that will be Reimbursed (€)
ALBANIA	21.032.589,47	47,09	67,63	80,81	5.412.734,66
B&H	14.498.362,34	44,06	84,66	85,15	4.605.442,08
CROATIA	41.416.957,72	50,01	58,68	85,87	10.436.930,05
GREECE	11.676.075,10	33,72	63,75	89,99	2.258.418,36

6 - http://www.adriaticpacbc.org/download/PROGRAMME_DOCUMENTS/IPA_OP_amended_20112013.pdf

7 - The information is available in the Management and Information System, which can be accessed by the structures involved in the implementation of the IPA Adriatic Cross-Border Cooperation Program.

8 - The Letter from the Program Management Authority number RA/292627 dated November 5. The data presented cover the period up to November 4, 2014.

ITALY	113.322.556,67	59,51	82,79	90,41	50.477.541,67
MONTENEGRO	13.217.385,76	39,79	83,38	87,77	3.848.304,09
SERBIA	8.268.607,58	32,29	77,06	90,11	1.854.065,93
SLOVENIA	21.027.896,65	56,87	71,93	87,82	7.554.817,69
	244.460.431,29	52,47	76,13	88,53	86.448.254,53

As it can be seen in the table above, the total spending of the funds allocated to the program level is slightly above 50%, while the percentage of expenditure checked by the Office of the First Level Control ranges from 63.75% to 84.66%. Namely, the highest percentage of the checked expenditures has been performed by the Office of the First Level Control of Bosnia and Herzegovina (i.e. 84.66%), followed by Montenegrin and Italian Offices with 83.38% and 82.79%, respectively.

As indicated in Table 2, by the beginning of November 2014 the Montenegrin Office of the First Level Control checked the 83.38% of expenditures declared by the Montenegrin beneficiaries (EUR 5,258,797.60), out of which the amount to be reimbursed is EUR 3,848.304.09, representing 87.77% of the total expenditure checked by the Office (EUR 4,384,647.58).

In addition to the afore mentioned, it is important to notify that the Office of the First Level Control is being the user of the technical support project, which has been assigned to the Ministry of Finance as a structure involved in the implementation of the program with the aim of a proper functioning of the IPA Adriatic Cross-Border Cooperation Program in Montenegro. During 2014, the Office of the First Level Control submitted to the Internal Audit Unit of the Ministry of Finance, as the body responsible for verifying the eligibility of the costs of the Office, the two reports on the activities implemented and both were issued the Declaration on the Validity of Expenditure. This technical support project ended on 31 December 2014, the Office has the obligation to submit a final report on progress by mid-February 2015.

Finally, taking into account the importance of spending and validation of the annual allocation of funds allocated to Italy as a country responsible for the IPA Adriatic Cross-Border Cooperation Program, for the implementation of all projects approved under the program, it is important to emphasize that the annual target for 2014 at the level of program has been reached. Specifically, the goal set for 2014 in the amount of EUR 99,715,229.00 has been accomplished since a total amount of EUR 103,456,836.68 was validated by the end of December 2014 primarily due to updated and efficient operation of the Offices of the First Level Control.⁹

Conclusion

The implementation of the projects approved under the IPA Adriatic Cross-Border Cooperation Program is of a great importance for the Adriatic region, as well as for all the institutions involved in the implementation. The joint implementation of projects by the partner institutions countries participating the program is the starting point for a successful future cooperation, which will undoubtedly contribute to the creation of new and useful forms of integration between the countries of the Adriatic region.

The experiences acquired by the Montenegrin institutions through the participation in the IPA Adriatic Cross-Border Cooperation program is of a great importance for a successful and proper use of funds that will be granted to Montenegro, not only through a cross-border and transnational programs in which Montenegrin institutions will participate during the new financial perspective 2014-2020, but also through structural funds, which will be made available to Montenegro after assessing the EU. The acquired experiences will, certainly, facilitate the future implementation of projects, but also contribute to a more efficient and better utilization of the available funds.

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9 - The Letter from the Program Management Authority number RA/340172 dated December 19, 2014



Nina Blečić

The key stages of risk management

Why are the risks so important?

It is so because the risk is a greatest threat to achieving the goals of a subject and because it is important to identify any possible problems and not wait for the problems to arise.

Each activity in the subject carries with it a certain risk that could jeopardize the attainment of the objectives of the process / systems that take place within organizational units, and thus the objectives of the entity.

Although no formal system of risk management activities exists within the public sector, there are certain activities that are being implemented. In order to ensure a more successful establishment of risk management in the public sector, the Ministry of Finance has issued guidelines for the establishment and implementation of risk management in the public sector entities. The guidelines provide a framework for the establishment and implementation of a unified risk management process for all public sector entities.

To manage risks means to look to the future, thinking ahead of potential events that may occur, their impacts and consequences with which the subject may face in the

future. In this regard, it is necessary to take measures in due time and, therefore, ensure that the risks are reduced to a level acceptable for decision-makers and avoided, i.e. reduce the adverse impacts to the subject.

Risks can be categorized as external (political, economic, natural disasters, citizens) and internal (meeting deadlines, employees, qualitative, technological and operational).

In order to establish an adequate system of risk management, the head of the subject should:

- determine from among the employees a person in charge of coordinating the establishment and implementation of risk management at the level of the subject and
- adopt the obligation to establish a Risk Register within the subject and the Risk Registers at the level of organizational units.

It is important to emphasize the difference between the activities for the establishment of risk management process, which represent the responsibility of the person in charge for coordinating the establishment and implementation of risk management, and the activities refer-

ring to the risk management process, which represent the responsibility of the managers at all levels of management. In this regard, the key stages of risk management are the following:

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

1. Identification of risk

The Head of the subject is in charge for the identification and analysis of key risks that may affect the subject's ability to achieve its goals. Risk identification is carried out in relation to the objectives set for all significant business processes and it is implemented during the planning of the annual budget of the subject. The identification is performed at the level of the subject and the level of organizational units.

In order to manage a risk, a subject should be acquainted with the risks that it faces and to assess those. Risk identification is the first step.

What appears to be a supportive process in the identification of potential risks is contemplating of a particular event or activity that could jeopardize the attainment of the objectives of the subject in terms of achievements of the following:

- a) strategic objectives (associated with the vision and mission of the subject),
- b) operational objectives (related to operational efficiency and effective use of resources)
- c) high-quality system of reporting and transparency (efficient, timely reporting, good monitoring and reporting system) and
- d) the conformity of laws and bylaws.

Methods for risks identifying

The first direction of an approach to the risk identifying is *from the top down*, where the executives discuss the risks related to strategic objectives (general and specific objectives).

The second approach is *from a bottom up* and includes all the organizational units of the subject that are performing the review of their annual activities and business processes and are assessing the risks.

These two approaches are not mutually exclusive. On the contrary, their combination in the process of risks identifying is preferred, since it facilitates the identification of risks at the level of the subject and its organizational units. The way of organizing the risk identification depends on the specifics of each subject. At the same time, it should be taken into account that most of the subjects adopted the Book of procedures with a description of key business processes.

There are several methods for the identification of risk, but are most often used are the following:

1. "Brainstorming" - open discussion where employees with a variety of experience and knowledge identify the risks;

2. SWOT analysis - method of detection of internal and external factors that may threaten the achievement of the objectives of the subject and a willingness of the subject to respond to these risks;

3. Questionnaires about the sources of risk - specially prepared questionnaires where the answers to the questions reveal the risks;

4. Checklist with the usual risks - a method of self-assessment;

5. Previous experience and reports (audit reports, strategic, operational and financial documents)

6. Risk matrix - combines all of the above listed approaches and presents the sources of risks, threats and consequences that should be avoided

Risk Description

Risk description is the ending phase of the risks identifying process and the start one the risk assessment process.

The identified risks should be described in a way that the description represents the event, its cause and possible consequence i.e. the impact on the goals of the subject. This is important so as that a risk could not be understood differently by different people.

Certain errors that may occur in the description of risks are: an incomplete description of risks that does not give an indication of the causes and consequences. Also, special attention should be paid to the distinction of terms: risk, consequence, cause, early warning signals (indicators).

2. Risk Assessment

Once the risks are identified, analysis and risk assessment shall be performed. Those have to be ranked, in order

to identify the priorities and provide information for decision-making about those risks that the focus shall be put on.

Risk Assessment Methodology may vary, mostly as many risks are difficult to assess (reputation risks), while the other can be displayed numerically (financial risk). A subjective point of observation is better for the first group, and in such a case, a risk assessment is more an art than a science.

A risk is analyzed and assessed with the probability of occurrence and possible consequences or effects on the subject taken into account.

An impact is an assessment of a consequence or a result of a particular outcome if the risk is realized.

A probability is an assessment of a possibility of certain events occurrence (including a consideration of the frequency which may lead to such an outcome).

The risk must be assessed without consideration of the measures already adopted for its controlling at an acceptable level, which implies that inherent risk is estimated at this stage, without taking into account the existence of any form of control.

3. Responding to a risk

Responding to a risk represents considering the possible measures that may affect the acceptability of risk. The purpose of responding to the risk is to turn the uncertainty in favor of the subject, by restricting the threats and using the given opportunities. Any activity undertaken by the subject in terms of responding to the risk represents a part of what is known as the "internal control".

The decision on the response to a risk is brought by the executives. In order to select the best response to the risk, it is necessary to consider whether there are cases that offer positive opportunities, at the same time not creating a threat.

The possibility and impact will be reduced by selecting the appropriate decisions on the risk. Therefore, there are several ways of responding to a risk including the following:

- Accepting or tolerating the risk - where the exposure to risk can be tolerated without taking any measures;
- Reducing or mitigating the risks – perform actions and make decisions in order to reduce the probability of occurrence and / or impact of risk. The actions undertaken

en by a subject to reduce or mitigate the risks represent the control activities;

- The risk transfer – transfer the risk to a third party or share it with the third party;
- Avoiding the risk - partially or completely avoid the risk, due to the impossibility of reducing the risk to a level that is acceptable.

The Risk Register

The risk register is used to document the results of risk management and monitoring of the proposed measures. The purpose of the risk register is to provide key information about the risks of the subject.

The risk register is an internal document that contains the following:

- Description of a risk
- Risk Category
- An assessment of the impact and probability
- Review of existing controls
- Responding to risks
- Responsible persons
- Deadlines for implementation

4. Monitoring and reporting on the risks

Risk management is a continuous process that needs to be periodically reviewed. This will ensure the update of the risk register, in accordance with the changes in the environment, changes of the objectives, recognizing the emergence of new risks, while others disappear or become less significant in terms of priorities.

The process of risk monitoring should be established to consider whether the risks still exist, whether the new ones have occurred, whether the probability and impact of risk have changed and to prepare the reports on the significant changes.

The report should include an overview of the undertaken activities in the risks management process and an overview of the most important risks entered into the Risk Registers maintained by the organizational units of the subject.

Effective risk management requires preparation and maintaining of a supporting work environment. It is also necessary to create an organizational culture that has a positive attitude towards risks and that will ensure enough time and resources to raise awareness and develop risk management skills.

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