



PUBLIC FINANCE MANAGEMENT REFORM PROGRAMME 2022-2026.

ANNUAL REPORT
ON THE IMPLEMENTATION OF THE
ACTION PLAN FOR 2023

MINISTRY OF
FINANCE

PODGORICA, 2024



ABBREVIATIONS

AEO	Authorised Economic Operator Programme
AES	Automated Export System
AFCOS	Anti-fraud Coordination Service
AFCOS	Anti-fraud Coordination System
AMS	Audit Management System
APC	Agency for the Protection of Competition
GDP	Gross Domestic Product
BMIS	Budget Information System
GNI	Gross National Income
CBMNE	Central Bank of Montenegro
CEFTA	Central European Free Trade Agreement
MNE	Montenegro
DCH	Directorate for Central Harmonization
CIS	Customs Information System
CP	Centralized Payroll
CRBE	Central Registry of Business Entities
DEU	Delegation of the EU in Montenegro
DG NEAR	Directorate-General for Neighborhood Policy and Enlargement Negotiations
DG TAXUD	Directorate-General for Taxation and Customs Union
SAI	State Audit Institution
DWH	Data Warehouse
EC	European Commission
EDMS	Electronic Document Management System
EOIR	Exchange of Information on Request
ERI	Emerging Risk Index database application
ESA 2010	European system of national and regional accounts
ESTP	European Statistical Training Programme
EU	European Union
EUIF	EU Integration Facility
EURATOM	European Atomic Energy Community
Eurostat	Statistical Office of the European Union
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GIZ	German Society for International Cooperation
GSG	Secretariat-General of the Government of Montenegro
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IRMS	Integrated Information System
IT	Information Technology
ITMS	Information Technology Management System for planning and reporting
PPP	Public-Private Partnership
MEA	Ministry of European Affairs
MF	Ministry of Finance
MIS	Management information system
MPA	Ministry of Public Administration
IMF	International Monetary Fund
MONSTAT	Statistical office
NCTS	New Computerized Transit System

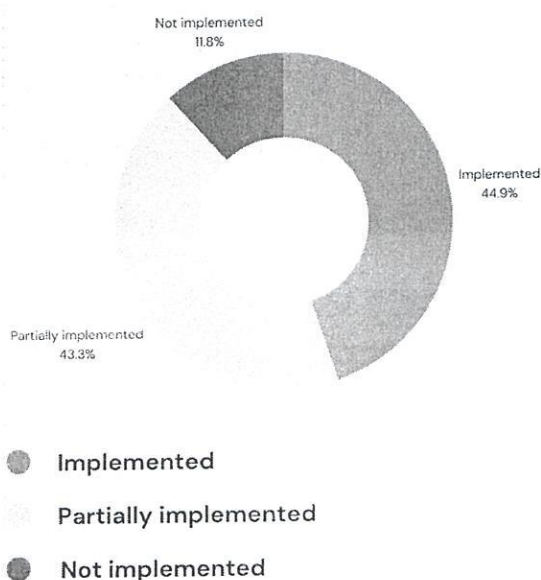


NTA	National Transit Applications
NGO	Non-government organization
OSCE	Organization for Security and Co-operation in Europe
OECD	Organization for Economic Cooperation and Development
OLAF	European Anti-Fraud Office
PAR	Public Administration Reform Strategy
VAT	Value Added Tax
PEMPAL	Public Expenditure Management Peer Assisted Learning Network
PER	Program of Economic Reforms
PFM RP	Public Finance Management Reform Program 2022-2026
SG PAR	Special Group for Public Administration Reform
PIFC	Public Internal Financial Control
PIMA	Public Investment Management Assessment
AB	Audit body
RMR	Risk Management Register
SAP	Budget Execution System
SDMX	Statistical Data and Metadata eXchange
SIGMA	Support for Improvement in Governance and Management
SOE HCT	State-Owned Enterprise Health Check Tool
MTBF	Medium-term Budget Framework
TADAT	Tax Administration Diagnostic Assessment Tool
TAIEX	Technical Assistance and Information Exchange
TFEU	Treaty on the Functioning of the European Union
UNDP	United Nations Development Programme
RCA	Revenue Administration, Customs Administration
REA	Real Estate Administration, State Property Administration
LBFR	Law on Budget and Fiscal Responsibility

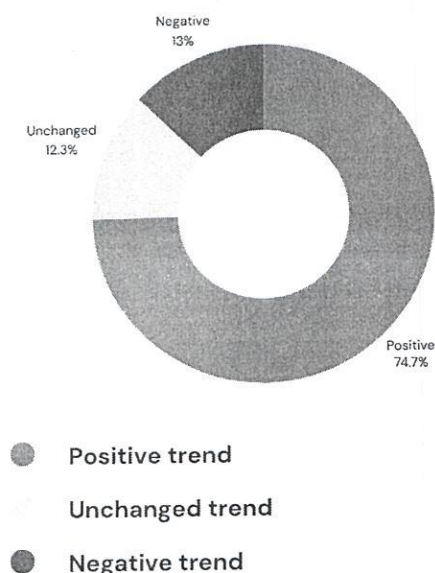
I INTRODUCTORY SUMMARY

Reforming public financial management enhances transparency, accountability, and efficiency in utilizing public funds to support sustainable economic growth and development. The Ministry of Finance (MoF) has prepared a report on the implementation of the 2022-2026 Action Plan for the year 2023. This report contains data on the activities that have been implemented. The main findings of the monitoring for the year 2023, which include 145 activities and 38 indicators, are shown in the graphs below. The findings indicate that most of the activities are being implemented according to the planned schedule.

ACTIVITIES IN 2023



TREND OF INDICATORS IN 2023



The most important achieved results, as well as challenges in the implementation of the Program for 2023, are as follows:



SC3 ACCOUNTING, MONITORING AND FINANCIAL REPORTING

Results:

For the first time, a national certificate was obtained in the public sector (23 certified account.)

Electronic record of state assets complemented and publicly available on ekatastar.me

For the first time, equal treatment of the protection of EU and national funds to the protection of EU funds was established by amendments to the Law on Budget and Fiscal Responsibility

Challenges:

Lack of accounting IT system for accounting self-analysis.

Data on Challenge in real-estate assessment not organized

Lack of software for keeping property records (ARS)

Limited submission of data from competent authorities due to the confidentiality

SC 4 FINANCIAL CONTROL

Results:

Capacities for the internal control management improved through training and methodological instructions

Budget inspection advanced in the hierarchy of the Ministry of Finance

Challenges:

Financing of activities, national funds not approved

Lack of analysis on the internal control management Niska informisanost i razumijevanje unutrašnjih kont

Low awareness and understanding of internal controls

The position of budget inspector is not an attractive job

Lack of capacities of the Budget Inspection on the internal control IT system

Low awareness and understanding of internal controls

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Challenges in the implementation of the reform of public finance

- The reorganization of the work of the Government of Montenegro necessitated a change in the organization and personnel of the public administration.
- Ambitiously set deadlines during the creation of the Action Plan
- The lack of capacity, resources and technical capacities within institutions hinders the implementation of reforms.
- Insufficient efficient coordination and communication, due to personnel fluctuations of various institutions in order to achieve planned results

Recommendations for the coming period

- Intensify normative activities on legal solutions in the area of greater fiscal transparency, management of public funds and budget planning
- Intensify activities concerning public revenues and expenditures management, development of new and improvement of existing control mechanisms, with maximum use of available EU funds, especially through the Balkan Growth Plan.
- Continue activities on proactive publication of financial information, including regular publication of budget reports and fiscal analyses to further increase transparency and responsibility of the public sector.
- Improve the work of coordination teams for monitoring the implementation of the key objectives of the Program
- Provide training and capacity development of officials in charge of financial management, in order to increase their expertise and ability to implement reforms.
- Improve cooperation with international financial institutions and take advantage of available technical and financial support for the implementation of reforms.
- Ensure greater transparency and responsibility in the management of public finances
- Based on the dynamics of implementation and relevance, consider revising the planned activities within the Program and Action Plan if necessary



EU Budget Support

The Sector Budget Support Program (SBP) amounts to €16.6 million
(€13.1 million is direct financial support to the budget of Montenegro, while € 3.5
million is complementary support, through three support projects of PAR and PFM)

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II INTRODUCTION

Effective management of public finances is crucial for sustainable economic growth and contributes to macroeconomic stability, while also strengthening the legal, strategic, and institutional framework in line with European and international standards.

The Ministry of Finance of Montenegro, as a key body for public finance reform, in cooperation with relevant institutions, prepared the Annual Report for the Action Plan for 2023. The key stakeholders of the Public Finance Management Reform Program (PFM RP) 2022-2026 include the Ministry of Finance, the Ministry of Public Administration, the Secretariat-General of the Government of Montenegro, the Statistical Office, the Central Bank of Montenegro, the Revenue Administration, the Customs Administration, the Commission for the Protection of Rights in public procurement procedures, the Agency for the Protection of Competition, the Real Estate Administration, the State Property Administration, the Ministry of European Affairs, the State Audit Institution (DRI), and the Audit Body. It is important to note that the program also applies to all direct users in the public sector and other management structures.

The Annual Report on the Public Finance Management Reform Program 2022-2026 enables effective monitoring and reporting on the implementation of activities and the achievement of performance indicators for the year 2023. It is carried out in accordance with the Regulation on the method and procedure for drafting, harmonizing, and monitoring the implementation of strategic documents, as well as the Policy Development Methodology, drafting, and monitoring the implementation of documents. The strategic framework for the reform of Montenegro's public administration implements two umbrella strategies: the Public Administration Reform Strategy (PAR) 2022-2026 and the Public Finance Management Reform Program 2022-2026. In this regard, full cooperation was achieved with the Ministry of Public Administration through participation in the work of the Special Group for Public Administration Reform. The annual report was approved by the Secretariat-General of the Government of Montenegro before being submitted to the Government.

It is crucial to ensure that the objectives of the Program are effectively implemented, especially when coordinating efforts to meet the opening or closing benchmarks of accession negotiations in specific negotiation chapters. These chapters include: - Chapter 5: Public Procurement- Chapter 16: Taxation- Chapter 17: Economic and Monetary Policy- Chapter 29: Customs Union- Chapter 32: Financial Control- Chapter 33: Financial and Budgetary Provisions

This Annual Report is the second after the adoption of the PFM RP 2022-2026 and provides an overview of the progress achieved in implementing activities at the program level, with particular emphasis on 2023. It also highlights the public finance system's advantages and disadvantages, challenges, and recommendations for further development and improvement.

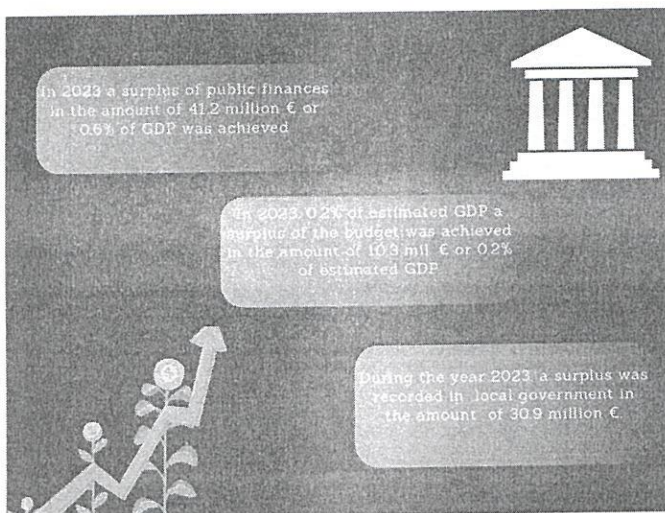
Based on the situational analysis of reform priorities in public finance management, four (4) main reform areas for achieving strategic goals were defined: Strengthened fiscal framework and budget planning, Budget execution, Accounting, monitoring and financial reporting, and Financial control. The individual program activities will be funded through various financial



modalities, including the state budget, approved loans, donations from international financial institutions, and IPA instruments.

The Ministry of Finance prepared the 2023 Annual Report. It is also responsible for coordinating, monitoring, and reporting on the implementation of the Program and the accompanying Action Plan.

The Government of Montenegro frequently organizes the Dialogue on the Public Finance Management Reform Program in collaboration with the General Directorate for Neighborhood and Enlargement Negotiations (DG NEAR). The aim is to advance sound financial management and ensure the successful implementation of government policies. The Special Group for the Reform of Public Administration (SG PAR) held its annual and subsequent meetings on June 8 and November 16, 2023, during which it agreed to intensify activities to achieve the outlined plans within the mentioned Program. Progress since the last dialogue on public financial management has been acknowledged, but challenges remain. They include delays in the legislative process and efforts to enhance public access to information.



The Government of Montenegro demonstrates a solid commitment to public finance reforms, mainly through its support for the Public Finance Management Reform Program (PFMRP). Despite making recognized progress, challenges persist due to delays in the legislative process and the need to strengthen human resources. Key reforms encompass aligning with EU and OECD standards, enhancing forecasting and analysis models,

implementing gender-responsive budgeting, fostering transparency and sustainability in projects, and deepening integration into European structures with the backing of international partners, showcasing dedication to achieving sustainable economic growth in line with European standards.

III INFORMATION ON PROGRESS IN ACHIEVING OPERATIONAL GOALS

DEGREE OF REALIZATION

Under the Public Finance Reform Program for the period 2022-2026, the achievement of four key strategic goals, including 20 subsystem goals, is anticipated. The reform goals contain 38 performance indicators, which represent important criteria for measuring progress within the defined directions of development. Also, the Program includes an Action Plan that defines 145



individual activities crucial for achieving the defined reform goals, making this program extremely comprehensive.

It is essential to note that the assessment was conducted at the subsystem level in analyzing the fulfillment of the set performance indicators. Given that the target values for the performance indicators are exclusively defined for the years 2023 and 2026, measurement on an annual level has been made possible for the first time.

Therefore, the reform goals in the 2023 Annual Report include 38 performance indicators, 29 of which show a positive trend and 9 of which did not reach the target value. It is worth noting that the performance indicators mostly show a positive trend, but the final results have not yet been fully achieved. This is because the program is ongoing until 2026 and is progressing as planned.

During the reporting period, 127 of the 145 activities included in the Action Plan for Program Implementation are in progress. It showcases the following level of implementation:

- 45% of activities were fully implemented (57);
- 43% were partially implemented (55);
- 12% were not implemented (15);

At the same time, at the level of all 145 activities within the PFM RP for the period 2022-2026, the degree of implementation is as follows:

- 42% of activities were fully implemented (61);
- 39% partially implemented (56);
- 10% were not implemented (15);
- 9%, i.e., the plan is to implement 13 activities in the future.

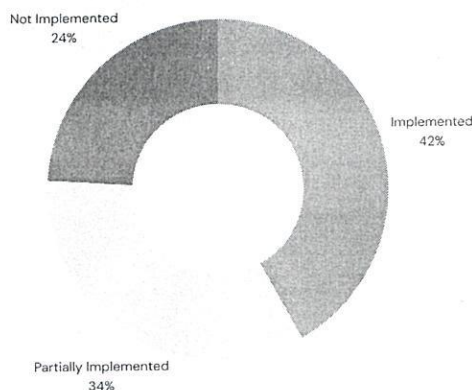
Therefore, their progress will be monitored in the upcoming annual reports to ensure transparency and oversight of the implementation process of all planned activities.

The implementation of the PFM RP during the reporting period occurred in a very specific political context, characterized by a dual Government reorganization. These changes significantly impacted public administration, leading to personnel changes that slowed the realization of planned activities, resulting in a lower-than-expected degree of implementation. Despite the challenges, there have been additional efforts to consistently implement activities in line with the strategic document. Data analysis indicates delays in implementing a certain number of activities, caused not only by identified challenges but also by overly ambitious deadlines. It is important to note that, in the upcoming period, a certain number of performance indicators and activities will require adaptation based on currently relevant information. Therefore, we can conclude that certain activities hinder progress in specific areas, necessitating a reevaluation of deadlines, i.e., a reconsideration of the Action Plan in the upcoming period.

Following the progress in the implementation of activities in different institutions, we observe the following: The Ministry of Finance stands out as the leading institution that independently implements 87 activities of the Action Plan. In addition to the above, additional 24 activities are carried out through coordination with other relevant institutions, including the Ministry of

STRATEGIC OBJECTIVE 1: STRENGTHENED FISCAL FRAMEWORK AND BUDGET PLANNING

ACTIVITY LEVEL OF IMPLEMENTATION STRATEGIC OBJECTIVE 1



This strategic goal recognizes 24 operational goals, and the key indicators that follow the implementation of activities show that performance indicators are achieved at a 50% level. Therefore, we can state that during the year 2023, out of a total of 18 performance indicators, 9 have a positive trend in relation to the initial value, and 9 have a negative trend.

Within this strategic goal, a total of 41 activities were identified, of which 31 activities were carried out. During the reporting period, 17 activities (42%) were implemented, 14 activities (34%) were

partially implemented, and 10 activities (24%) remained unrealized.

1.1 Macroeconomic Analysis and Fiscal Policy

To achieve the operational goal of "Establishment of Fiscal Council to strengthen the oversight of the implementation of fiscal policy and build its capacities," several activities are being carried out that will further enhance the oversight over the implementation of fiscal policy while simultaneously building the capacity of this Council.

The activity refers to preparing legal amendments/new laws and by-laws to form the Fiscal Council. From the legal and by-laws aspect of forming the Fiscal Council, it was determined that the most efficient course of action is to make amendments to the Law on Budget and Fiscal Responsibility, which would recognize the norms aimed at forming the Fiscal Council.

Bearing in mind the above, on March 16, 2023, the Law on Amendments to the Law on Budget and Fiscal Responsibility came into effect. This Law includes numerous amendments and covers various important areas of the financial system. It regulates and provides legal prerequisites for the establishment of the Fiscal Council. For the first time in Montenegro, the law creates an institution that will provide independent opinions, evaluations, analyses, and recommendations regarding the consistency, compliance, and sustainability of fiscal policy with the criteria of fiscal responsibility.

Also, considering the presidential and parliamentary election process in 2023, the prerequisites for meeting the legal deadlines for the election of Council members have not been created, and the Fiscal Council has not been formed in 2023. The forming of the Council is expected in 2024.

The third activity is devoted to drafting procedures/regulations for the optimal functioning of the Fiscal Council during the reporting period. Extensive support from the World Bank was



foreseen to implement this activity, which will be executed through the formation of the Fiscal Council.

Two activities are scheduled for implementation in 2023 as part of the operational goal to improve the identification and monitoring of fiscal risks. These activities will result in the development of a methodology for fiscal risks and guidelines for macroeconomic and fiscal policy, which will include a chapter dedicated to addressing fiscal risks.

Ministry of Finance, i.e., The Directorate for Fiscal Risks of Public Enterprises within the Directorate for Central Harmonization and Development of Internal Controls provided technical assistance in 2022-2023 and launched the initiative "Strengthening oversight over state-owned enterprises" with the IMF. Three remote missions were organized and ended in November 2023. They were of immense importance for advancing the economic analytical capabilities of the Ministry of Finance. The State-Owned Enterprise Health Check Tool (SOE HCT) was developed with a clearly defined IMF Methodology for conducting fiscal risk assessment. The mentioned methodology needs further improvement to adapt to the Montenegrin economy's context. As part of this effort, the Ministry of Finance plans to adopt a Methodology for assessing and monitoring fiscal risks in majority state-owned companies in 2024.

The Directorate for Fiscal Risks of Public Enterprises, as the unit responsible for monitoring and reporting on the fiscal risks of state-owned enterprises, has prepared the first preliminary aggregate economic and financial analysis of business operations with a Statement on Fiscal Risks based on financial statements for 48 companies registered in its records, with more than 50% ownership, based on the results of operations as of 2022. However, this document is still of an internal nature; it has not been published and is not an integral part of the Law on Budget for 2024. The intention is that it will be an integral part of the budget documentation in the coming years.

Fiscal risks are continuously present, considering the challenges on the geopolitical, macroeconomic, and fiscal levels. In this sense, the basic risks of achieving fiscal projections are covered in a separate chapter of the Macroeconomic and Fiscal Policy Guidelines. In this respect, risks are regularly monitored, particularly when updating forecasts and creating strategic documents, and also in response to macroeconomic influences.

In 2023, the Directorate for Macroeconomic Analysis and Projections conducted various online training activities to educate employees, with a particular emphasis on the significance of International Monetary Fund (IMF) training on financial programming and policies. The training aimed to enhance the Directorate's staff's understanding of economic developments and trends and the intricate interrelationships within the economy, which was the primary focus of the IMF training. During the reporting period, two out of three planned training sessions for the employees of this Directorate were conducted. However, progress in improving the macroeconomic model used for financial programming in the Directorate was limited. This was due to the high level of IT knowledge required to work on the software background of the model, as previously mentioned in reports. Nonetheless, the model was regularly updated during the preparation of the spring macroeconomic forecasts, following the publication schedule of Government documents as per legal requirements. Progress in using the model to track impact indicators is a slight difference between the projected and achieved growth rates







of the economy in 2022 and the achieved rate. It was published in September 2023 by the official statistics authority, meeting the target value. The projected gross domestic product growth rate falls within the expected range compared to the actual value.

Regarding the current challenges in macroeconomic modeling, the need to improve employees' knowledge through targeted training in specific areas of the Directorate was observed. Additional challenges include a lack of staff to perform the complex tasks of macroeconomic programming, as well as a lack of technical knowledge to manage the existing model. These problems were recognized through the need for a new project cycle to improve the work on the new macroeconomic model for projections, aligned with experts' recommendations.

In 2023, additional challenges arose due to cyber attacks related to the functioning of the database, hardware, and software. During 2023, no new employees were hired, nor was the expert training support project implemented. Despite these challenges, the Directorate's employees participated in several online and on-spot trainings on macroeconomics and modeling.

The organizational changes implemented in 2022 had a significant impact on the functionality of the common macroeconometric model used in the two directorates. The new work processes facilitated the exchange of data and information and improved efficiency in working on the macro-econometric model. However, the challenges persist due to a shortage of employees with the necessary skills for complex macroeconomic programming and technical knowledge to manage the model. This need has been acknowledged through the requirement for a new project cycle. Additionally, the establishment of the Directorate for Macroeconomic and Fiscal Analysis and Projections, along with organizational changes, has introduced further challenges. Cyberattacks in 2022 continue to impact database, hardware, and software functionality, creating additional challenges. These organizational changes have emphasized the necessity for additional personnel and technical expertise to maintain the functionality of the common macro-econometric model.

The preliminary budget revenues (data will be final after the adoption of the Law on the final account of the budget of Montenegro for the year 2023) in 2023 amounted to €2,565.3 million or 38.7% of the estimated GDP. This figure is higher by €142.6 million, or 5.9%, compared to the planned rebalancing. Additionally, it is higher by €569.9 million, or 28.6%, compared to the same period in 2022. The most significant positive deviations were recorded in income based on value-added tax, income based on profit tax of legal entities, contribution for mandatory social insurance, other income, and donations and transfers. On the other hand, the preliminary budget expenditures in 2023 amounted to €2,556.1 million, which is 37.3% of the preliminary GDP. This amount is lower by €83.0 million, or 3.1%, compared to the planned expenditures, and it is higher by €310.3 million, or 13.8%, compared to the same period in 2022.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
The difference between projected and realized GDP	- 2%	- 2%	-2%		- 2%
Deviation between the upper limits of expenditures set in the MTBF and the annual calculation [Goal: < 2%]	- 2%	- 2%	-2% of GDP		- 2%
Deviation between the planned budget expenditures in the MTBF/annual plan and the execution of the budget for the previous year	- 2%	- 2%	-3,1		- 2%
Deviation between the planned budget revenues in the MTBF/annual plan and the actual collection in the previous year	- 2%	- 2%	5,9		- 2%

1.2 Medium-term Budget Planning

In line with our operational objective of amending the legal and regulatory framework to incorporate budget reforms, we have undertaken the task of drafting by-laws for the implementation of the Law on Budget and Fiscal Responsibility (LBFR). This activity took place after the proposed amendments to the LBFR were adopted. The focus of this initiative is to define institutional competencies, coordination processes, and the content of the Medium-Term Budget Framework (MTBF). The adoption of amendments to the LBFR, along with the corresponding by-laws, represents a crucial step towards aligning the legislative framework with our reform goals. It will serve to enhance the foundation for the efficient management of public finances in Montenegro.

The Law on Budget and Fiscal Responsibility in the previous period, in several iterations, sustained the following:

- On March 16, 2023, the Law on Amendments to the Law on Budget and Fiscal Responsibility came into effect, aligning with the international accounting standard IPSAS 2 - Cash Flow Statement. This step was taken to comply with EU Council directives requirements, such as Regulation (EU, EURATOM) no. 883/2013 EP and Council of 11 September 2013 regarding investigations conducted by the European Anti-Fraud Office (OLAF).

Furthermore, the enforcement of this law has established the necessary legal preconditions for the formation of the IPA III framework, aiming for a more effective and speedy utilization



of EU aid funds. Additionally, the legal requirements for the establishment of the Fiscal Council have been put in place, contributing to the enhanced management of fiscal matters.

- In January 2024, the Law on Amendments to the Law on Budget and Fiscal Responsibility is expected to be adopted. This law will establish more precise criteria for the use of reserves and harmonize the time frame for transferring documentation, software solutions, and other relevant acts for assessing fiscal responsibility criteria. Additionally, this law will transfer the responsibility for assessing the implementation of fiscal responsibilities from the State Audit Institution to the Fiscal Council.

In the Medium-Term Work Program of the Government of Montenegro 2024-2027, the proposal for the Law on Amendments to the Law on Budget and Fiscal Responsibility is planned to be adopted by the end of the II Q 2024. This law will cover a wide range of areas and provide detailed definitions for institutional competences, the coordination process, and the content of the Medium-Term Budget Framework (MBF).

The activity that concerns preparing the Draft methodology for assessing the fiscal impact of policy initiatives and the available fiscal space was not completed within the specified period. The Draft methodology has been prepared, and the assessment of the fiscal impact of new policies using this Methodology is already underway. After the amendments to the Law on Budget and Fiscal Responsibility are adopted, the relevant Methodology will be approved and further developed.

In April 2021, the Manual for the medium-term budget framework was adopted as part of the activities related to developing procedures for identifying, prioritizing, determining costs, and selecting new proposals for public policies and capital projects. At the same time, the Circular for preparing the medium-term budget framework for the period 2023 to 2025 was finalized. Following its finalization, the document was distributed to all budget users for action in line with its recommendations.

As part of the operational goal aimed at conducting training on the medium-term budget framework, progress is evident through the improved capacities of local self-government units that have undergone training on this matter. In 2021, within the project "Strengthening transparent and responsible management of public finances in Montenegro," jointly implemented by the Ministry of Finance of Montenegro and UNDP, with the support of the Ministry of Finance of the Slovak Republic, a Manual on medium-term budget framework intended for Montenegrin municipalities. Through four trainings, representatives of local self-government units from the Northern, Central and Southern regions were empowered and trained for the implementation of the medium-term budget framework. In the near future, efforts will persist to enhance the capabilities of local self-government units that have received training on the medium-term budget framework. These efforts are aimed at ensuring the long-term sustainability of the progress made and improving the management of public finances at the local level.




Given that no progress was made on this matter in 2023, the implementation of activities by the Ministry of Finance and the Secretariat-General of the Government of Montenegro (SGG) will be intensified in 2024 to connect MTBF with the strategic planning system and the



medium-term work program of the Government of Montenegro. In early March 2024, a smaller working group was formed with representatives from the Ministry of Finance, MEA, and the Human Resources Administration. The group's objective is to finalize the methodology for medium-term planning for the work of the Government and ministries, as well as to create a List of standard costs for the preparation of strategic documents. The Methodology in question will regulate the process and content of medium-term planning of the work of the Government and ministries, which implies harmonizing the medium-term planning process with the budget preparation process and harmonizing the content of the plans with the content of the program budget. On the other hand, the List will create a basis for uniform and transparent planning of the financial aspect of strategic documents and medium-term plans based on pre-defined calculation values and the procedure for calculating activity costs.

Specifically, in addition to establishing a working group to define the process for integrating MTBF with the strategic planning system and the medium-term work program of the Government of Montenegro, there are plans to secure technical support in 2024. The EU Delegation in Montenegro will fully fund this support, which will assist the Ministry of Finance and SGG during the integration process.

In 2024, the Ministry of Finance and the Secretariat-General of the Government of Montenegro (SGG) will intensify the implementation of activities to link strategic documents to the program budget. In 2024, the plan is to sign a technical support agreement fully financed by the EU Delegation in Montenegro. This support will, inter alia, assist the Ministry of Finance in connecting MTBF with the strategic planning system and the Medium-term Work Program of the Government of Montenegro.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Number of first-level budget users providing comprehensive inputs to the proposal for the medium-term budget framework (MTBF)	0	50%	100%		90%
Number of employees in local self-government units trained for the Medium-Term Budget Framework	0	30	0		60
The number of strategic reforms prepared in accordance with the new methodology of drafting strategic documents related to the program budget	0	0%	0%		40%



1.3 Further Development of Program-Based Budgeting

Through the operational objective of Improving the program structure and performance information, two key activities are being implemented. The first activity focuses on continuously harmonizing and improving the quality of the program structure for consumer units. The goal of this activity is to establish gender-oriented goals and indicators and then integrate them into the budget document. To enhance budget users' involvement and performance, the Ministry of Finance, in cooperation with the OSCE, provided training to ministries on conducting gender analysis, setting gender-sensitive goals and indicators, and integrating them into the budget planning information system (BMIS). The training also covered assessing the impact of budget programs on gender equality, collecting and managing gender-disaggregated data, and maintaining gender statistics. Additionally, the ministries were trained in monitoring and reporting the implementation of gender-responsive budgets. Efforts are underway to enhance the integration of a gender-responsive budget. This involves implementing a gender-responsive budget statement, monitoring gender-sensitive programs and activities, and producing reports on the implementation of gender-responsive programs in line with the Guidelines for reporting on the implementation of gender-responsive program budgets, which are part of the BMIS. Alongside the Guidelines, a Manual on Gender-Responsive Program Budgeting has been created. The OSCE organized a "train-the-trainers" format workshop to train 17 trainers from budgetary institutions in Gender-Responsive Budgeting, who received certificates. Furthermore, there are plans to amend the Law on Budget and Fiscal Responsibility in the second quarter of 2024 to establish a legal framework for the continued implementation of gender-responsive program budgets.

The second activity involved analyzing existing objectives and indicators to identify areas for improvement. There was a specific focus on integrating the gender dimension into this process to increase the percentage of budget users who have enhanced performance information aligned with their annual budget requests. In 2023, 24 budget users included gender-sensitive performance information (such as gender-sensitive goals, indicators, and target values) in their program budgets. The number of consumer units that incorporated gender-sensitive goals and performance indicators into their programs increased by 16% compared to 2022, with a 10% higher achievement compared to the plan.

The increase in the number of budget users who have prepared a gender-responsive budget statement is the result of training on gender-responsive budgeting and clear instructions. In the upcoming period (2024), the focus is on improving the quality of gender-sensitive performance information, monitoring the implementation of gender-sensitive programs and activities, and achieving set gender-sensitive indicators. Reporting on the implementation of gender-sensitive programs by budget users, as outlined by the Ministry of Finance, will be enhanced. Furthermore, the Ministry of Finance will prepare the first consolidated report on the execution of the gender-responsive program budget of spending units. These activities represent a significant step towards achieving our set goals in public finance reform, with a specific focus on gender equality and improving information on the performance of budget beneficiaries.



In line with the operational goals to establish a system for reporting and monitoring performance information, we are consistently undertaking activities. In order to enhance performance information for the 2022 budget preparation, six pilot ministries, which received training for gender-responsive analysis, have prepared and submitted the same for budgetary funds in 2023. The increase in performance information is only 6.6%, but we consider it significant due to the high quality of the data provided. It's important to note that gender-responsive budgeting is complex and requires time to train personnel to identify gender-sensitive activities in the future.

In pursuit of the same operational objective, we have implemented an activity aimed at developing procedures for monitoring and reporting on the program budget. The primary focus of this initiative has been on establishing an interface between the Budget Information System (BMIS) and the Budget Execution System (SAP). The interface has been developed and is currently operational in test mode. However, the planned production has been delayed until the next period to allow for comprehensive testing of the web service. This decision takes into account the complexity of the functionality and its significance, as well as the planned activities pertaining to the development and maintenance of the SAP systems. This measure is expected to streamline and expedite daily budget operations, including fund reallocation, dismissal processes, fund returns, and budget execution monitoring. It is worth noting that the introduction of this functionality will significantly enhance the control system for budget operations. This step represents substantial progress in improving the efficiency and transparency of financial processes, further supporting the reform's objectives.

The BMIS improvement activity has been successfully implemented. This includes the implementation of a new program budgeting structure and improved performance information. This upgrade has enhanced the functionality of BMIS. The Information System for the preparation of the budget was used for the preparation of the budget at the 4th level of the program structure. Significant progress was made in the preparation method and content of the program budget during the year 2023.

Based on the information entered into the system, it is possible to generate a Budget Implementation Report with the initial values of the goals and performance indicators. These reports offer details about the established goals and indicators at all levels of the program structure, including program, subprogram, and activity levels.

In view of achieving the operational objective concerning the implementation of program budgeting at the local level during the reporting period, it is necessary to define and adopt regulations based on which local self-governments would implement program budgeting, taking into account that the Decision on the manner of preparation and content of the program budget of spending units defines the scope only at the central level. Comparative activities on scanning the situation of municipalities and their personnel and technical capabilities, which are different in each of the 25 municipalities, for the initial implementation of activities, i.e., the awareness of officials about these activities and the purpose of their introduction. One should also consider the operational methods in local self-government units and the constitutional right of municipalities to autonomy.



In pursuit of implementing the stated objectives, certain goals have been achieved. Manuals were created and planned trainings were conducted. The progress made can be observed through the development of a roadmap and manual for implementing program budgeting at the local level. In 2021, a significant contribution was made, including the training of officials from local self-government units as part of the "Strengthening transparent and responsible management of public finances in Montenegro" project. This project was carried out by the Ministry of Finance of Montenegro and UNDP, with support from the Ministry of Finance of the Slovak Republic. Additionally, a handbook on program budgeting for local self-governments in Montenegro was drafted.

In order to achieve the operational objective of "Evaluation of program performance" during 2023, an initiative was launched to develop procedures and manuals intended to evaluate the performance of programs and projects. The main focus of this activity is on the development of relevant procedures, and the set goal is the successful definition and implementation of those procedures. In December 2023, with the support of the OSCE, the Draft Manual for the Evaluation of Gender-Responsive Programs was prepared. Currently, it is undergoing revision and comments by relevant stakeholders. The final version of the Manual is expected to be completed in the second quarter of 2024.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
The number of implemented gender-oriented policies and policy objectives in the program budget	0%	10%	26%	↶	45%
% of local self-government units that have implemented an information system that supports program budgeting	0%	40%	0%	↷	90%

1.4 Public Investment Management



Foreseen amendments to the Decision on the preparation of the capital budget and the determination and evaluation of criteria for the selection of capital projects ("Official Gazette of Montenegro", no. 057/18 dated 10.08.2018, 067/21 dated 22.06.2021), as well as Amendments to the Law on Budget and Fiscal Responsibility in improving the capital budget planning, were not implemented in 2023 for objective reasons. Namely, due to the election of a new Government only in the fourth quarter and organizational changes in the Ministry of

Finance, they were extended to 2024. Their implementation will be the responsibility of the Directorate for Public Investment Management and Public Procurement Policy.

Towards the end of the third quarter of 2023, work began on developing functions for managing public investments. These functions will be integrated into the existing budget management system (BMIS). This integration aims to improve transparency in monitoring and designing public investment promotion policies, as well as to enhance supervision and reporting on the implementation of capital and other investment projects. The main goal is to ensure effective and efficient management of public funds in the medium term. Additionally, a "Public Investments Register" is planned to be created. This register will enable the review of the implementation status of all capital projects financed by public funds, including those recognized through the adopted Law on the Budget of Montenegro, as well as capital projects implemented by local self-governments, state-majority-owned economic companies, other public institutions, and units of the first and second orders.

At the end of 2023, the process of establishing a "Public Investments Council" was initiated. Its main role will be to create new institutional frameworks to promote public investments and improve coordination and implementation of activities related to capital projects and other infrastructure development projects, particularly in the transport sector. This initiative aims to create new conditions for the economic development of Montenegro.

Additionally, through ongoing discussions with the IMF, we have identified key priorities for enhancing public investment management. These priorities will be addressed in 2024 through revisions to the regulatory framework in line with the recommendations from the PIMA report and the action plan. This primarily involves establishing the Council, improving the IT system for managing capital projects, and creating the Public Investments Register.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Development of an Action Plan for the improvement of the Public Investment Management System	No Action Plan was adopted	Action Plan adopted	No Action Plan was adopted		Action plan implemented
Adoption of the Long-term Infrastructure Investment Plan	No plan was adopted	Forming a working group and starting activities on drafting the document	No working group has been formed		Long-term investment plan adopted

1.5 Public Debt Management

During the reporting period, the Ministry of Finance continuously carried out various employee training activities. The Ministry sought technical and professional assistance from the International Monetary Fund (IMF) on multiple occasions to draft the Medium-Term Debt



Management Strategy. In early May 2023, IMF experts conducted a training session titled "Debt Management Strategy, Risk Management and Domestic Market Development" at the Ministry of Finance. These activities led to an increase in the number of trained employees, demonstrating significant progress toward the goals outlined in the action plan.

In order to address the need for a new debt management strategy, the Ministry of Finance is currently encountering challenges due to the complex conditions in both domestic and international markets. Furthermore, the development of the new strategy was delayed due to the extraordinary parliamentary elections held in June 2023, which led to the establishment of a new Government of Montenegro in October 2023. As a result, the development of the new debt management strategy was postponed, considering that the new work plan and program of the Government of Montenegro were subsequently adopted. The strategy is now scheduled to be adopted by the end of 2024.

The system for monitoring the implementation of the debt management strategy has not been introduced yet because of the delay in the development of the new debt management strategy. However, these activities are regularly reported through the State and Public Debt Report, as well as through PER.

In order to improve the software system for monitoring and managing public debt, activities aimed at integrating the debt management module within BMIS continued. Weekly meetings with experts who are actively working on implementing the software are still being held. The test version of the software has been completed, and the production and data migration process from the existing SAP system has been finished. Although the software's functionalities are still being worked on, it is anticipated that it will be operational and used alongside the existing SAP system by the end of the year. This progress aims to enhance the reporting process, including integrating public debt risk management models and scenario analysis, while ensuring interoperability with the SAP system.

Regarding the quality of the existing debt, the Ministry of Finance is trying to improve the debt quality parameters despite the difficult current market conditions.

Between 2020 and 2022, borrowing decreased, and regular debt repayments shortened the overall debt maturity by one year. Additionally, interest rates increased due to disruptions in the financial market, further reducing the average debt maturity. At the end of 2022, the average debt maturity was 4.9 years. Preliminary data suggests that by the end of 2023, the average debt maturity had further decreased to 4.03 years.

The national debt structure at the end of 2022 showed a real weighted average interest rate of 2.3%, indicating a 0.1% increase from the previous year. Financial market disruptions, particularly a shift in the Euribor from a practically negative value, led to this increase in interest rates. Preliminary data suggest that by the end of 2023, the average weighted interest rate rose to 3.28%, representing a 0.98% increase from the end of 2022.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
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Movement of the average debt maturity	5.6 years	Average maturity stable or improved compared to 2021	4.03 years	↻	Average maturity stable or improved compared to 2021
Movement of the weighted average interest rate	2.2%	Average weighted interest rate stable in accordance with market conditions	2022: 2,3%, 2023: 3,28%	↻	Average weighted interest rate stable in accordance with market conditions

1.6 Development of the EU own resources system

In accordance with the publication of the Progress Report for 2023, chapter 33—Financial and Budgetary Provisions—was highlighted as one of the four chapters that marked significant progress compared to the previous year. This report provides useful insights into our efforts to move closer to the European Union. In the past year, progress in financial and budgetary provisions has shifted from the previous "limited" to "some" level. Commitment to the EU accession process remains robust, with a consistent readiness for membership maintained, reflecting a high level of preparedness for upcoming challenges. Progress has been achieved through improved coordination and management of own resources.

The Ministry of Finance and the EU delegation in Montenegro have successfully implemented the project "Improving the EU's Own Resources Management System in Montenegro."¹ The project's final presentation, held on May 26, 2023, confirmed significant progress in meeting the closing benchmark for Chapter 33 of the negotiation. The improvement of the system of own resources was realized through three parallel components:

- Capacity development in all institutions responsible for the establishment of a system of EU's own resources in Montenegro
- Establishing procedures and strengthening the institutional framework,
- Harmonizing own resources legislation mirrored in analyzing the current legal framework on recognizing space and providing enhancement recommendations for the legal framework.

Improving the coordination and management of resources within the Ministry of Finance and relevant EU institutions leads to positive changes. To enhance administrative capabilities, a workshop was conducted on the EU's own resources system. This workshop was designed for representatives of institutions responsible for planning, payment, and reporting. Its aim was to provide a detailed understanding of the European Commission's requirements regarding information, procedures, responsibilities, reporting, and payment conditions. Additionally, the workshop presented a management framework for the coordinated management of resources. In addition, a three-day study visit to Croatia was organized, during which representatives of the Ministry of Finance and other institutions exchanged experiences on managing and reporting their own resources and communicating with the European

¹ The project is "Improvement of the EU's Own Resources Management System in Montenegro," with an implementation period from May 2022 to May 2023. The value of the project was €225,000.00.



Commission. The visit was an opportunity to learn about the implementation of regulations, the European Commission's expectations, and recommendations for the period after EU accession. Trainings were also organized, including direct cooperation with Montenegrin institutions, to present and harmonize with the European Union legislation. Enhancing the administrative capabilities of all institutions involved in planning the EU's own resources is crucial in the near future. Particular attention should be given to improving the skills of IT personnel to ensure they can provide adequate support to relevant departments.

Montenegro shows some level of preparedness regarding the financial and budgetary provisions of the EU. Fulfilling the previous recommendations is emphasized, especially through harmonization of the legal basis for policy areas affecting the system of own resources, such as taxation.

A detailed Functional Specification for software solution improvement was prepared to enhance the performance of the Revenue and Customs Administration's IT system, particularly in generating reports for A and B accounts with a complete audit trail from claim identification to payment, subsequent verifications, administrative procedures, and all other activities related to collecting customs revenues for the EC. It is expected that the mentioned functionality will be operational for testing in 2024.

A following draft of the by-laws needed for adequate recording and calculation of A and B accounts has been prepared:

- Draft guidelines for the traditional system of own resources for A and B accounts, along with an analysis of all procedures, processes, IT systems, legal framework, responsibilities, and obligations of all concerned entities that occurred prior to the opening of A and B accounts. Deficiencies were identified, and appropriate suggestions were made.
- Draft Instructions for recognition and write-off of uncollectible customs duties, special anti-dumping, countervailing duties, interest, and fines.
- Draft Guidelines for registration, accounting rules, and reporting.
- Draft guidelines for the subsequent control of funds that do not have security or other guarantees for the payment of customs debt, which should be recorded on account B.
- Simulation of the report on the write-off of detected cases of fraud and irregularities related to traditional funds exceeding €10,000.

As part of establishing procedures for implementing the EU's own resources management system, a Model was developed for calculating the average weighted VAT rate. When creating this model, experimental estimates of household consumption at the detailed level of consumption estimated by Monstat were used. To verify the model, comparative information from Slovenia and certain assumptions based on relevant sources were used. Also, recommendations were provided for gathering additional information for categories not readily accessible from current sources, like supply and usage tables. Using these analyses, a model was created to calculate the average weighted VAT rate for 2016, along with recommendations for obtaining the outstanding information.

In parallel with these activities, a Simulation Report on VAT was prepared. The average weighted VAT rate was used as the basis for generating the Report on own resources based on



VAT for 2021. This report provides a detailed insight into the impact of implemented strategies on VAT revenues. It also enables an assessment of the performance of the own resources system in line with the established goals of the public administration reform.

The Guidelines for the Planning of the European Union's Own Resources in Montenegro regulate the process of establishing a financing system based on Gross National Income (GNI)². These Guidelines include rules and identify the responsible institutions. The Statistical Office (Monstat) plays a crucial role in calculating, reporting, and ensuring the quality of GNI data. The procedure includes preparing and delivering financial statements based on GNI, where calculations are made in accordance with Regulation 516/2019. This <regulation harmonizes the calculation of GNI at market prices, superseding previous directives and regulations. In accordance with Regulation 549/2013 on "ESA 2010," GNI data must be comparable, reliable, and comprehensive. In September 2022, the Statistical Office released Montenegro's Gross National Income (GNI) for 2021 using the ESA 2010 methodology. This publication includes the GNI data for the years 2010-2021 and the GDP information for the first quarter of 2023, which was published in June 2023. The Statistical Office, in accordance with the Annual Plan of Statistical Research, produces and publishes annual data for 2022 in September 2023, as well as quarterly GDP data for II Q 2023.

During the implementation of the operational objective "Harmonization of the regulatory framework with EU legislation," an analysis of the existing regulatory framework was prepared. This analysis was recognized as one of the activities within the project. Consequently, a document titled "Analysis of deficiencies and recommendations for harmonizing the regulatory framework for establishing a system of managing own resources" was created. This document contains a comprehensive analysis of EU requirements and the extent of compliance with the national legal framework, including regulations on procedures and processes necessary for establishing an adequate system of managing the EU's own resources.

During the reporting period, significant progress was made in achieving the operational goal of harmonizing the regulatory framework with EU legislation. The regulatory framework has been adjusted to comply with European legislation. On February 28, 2023, the Parliament of Montenegro passed the Law on Amendments to the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, number 27/23). This law outlines the section concerning the European Union's own resources, establishing a legal framework for the disbursement of funds intended and remitted to the European Union's budget in compliance with EU regulations on the system of own resources.

In July 2023, the Government of Montenegro adopted the Regulation on the detailed planning procedure of funds that Montenegro pays into the EU budget to implement these provisions effectively. This regulation specifies the procedure for planning, calculating, paying, and reporting on the funds paid into the European Union's budget. According to the regulations,

² Guidelines for planning the European Union's own resources in Montenegro: <https://www.gov.me/dokumenta/9ef5a6f4-d60c-42f8-b17b-f72eed169fc4>



Statistics and the System of Official Statistics (Official Gazette 018/12). Following the Agreement mentioned above, the Ministry of Finance (MoF) is the competent institution for producing and delivering data and information on government finance statistics.

Considering the significance of the statistics mentioned above and the organizational changes within the Ministry of Finance during the previous period, the process of transferring responsibility for producing government finance statistics in line with the ESA 2010 methodology from the Ministry of Finance to the Statistical Office (MONSTAT) was initiated. In 2022, the Ministry of Finance defined the requirements for transferring the competence for producing these statistics to the Statistical Office. In support of the above, on April 6, 2022, the Ministry of Finance formed a working group (Decision No. 12-078/22-9779/1) consisting of representatives of the Statistical Office, Ministry of Finance, Central Bank, and a representative from NGOs. The goal is to amend the Law on Statistics and the system of official statistics of Montenegro to enable the implementation of the ESA 2010 methodology in government finance statistics, following the best European practice.

The working group discussed the establishment of a legal prerequisite for the transfer of GFS statistics from the Ministry of Finance to MONSTAT and worked on legal amendments accordingly. Activities are underway to prepare amendments to the existing Law on Official Statistics and the System of Official Statistics. The goal is to have it adopted by the second quarter of 2024. Furthermore, these amendments to the law will facilitate changes to agreements and annexes to cooperation agreements.

During the past period, the Statistical Office and the Ministry of Finance organized staff training at the Ministry of Finance to share information pertaining to the preparation of statistics on receipts and expenditures by the Budget Directorate, which relates to state finance statistics, reflecting their good cooperation. Also, realizing the importance of this activity, the Statistical Office staff received training within the framework of the ESTP course.

In the coming period, the diligent work on this activity will continue in cooperation with the Ministry of Finance. This will involve providing the necessary legal assumptions for the transfer of jurisdiction and defining further activities for implementing the relevant statistics.

Due to the reasons mentioned above and to further clarify the efforts and steps taken so far to achieve the activities defined by the PFM, there is a need to improve the data collection procedures for the implementation of the activity "Statistics of government finances aligned with the ESA 2010 methodology." This activity involves producing government finance statistics in line with the methodology of ESA2010 and the Government Finance Statistics Manual (GFSM).

The "Improved pre-accession fiscal notifications, reporting on the EDP procedure" activity relies on the previously mentioned one. It is still in the "not started" status, and, inter alia, refers to capacity building for the professionalization of the financial reporting system, especially fiscal notifications for pre-accession requirements in line with the ESA 2010 methodology.



The normative framework is scheduled to be implemented in the first half of 2024. A key challenge in starting the implementation of the activities outlined by the PFM in relation to GFS/EDP is ensuring that Monstat has the necessary spatial, technical, and human resources to take over the production of GFS/EDP statistics.

By the end of 2023, the development of an IT-integrated system for collecting, processing, publishing, and documenting the results of official statistics will improve the data collection method and increase the number of data sets for which SDMX files are created using the SDMX RI tool for research in social statistics. In the coming year, the plan is to analyse the Statistics Authority's digital readiness. Additionally, the plan is to define a roadmap for the Statistics Authority's digital transformation and create a technical plan for establishing communication between the Statistics Authority and other authorities and organizations managing administrative data sources.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Negotiations on Chapter 17 (Economic and Monetary Policy) are provisionally closed	Negotiation Chapter 17 open	Significant progress in meeting Chapter 18 closing benchmark	Amendments to the existing Law on Official Statistics and the System of Official Statistics have been prepared	↻	Chapter 17 is provisionally closed/closed
Negotiations on Chapter 18 (Economic and Monetary Policy) are provisionally closed	Negotiation chapter 18 open	Significant progress in meeting Chapter 17 closing benchmark	The production and transmission of data to Eurostat defined by the transmission program have been expanded to meet the criteria for closing Chapter 18.	↻	Chapter 18 is provisionally closed/closed



Law on Amendments to the Law on Contributions for Mandatory Social Insurance ("Official Gazette of Montenegro," No. 152/22), has updated the definition of the base for calculating and paying contributions. It has also improved the legal provisions for refunds of overpaid contributions and provided more detailed descriptions of the exemption from paying contributions for users of incentive measures for research and innovation development and digital nomads.

Law on Amendments to the Law on Value Added Tax ("Official Gazette of Montenegro", No. 3/23). This law foresees additional harmonization with EU Council Directive 2006/112 on the common VAT system. It includes provisions for the tax exemption on the import of natural gas, electricity, or energy used for heating or cooling through transmission, transport, or distribution networks or any network connected to such a system. Additionally, it exempts the import of natural gas loaded from a natural gas transport vessel into the natural gas system or production pipelines network. In order to further align the Law with the aforementioned directive, it introduces a special taxation procedure for investment gold transactions. This legislation also introduces a new legal framework to govern the taxation of taxpayers (foreign legal and natural persons) who do not have a registered office or permanent business establishment, residency, or domicile in Montenegro and only engage in occasional international road transport of passengers within Montenegro, explicitly concerning the portion of the passenger transportation service performed within Montenegro.

Law on Amendments to the Law on Profit Tax of Legal Entities ("Official Gazette of Montenegro", No. 28/23), which introduces a special tax status for certain transactions that take place between corporate income taxpayers under this Law and non-resident legal entities from territories with tax sovereignty:

- a) where lower tax burden legislation is applied on the profits of legal entities and on the payment of dividends concerning this law and the law regulating the taxation of the income of natural persons
- b) which do not exchange data with the competent tax authority for the purpose of determining:
 - real owners of legal entities
 - tax obligations in accordance with the law

The above-mentioned legal modifications specify that, with the exception of applying a 15% withholding tax rate on income derived by a non-resident legal entity, a 30% withholding tax is levied on individuals from the predetermined territories.

In addition to the new tax regime mentioned, this legal text further clarifies the provision related to the taxation of corporate loans to natural persons. Namely, it is specified that individuals lending up to 5,000 euros annually will not be required to calculate, withhold, and pay tax on payments made on the basis of a loan or borrowing with or without interest. This exemption applies as long as the lender and borrower are not related parties, as defined in Article 38 of this law. Additionally, the amendments include a provision in the Law on Incentive Measures for the Development of Research and Innovation, granting the right to exemption



from paying corporate income tax to beneficiaries of incentive measures for research and innovation development as regulated by the law on incentive measures for development.

In the reporting period, work was also done on amending the Law on Amendments to the Law on Prevention of Illegal Business ("Official Gazette of Montenegro," No. 27/23), which aims to introduce, i.e., expand the scope of the business ban for taxpayers who have outstanding tax obligations, and who have so far made loans to other companies, natural persons or entrepreneurs and thus avoided paying their tax obligations. Also, the organization of games of chance is prohibited in catering establishments serving food and drinks, as well as in any other establishment not registered for the economic activity of organizing games of chance. Furthermore, individuals and legal entities failing to comply with the provisions outlined in the amendments to this law are subject to criminal penalties, including fines.

Law on Amendments to the Law on Real Estate Sales Tax ("Official Gazette of Montenegro," No. 28/23), which introduced the progressive taxation of real estate transactions. For real estate with a value not exceeding 150,000.00 euros, the tax rate is 3%. For real estate valued over 150,000.01 euros, the tax obligation is 4,500.00 euros plus 5% on the amount exceeding 150,000.01 euros. For real estate valued over 500,000.01 euros, the tax obligation is 22,000.00 euros plus 6% on the amount exceeding 500,000.01 euros. This tax system is designed to ensure a fair distribution of the tax burden based on the economic capacity of the taxpayer, with the aim of imposing a more significant tax burden on taxpayers with higher economic power.

The "Tax Administration Reform" project, funded by a World Bank loan, includes activities focused on implementing the IRMS (Integrated Information System) and modernizing business processes to align with current digital trends in providing services to taxpayers. The total investment for the project is 18.8 million euros, with 14 million euros as the primary funding and an additional 4.8 million euros. Due to delays, the project's completion deadline has been extended from March 2023 to September 2025 after a successful restructuring process.

DWH-data warehouse. After selecting the company for the implementation of the "Data Analytics Platform - DWH/BI" project (SAGA Ltd.) and completing phases 0, 1, 2, and 3 in the previous period, activities for the implementation of phase 4 have begun. Realized procurement of hardware for DWH in the value of 1,759,000 euros. The contract with the contractor was extended until September 2024. The procurement, installation, and configuration of the equipment were completed, as well as trainings for the III phase of advanced users of the electronic fiscalization system were conducted. User Acceptance Testing (UAT) is complete. The hardware infrastructure's operational acceptance and business continuity functionality were tested, including migration to the DR location in the event of an incident. The technical architecture and current state documents were submitted. Phase III - reporting is put into production work.

As part of the operational goal of improving procedures and developing and implementing IT systems in the tax area, the development of an integrated revenue management system (IRMS) is ongoing. As previously mentioned, the project went through a significant reconstruction, extending the duration until September 2025. At the same time, partners were selected for



implementing the IRM system, with bank guarantees and a 10% advance payment —the consortium OWL-Osa Serbia, Lanako-Banja Luka, and WEDoIT-Austria. The documentation for phase 0 of the IRMS project was adopted, and implementation began in accordance with the strategic documents. Phase 1 is currently underway, focused on developing design concepts, including system infrastructure and data migration. A specification for the hardware procurement for the IRM system has been prepared.

During the project's implementation (Phase 0 and Phase 1), when creating the conceptual design, problems with the vendor were learned, including non-compliance with the contract and implementation plan regarding including WEDoIT in the implementation in accordance with the contract. In view of the mentioned challenges, the selected company is planning to verify the entire project to ensure the integrity and quality of the implementation and to solve problems related to administrative capacities and cooperation with the vendor.

Global forum. The assessment of meeting the RCA requirements started in September 2020 to allow for the automatic exchange of information to be implemented by September 2023. In 2023, several online meetings took place with Global Forum representatives to finalize the questionnaire. Changes were made compared to the previous R1 version. A working group was formed that includes representatives of the Central Bank, CRBE, Ministry of Finance, and RCA. In December 2023, the OECD conducted a peer review of Montenegro in the area of Exchange of Information on Request (EOIR).

The review mentioned above covers Montenegro's legal and regulatory framework concerning transparency and the exchange of information for tax purposes upon request. It also encompasses the practical implementation of this framework. The verification pertains to the timeframe from January 1, 2020, to December 31, 2022. Following the findings of this peer review, the Secretariat of the Global Forum for Transparency and Exchange of Information for Tax Purposes will compile and review a report in June 2024.

During this peer review, OECD representatives met with the Ministry of Finance and Tax Administration. They discussed engaging with various institutions and organizations in Montenegro, including the Central Register of Business Entities, the Association of Banks, the Chamber of Notaries, and the Chamber of Advocates. The involvement of the Association of Accountants, Auditors, and Tax Advisors, as well as other relevant institutions, is crucial for implementing the specified standard. The peer review specifically focused on the work of the CLO-Liaison Office.

The Ministry of Finance submitted and approved the tender offer for selecting a commercial software solution. We are waiting for the opinion of the representatives of the Global Forum for Transparency and Exchange of Information for Tax Purposes and expect their support in finalizing the document.

A multi-user IPA. To improve collection efficiency, activities were carried out to strengthen tax risk management, including risk profiling, recording the results of tax audits, and collecting information from third parties. Particular emphasis is placed on risk analysis related to the control and processing of VAT refunds. According to the recommendations of IMF consultants, the centralization of tax control and VAT refund was carried out based on risk analysis. The rate



of timely submitted returns is 89% for profit and 85% for VAT. Support continued through the technical assistance project with funding from the Multi-Beneficiary IPA provided by IMF experts, based on the TADAT assessment made at the end of 2015. Two workshops focusing on debt management and tax control were held, along with the annual mission to Montenegro by the International Monetary Fund on September 10, 2023. Following the mission, a report with recommendations was submitted, and the implementation of these recommendations will be monitored quarterly. The focus of the recommendations is on strategic documents, particularly the drafting methodology, the role of management in governance, and the centralization of business processes in the tax control and VAT refund domain.

Activities were conducted to enhance both external and internal communication in order to achieve the operational objective of improving voluntary tax discipline and compliance. This initiative is aimed at raising public awareness and implementing taxpayer education programs. The Revenue and Customs Administration, in cooperation with the Chamber of Economy and the Employers Federation of Montenegro, organized an educational campaign called "Tax Caravan." This campaign was done in partnership with traditional allies RCA and included collaboration with the Tax Calendar at key points of cooperation.

As part of this initiative, an educational resource called the "Tax Calendar" was created. It includes crucial information from tax regulations regarding deadlines for submitting applications, tax returns, and other documents. The calendar was published on the website in June 2023 and distributed to professional associations to educate taxpayers about their obligations according to tax regulations.

The "Tax Caravan" for the current year took place in the second quarter of 2023, with four events held in different cities. Forums were held in Bar (for taxpayers from Bar and Ulcinj) on May 30, 2023, in Budva (for taxpayers from Budva, Tivat, and Kotor) on June 1, 2023, in Herceg Novi (for taxpayers from Herceg Novi) on June 6, 2023 and Kolašin (for taxpayers from the northern region) on June 8, 2023. The educational campaign was financed by the budget of the Revenue and Customs Administration, and approximately 200 participants attended.

In addition, the Revenue and Customs Administration has implemented additional activities to prepare and publish educational materials, brochures, publications, and websites, including the Tax Calendar for the summer tourist season. This informative material provides important information about deadlines for submitting applications, tax returns, and other relevant documents. It will be available through the online portal starting from June 2023. Additionally, these materials have been distributed to professional associations to educate taxpayers about their tax obligations.

CUSTOMS ADMINISTRATION

Within the framework of strategic goal II, Budget execution, subsystem goal 2.1. Improving efficiency in revenue collection, where the indicators are Harmonized legislation in Chapter 29 - Customs Union with the EU acquis and strengthening the capacity and development of human resources of the Revenue and Customs Administration in the domain of information technology, we submit the following inputs:

Within the framework of the Operational objective "Harmonization with the acquis of the EU in the areas of taxation and customs," in 2023, activities on harmonizing Montenegro's customs legislation with the acquis of the EU continued.

The Parliament of Montenegro passed the new Customs Law ("Official Gazette of Montenegro 86/22") on 30th July 2022, and its implementation commenced on 11th February 2023. The new Customs Law is in high compliance with EU Customs legislation.

On February 24, 2023, the Government of Montenegro adopted a regulation for the implementation of customs procedures and formalities, which became effective on March 7, 2023. This regulation provides detailed guidelines in line with the Customs Law and is largely aligned with Delegated Regulation no. 2015/2446 and Implementing Regulation no. 2015/2447 of the EU.

On December 15, 2022, the Government passed the Regulation on the customs tariff for the year 2023. This resulted in the harmonization of the national nomenclature of the customs tariff with the Combined Nomenclature of the European Union for the year 2023 (Commission Regulation No. 2022/1998 of September 20, 2022).

Activities are ongoing for the preparation of the Draft Law on Ratification of the Convention on Common Transit Procedure and the Draft Law on Ratification of the Convention on the Simplification of Formalities in Trade in Goods. These conventions are crucial for meeting one of the benchmarks in Chapter 29 of the Customs Union. As per the suggestions of the European Commission, these conventions need to be ratified after Montenegro fulfills certain conditions for their application. Montenegro will only receive an invitation to join the conventions after meeting these conditions, which ensures that all possible changes are ratified at the time of accession. Regular meetings with DG TAXUD are being held to monitor activities aimed at establishing the NCTS (New computerized transit system) and meeting the conditions for Montenegro's accession to the aforementioned conventions. This cooperation also aims to ensure the European Commission's support in further work on the implementation of NCTS.

As part of the operational goal, "Procedure improvement, development, and implementation of IT systems in the customs and tax area," activities to develop customs IT systems continued in 2023. These activities represent the third benchmark in Chapter 29, Customs Union.

The "Support to the Customs Administration" project, which aimed to implement the NCTS, adapt EU legislation to the legislation in the field of transit, and strengthen administrative capacities, was completed on December 10, 2022. Throughout the project's duration, numerous activities were carried out, and some even continued after its completion. The contractors submitted the final versions of the applications in December 2022, and they were subsequently retested. As part of testing the compliance of the National Transit Application (NTA) with the EC, testing of the Mode 3 application with other countries was carried out. The EC analyzed and monitored the results of the aforementioned testing. Also, during 2023, testing of applications for business entities was conducted. The customs notices and the economy have been updated in accordance with the Regulation on the detailed manner of implementing customs procedures and formalities, effective from March 7, 2023. Meetings with DG TAXUD are held regularly to monitor the activities of establishing the NCTS, fulfill the



conditions for Montenegro's accession to the Convention on Common Transit, and ensure the EC's support in further work on the establishment of the NCTS. The NCTS pilot application at the national level is ongoing, gradually involving customs offices and economic entities. As of August 18, 2023, all customs offices carrying out the customs transit procedure are included. Within the Department for Customs Procedures, the Transit Group has been fully staffed since October 2023, while the User Assistance Group is partially staffed. The public procurement process for maintaining and upgrading application software in the NCTS system was completed, and a procurement contract was signed with the selected bidder in 2023. Activities to prepare the system for national implementation of NCTS are underway. The ecarina.me portal has issued a notice outlining the process and requirements for obtaining approval to conduct transit procedures using electronic data processing. Business entities are encouraged to submit their requests promptly to ensure that all transit participants can take part in the national implementation of NCTS. During the meeting of the Forwarding Association Committee of the Chamber of Economy of Montenegro on June 16, 2023, the presentation covered the approval procedure for electronic data exchange, the web client-ext NTA, and the Tiketing application in preparation for the national implementation of NCTS. The national implementation of the NCTS was delayed due to the postponed implementation of the migrated CIS, which took place in November 2023 instead of September 2023. Namely, the connection of NCTS with CIS was made on the migrated CIS. "

Montenegro is expected to ratify the Convention and, after the national implementation of the NCTS, which is expected in 2024, begin the implementation of the NCTS at the international level in 2025. This will contribute to the simplification of procedures and the facilitation of trade.

Activities also continued on the implementation of customs IT systems (2.1.2.4) required for interconnection and electronic data exchange with the EU. Additionally, efforts were made to reduce administrative barriers through the further implementation of trade facilitation measures in line with the trade facilitation strategy 2018-2022 and PER (2.1.2.5)

In 2023, the RCA continued implementing activities under the EUIF-financed project "Implementation of the Customs Decision System (CDS) at the national level." The project commenced on December 8, 2021, and is scheduled to conclude on February 8, 2024, spanning a duration of 26 months. The system will contain 22 EU customs decisions adapted to the needs and capabilities of the RCA, as well as 7 customs decisions at the national level. The third meeting of the board of directors was held on July 28, 2023. During the meeting, it was confirmed that the project was progressing well. The necessary activities to be completed by the end of the project were determined. It was also established that parallel development of this project with the NCTS project is needed, particularly in defining and connecting decisions for transit. Communicating with other contractors in the information system is necessary for implementation. Furthermore, connecting the Customs Decision System with CIS and other customs systems by the end of the project is also necessary.

Activities under the Project "Support to the Revenue and Customs Administration of Montenegro for the improvement of the Customs Information System (CIS)" continued. The



regulatory changes, the Revenue and Customs Administration has begun reassessing previous approvals in accordance with the new legislation.

Activities continued within the framework of the "Support to Regional Economic Integration" project, whose goal is to improve Additional Protocol 5, with the participation of the private sector and the promotion of the protocol's benefits. The project includes support through three reform measures: Mutual recognition of the AEO program, Mutual recognition of border procedures and documentation, and integrated risk management. In 2023, 1 approval was issued for the status of an authorized business entity. Also, activities on the promotion of the AEO program among economic entities in Montenegro and the training of customs officials involved in the preparation of approvals and the performance of prior and subsequent control continued since, currently, four companies in Montenegro have AEO status. The training of customs officers was held in May 2023. The procedure for the request of four economic entities to obtain AEO status is ongoing. The Revenue and Customs Administration successfully completed the pilot validation mission that took place from September 18th to 20th, 2023. In November 2023, a request was submitted to the CEFTA Secretariat for the validation of our Authorized Economic Operator (AEO) Program. This status would enable economic entities to enjoy benefits in CEFTA member states. The Technical Protocol for the exchange of data via the SEED system between the customs services of Montenegro and the Republic of North Macedonia, necessary for implementing Additional Protocol 5 of CEFTA, is currently in its final phase of conclusion. The Single Window project implementation in Montenegro is set to commence as part of the country's loan from the World Bank. The loan mentioned earlier includes funding for the proposed RCA project, which aims to prepare comprehensive technical and tender documentation for the construction of a facility for detailed inspection in the Bar Free Zone, including its furnishing.

During 2023, 486 customs officials received training in various customs activities through 45 training sessions.

In the period from January 1, 2023, to December 31, 2023, the Customs Administration collected a total of EUR 1,178,100,488.23 in customs revenues. This amount reflects an 18% increase compared to the previous year or a rise of EUR 178,417,948.45. The actual gross collection for 2023 is 12% higher than the planned amount.

It's important to note that the planned activity to ensure continued employment for employees in the IT department has not yet begun within the specified timeframe, despite the need for further development and improvement of human resources. In this regard, during 2023, there were no new hires in the Information Systems Sector.



INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Legislation in Chapter 16 – Taxation harmonized with the EU acquis	Chapter 16 opened	Significant progress in meeting Chapter 16 closing benchmark	Adopted Law on Amendments to the Law on Value Added Tax	↻	Chapter 16 is provisionally closed/closed
Harmonized legislation in Chapter 29 - Customs Union with the EU acquis	Chapter 29 opened	Significant progress in meeting the closing benchmark for Chapter 29	The Parliament of Montenegro passed the new Customs Law ("Official Gazette of the Republic of Montenegro" No. 86/22) on 30 July 2022. Its implementation began on 11 February 2023.	↻	Chapter 29 is provisionally closed/closed
Strengthening the capacity and development of human resources of the Revenue and Customs Administration in the domain of information technology	The officials were not trained	150 customs and 200 tax officials trained	486 customs and 200 tax officials trained	↻	200 customs and 350 tax officials trained

2.2 Public Procurement

The operational objective concerning the establishment of capacity for implementing the new legal framework for Public Procurement and PPP aims to develop a training system for the needs of the public procurement system and public-private partnership (PPP) and produce the necessary technical literature.

Since the new public procurement legislation was passed in early 2023, the Directorate for Public Procurement Policy has been focusing on professional development and training for participants in the public procurement system during the reporting period. To strengthen administrative capacities and raise the level of professionalization of employees in public procurement, the Ministry of Finance continuously conducted training on the regulatory framework and the use of electronic procurement systems. In the reporting period, the Directorate organized five trainings attended by 241 participants. In cooperation with the Human Resources Administration, four trainings were held with 97 trained participants. With the continuous support of SIGMA, the Directorate organized two specialist trainings on centralized procurement and procurement in the energy field, with 52 participants in total.



within the framework of the TAIEX instrument, the Directorate's employees and representatives of the contracting authorities participated in a two-day training on green and sustainable procurement. This important training, which contributes to the fulfillment of the strategic goals of the Government's policy, was attended by 30 participants. In the reporting period, a total of 430 employees and 15 trainers were trained. Within its competencies, the Directorate for Public Procurement Policy continuously conducts professional development and training of officials, as well as training for different target groups in cooperation with international partners.

The activity, which includes improving manuals and instructions on using the e-procurement system, was realized during the reporting period. The Directorate for Public Procurement Policy prepares and publishes by-laws/professional instructions to further facilitate and improve the work of contracting authorities and bidders. Four professional instructions were prepared: instructions for the client to submit requests to the Revenue and Customs Administration, instructions for bidders, publications of simple procurements in accordance with the amended rulebook, and Instructions for entering procedures.

The operational goal is to enhance the functionality of the e-procurement system and provide training to users to ensure cost-effective public procurement and PPP. This goal will be achieved by activities focused on increasing the number of registered business entities in the e-procurement system. Since the introduction of the electronic public procurement system, there has been a continuous increase in the number of registered bidders. Comparing the number of bidders since the beginning of using the electronic system, which was 2,484, with the situation at the end of 2023, there has been a significant increase to 3,573. This demonstrates a stable growth in the number of active bidders.

During the implementation of the electronic public procurement system, the Directorate for Public Procurement Policy continuously organizes and conducts training to prepare users for its efficient use. In collaboration with the Human Resources Administration, three training sessions were conducted to specifically train public procurement officers in utilizing the electronic public procurement system in response to their expressed interest. In addition, the Directorate has developed four professional guidelines for utilizing the e-system designed for business entities. Additionally, the help desk operates every day to offer advisory support to bidders.

After completing the open procedure, the Ministry of Finance signed a contract with the most favorable bidder in January 2023 to maintain and improve the electronic public procurement system. The implementation dynamics are proceeding as planned. As part of this contract, the e-system was successfully integrated with the Revenue and Customs Administration system. Also, new complaint submission mechanisms were implemented, providing greater efficiency and transparency in public procurement processes. Furthermore, during the reporting year, a number of new analytical reports were developed and created in the system to enhance the monitoring and evaluation of the system. The results for the reporting period are highly satisfactory. The e-system is connected and operational with the Revenue and Customs Administration's system, leading to increased efficiency and integrity in the process. Also, the



complaints system has been improved to provide users with better support and ensure compliance with regulations in public procurement processes. The Ministry of Finance's efforts aim to improve the public procurement system and ensure transparency, efficiency, and compliance at all stages of the process.

The activity entitled "Establish the interoperability of the e-procurement system with the associated IT systems and registers in Montenegro in order to create an interface between e-procurement and related IT systems" is being successfully implemented. In 2023, the Ministry of Finance successfully finalized the integration with the Revenue and Customs Administration system, which resulted in its operational functioning. Also, the Electronic System of Public Procurement has established a connection with the Revenue and Customs Administration system, generating between 7 and 10 inquiries per day to the latter system. However, significant progress has been made, there may be potential challenges regarding the confidentiality and availability of data to Cane users. These aspects require additional attention and resolution to ensure the integrity and efficiency of the system.

As part of activities aimed at improving the e-procurement monitoring system, the focus has been on developing an analytical framework for measuring its cost-effectiveness. The Directorate for Public Procurement Policy worked diligently to improve and monitor the needs related to system monitoring. Accordingly, it creates new analytical reports on a daily basis to ensure the system's relevance and efficiency. In the reporting period, the Directorate successfully created nine new analytical reports, demonstrating its commitment and active role in improving the system.

Through daily monitoring of the e-system and listening to the needs of users, the Directorate has identified key aspects for the creation of analytical reports. In order to provide relevant information in real-time, the following analytical reports were created:

- Report on appeal procedures
- Total number of offers by procedures - parties
- Contracting authorities without a published plan for the selected year
- System metrics
- Report on concluded framework agreements (for all contracting authorities)
- Estimated/contracted value of all procedures for all contracting authorities
- Number of offers for each stage of the procedure
- Report on terminated contracts
- Report on amended contracts

These analytical reports provide detailed insights that are crucial for the effective management of e-procurement systems. They enable decision-makers to make informed decisions to optimize the procurement process. Currently, there are 22 analytical reports available in the e-system, representing an increase compared to the previous year when there were 19. The creation of new report types will be based on the indicators related to monitoring the effectiveness of the public procurement system. The Directorate includes these indicators in its annual and semi-annual reports on public procurement, as well as in reports to international institutions and partners.



The budget for 2023 included funds for the Commission for the Protection of Rights in Public Procurement Procedures to organize the Regional Conference "Legal Protection of Participants in Public Procurement Procedures." The aim of the conference was to facilitate the exchange of expert opinions and professional experiences in order to enhance the protection of participants' rights in public procurement procedures. However, the conference did not take place in 2023 because the Commission was not operating at full capacity, with only five members, one of whom was also serving as the deputy president of the Commission for the Protection of Rights. Since the Commission for the Protection of Rights was not at full capacity, most of the planned activities were not implemented due to the large volume of work, i.e., the number of subjects involved. The aforementioned approved funds for the conference were returned on 31 December 2023 in the Budget of Montenegro.

The Commission for the Protection of Rights has submitted a policy proposal for the formulation of the medium-term budget framework for 2024-2026. As part of this proposal, the Commission plans to hold the Regional Conference "Legal Protection of Participants in Public Procurement Procedures" in 2025. To fund this conference, 50,000.00 euros is needed, with 42,000.00 euros to come from the budget and 8,000.00 euros from donations. The conference is planned to last for three days.

We will be conducting activities in the near future to implement an educational program for small and medium-sized enterprises (SMEs). The program will focus on encouraging their participation in public procurement procedures, especially simple procurements. These activities will be carried out in partnership with the Chamber of Economy of Montenegro and the Ministry of Economic Development and Tourism. Given that the majority of economic entities in Montenegro are SMEs, a significant number of them attended the trainings organized during the past year. These trainings will be continuously provided in order to support the SME sector in acquiring relevant knowledge and skills for successful participation in public procurement.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
The actual time of processing complaints in public procurement	23	20	41	↶	18
Share of contracts subject to formal ex post evaluation	0	0	0	↷	0
Share of public procurement appeals challenged in courts	14,28%	13,20%	7,5%	↶	11,10%



The number of public procurement complaints in relation to the number of published tender notices	0	0	6.77	↻	0
Average number of bidders per procurement procedure	2.82	2.8	3.16	↻	3.00
Share of contracts awarded through competitive procedures	96.4	97	97.52	↻	97

2.3 State Aid Reform

Under the operational objective "Harmonization of legislation with the EU's standards," the focus is on activities related to drafting and adopting regulations. This includes efforts to coordinate the development of strategic documents, action plans, analysis, information, monitoring, and reporting to the Government of Montenegro on the implementation of these activities. Additionally, the work on preparing legal and regulatory documents in the field of state aid is being conducted. The Directorate for Coordination and Reporting on the Informal Economy and State Aid within the Ministry of Finance continuously monitors and aligns new Regulations published by the European Commission with national legislation. According to the latest report from the European Commission on Montenegro's progress in 2023, the legislative framework is largely in line with the EU acquis (Articles 107 and 108 of the Treaty on the Functioning of the European Union). In the reporting period, six related by-laws were adopted. They include, inter alia, instructions on how to calculate the subsidy equivalent and the repayment interest rate. Also, the state aid reporting procedure has been improved and European reporting procedures and methodology have been fully adopted. The Law on State Aid Control from 2018 defines the concept of aid and its procedural rules. The Law on State Aid Control and the related regulations need to be amended to comply fully with EU rules on state aid. Necessary activities and changes to achieve this have already started. The plan is to adopt the new Law on the Control of State Aid in the IV Q of this year.

As part of continuous efforts to improve the coordination of drafting strategic documents, action plans, analyses, information, monitoring, and reporting to the Government of Montenegro on the implementation of activities, as well as the preparation of legislative and sub-legislative acts in the field of state aid, considering that the Ministry of Finance has regulatory competencies in the field of state aid. The Agency for the Protection of Competition (APC), within which the State Aid Control Sector is established, implements the legal framework on state aid.

As part of the operational objective "Strengthening the administrative capacities of the Agency for the Protection of Competition (ACP), the Sector for State Aid Control and the Council of the



ACP", activities related to the training of the State Aid Sector and the Council for the Implementation of Legislation, as well as the training of judges and prosecutors, are being implemented. A multi-day training was held in March 2023 as part of the project "Increasing the capacity of institutions harmonizing and implementing the EU acquis in the area of Competitiveness and Innovation" (EAR/TGD/2021/EA-RP/0144). This training was intended for employees in the Department for State Aid Control in the Agency for the Protection of Competition. In addition, in September of the same year, a training session was held under the name "State Aid in the Energy Sector" for employees of the Agency for the Protection of Competition and the Ministry of Finance.

It is important to emphasize that with the implementation of Project IPA 2020, a mentoring plan was created for all employees of the State Aid Control Sector. Continue with training. The challenge in achieving the set indicator "At least 15 Agency officials trained" was highlighted. In 2023, 7 officials of the Agency for the Protection of Competition (state aid control sector) underwent training, which suggests that additional efforts are required to achieve the set goal by 2026.

As part of the same project, training for judges on state aid was held. The aforementioned training was conducted from June 8 to 9 and on June 19, 2023. The training aimed to include judges of the Administrative Court of Montenegro, the Commercial Court of Montenegro, the Court of Appeal of Montenegro, and the Supreme Court of Montenegro. The aforementioned training improved judges' understanding of state aid, especially in the context of administrative disputes before the Administrative Court of Montenegro. This initiative demonstrates the commitment to enhancing institutional capacity in aligning with the EU acquis. The performance indicator is set to at least 50% of trained judges of the Administrative and Misdemeanor Courts, as well as 50% of prosecutors. By the end of 2023, significant progress has been made. Namely, in this period, 20 judges of the Administrative Court of Montenegro, 3 judges of the Supreme Court of Montenegro, 3 judges of the Appellate Court of Montenegro, and 3 judges of the Commercial Court of Montenegro were trained.

Despite the progress made, there could be a challenge in the future if the Centre for Training in Judiciary and State Prosecution Service does not continue to support the Agency in training judges and prosecutors. Maintaining continuous support is crucial for sustaining the attained level of training for judges and prosecutors.

In accordance with the operational goal aimed at building a set of ex-ante and ex-post control cases, the Agency for the Protection of Competition (APC) consistently carried out activities to close pending cases ex officio. The main activity in this area consisted of a series of efforts to reach a decision on the reinstatement of non-aligned state aid. Therefore, in July 2023, APC issued one (1) decision on the refund of non-compliant state aid as a result of the investigation procedure initiated in March 2023. In addition, the Agency successfully completed one (1) examination procedure that started in December 2020, making a positive decision on the compliance of state aid.

The indicator of the success of the implementation of this activity was set through the goal of solving open cases of state aid. The Agency's monitoring of this goal is a crucial indicator of



how effectively national norms and EU law, transposed into our domestic legislation, are being implemented in state aid matters.

However, it should be emphasized that implementation is challenging, especially in connection with the timely submission of complete data by state aid providers. State Aid Providers are duty-bound to submit all relevant information requested by the Agency in a timely manner. This obligation is crucial for the smooth implementation of ex-post control and the resolution of open state aid cases.


In accordance with the same operational goal, activities are continuously carried out with the aim of increasing the number of ex-ante and ex-post controls. In the reporting period, emphasis was placed on the initiation of seven (7) examination procedures ex-post control ex officio, with the intention of continuing this trend in the future. In parallel, the Agency plans to maintain the existing procedures and open new ones for the subsequent control of state aid. In this reporting period, 39 ex-ante control procedures were successfully completed. The success indicator, set at 100%, refers to procedures initiated ex officio before 2022, which were successfully closed by the reporting period. The indicator for 2023 shows that only one (1) procedure initiated ex officio before 2022 remained open, while all others were successfully concluded. This result indicates a high level of efficiency in implementing ex-post controls, while simultaneously, it represents a challenge in solving the remaining open procedure. Furthermore, difficulties in enforcing these controls stem from the requirement for state aid providers to adhere to the standstill clause. This clause prohibits the granting of state aid before the agency has made a decision on the measures' compliance with legal provisions. In addition, the timely submission of all necessary information to the Agency by the state aid provider is crucial for effective opinion and making binding decisions.

Within the same operational goal, an activity dedicated to strengthening compliance monitoring in the field of state aid is continuously implemented. Montenegro is making significant progress towards the set goals. According to the European Commission's Progress Report for 2023, progress has been achieved through the systematic monitoring of state aid cases, especially regarding Montenegro Airlines and Air Montenegro. This initiative resulted in the early publication of the Agency's decisions and opinions, which further increased transparency in this key sector. This suggests that the set success indicator has been met, especially in the context of negotiations within Chapter 8 (Competition), which shows significant progress.

Montenegro stands out for its progress in ensuring the transparency of decisions on state aid. The Agency has successfully implemented a practice of promptly publishing decisions, opinions, and annual reports on its website. In addition, the creation of a general register of state aid cases, together with specialized registers related to COVID-19 and de minimis aid, contributes to increased transparency in this sector. The legislative framework has been significantly aligned with the EU acquis, particularly concerning Articles 107 and 108 of the Treaty on the Functioning of the European Union (TFEU). Despite the progress achieved, the Agency faces challenges in monitoring the application of state aid rules in large projects carried

out in collaboration with third countries. A key obstacle in implementation requires more involvement from the Agency to ensure consistent application of the rules in these projects.

In line with the above, APC will uphold its commitment to carry out planned activities and address challenges to ensure transparent, fair, and efficient ex-post-state aid control implementation.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Chapter 8 negotiations are provisionally closed (regarding the state aid benchmark)	Chapter 8 is open	Significant progress in meeting the closing benchmark	Chapter 8 negotiations have progressed, per EU progress reports		Chapter 8 is provisionally closed/closed

2.4 Salary Calculation System

In line with the operational goal to improve the employee salary system, which is funded by the Budget of Montenegro, activities to integrate consumer units into the centralized salary calculation (CSC) information system are continued. This involves an ongoing process of transferring employee master data to the new CSC system in multiple phases, gradually updating data from existing systems to the new centralized payroll system. It is crucial to highlight that data migration should be performed just before training end users to ensure they work with up-to-date and accurate information for realistic salary calculations. The status of this process remains in the implementation phase until the final entity is introduced into the system, as premature migration might necessitate a re-execution of the procedure. Despite the challenges, continuous efforts are being made to ensure a safe implementation. Cyber security risks are addressed, alignment is achieved in the organizational structure, and activities are undertaken to overcome subjects' resistance. Teamwork with relevant actors is of key importance for overcoming challenges and achieving successful integration into the CSC system. It is important to point out that 140 institutions implemented CSC, which achieved the target value for 2023.

In pursuit of the same operational objective, we are implementing another activity: training employees to use the CSC system. This training process will take place continuously, adapting to the dynamics of system inclusion and the technical capabilities and capacities of the objective. The training will be customized according to the geographical locations in Montenegro, taking into account the network access defined by the Ministry of Public Administration. Similar to the previous activity, this one is directly linked to the dynamics of involving end users from different subjects in the introduction procedure. The training takes place after the data migration and just before the actual calculation in the CSC system. This is done to avoid unnecessary breaks between acquiring knowledge and applying it. Experience shows that training too early can result in a "loss" of knowledge, necessitating retraining before the actual earnings calculation. The implementation of this activity will remain in the




implementation phase until the last subject is introduced into the system, ensuring consistency and continuity in the training process. It's important to note that a significant obstacle to the inclusion of new subjects is the preventive measures taken to protect against potential future cyber attacks. These measures prevent access to all subjects outside the networks of state bodies, managed by the Ministry of Public Administration, which is responsible for managing the network infrastructure for state bodies. In addition, the challenges identified stem from changes in the organizational structure of the government and spending units, as well as changes in the management structure and processes of state bodies and entities involved in the CSC system. Some subjects exhibit resistance to being included in the CSC system for various reasons, which further complicates the implementation process.

When it comes to adapting the information system for new users, this activity represents a crucial step following successful data migration and training. The adaptation process is the third step in the sequence, following the migration of data and training. Throughout this process, we carefully identify the specific needs of new users and adjust the system according to legal regulations related to individual or group subjects. At present, the system has been customized for 151 subjects, considering their unique needs and requirements. This demonstrates that we have achieved the target value for the specified period. The identification and handling of potential cyber-attacks are vital aspects of information system security. We have analyzed the consequences of cyber-attacks and taken steps to enhance security measures. The Ministry of Public Administration (MPA) is currently facing issues with system access, particularly the disability of access for a significant number of entities. Urgent resolution of these problems is necessary to ensure the smooth functioning of the system. Furthermore, changes in the management structure, including the heads of state bodies and entities, require coordination and adjustments to maintain the system's integrity. Some entities express resistance to inclusion in the CSC system for various reasons. Reasons for resistance are analyzed, and steps are taken to overcome these challenges.

In accordance with the operational goal of ensuring the maintenance of the CSC system, activities were implemented to continuously implement the task "Ensure sustainability of the CSC system." All the mentioned activities were carried out annually in order to keep the system in a functional state. Support was provided to adapt the CSC system to changes in legislation regarding salary calculation and government organization, enabling quick and efficient harmonization. The activities were carried out in compliance with the relevant legal changes, ensuring that the system meets all applicable regulations. To keep the application working for CSC, we have implemented support for the timely removal of malfunctions and bugs. Regular monitoring of the system and prompt response to identified issues ensured uninterrupted operation of the application. By signing a maintenance contract with the vendor in the first quarter of 2023, we have secured the long-term sustainability of the system. Also, funds are planned in the procurement budget for 2024, which guarantees continuous support and updating of the system in accordance with public administration's needs.

The upgrade of the software solution to enable wage calculation for five institutions that use confidential data from the Budget of Montenegro is currently in the planning phase. The entities planned for introduction into the system are still in the activity plan. Communication

With these entities is ongoing to resolve issues related to salary calculation. The implementation will occur when the intended subjects are ready to be introduced into the system. Challenges arise from the need to achieve compliance with technical and logistical aspects. Logistical and technical obstacles may be encountered when attempting to "mask" data or when providing space and personnel to handle and protect classified information. This issue will be carefully addressed based on the technical capabilities and requirements of the parties involved. In line with the operational objective of enhancing the centralized payroll software solution, efforts to improve the payroll system at the Budget of Montenegro have been implemented. This involves the planned upgrade of the current software solution for salary calculation. The original design of the centralized payroll system was initially limited to processing payroll only, excluding other benefits or personal incomes paid from other budget positions. It was acknowledged that the system needed to be expanded to include these additional income types. Since a significant number of individuals in consumer units receive various benefits, such as contracts for additional work and benefits based on membership in commissions and working groups, measures were taken to integrate these benefits into the accounting system. This expansion of the scope of income allowed for the creation of a unique solution that considers reporting formats in accordance with legal requirements while meeting the practical needs of users. The main objective of the upgrade is to create a single IOPPD form for paid taxes and contributions related to all types of income. This will simplify the processing of benefits and their reporting on the tax administration portal. The introduction of a single form will make it easier and more efficient for end users to comply with legal regulations. This initiative is a major step toward achieving operational goals as part of the wider public finance management reform in Montenegro.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Comprehensive application of the centralized calculation of wages (CSC) for all users of the state budget is ensured	CSC started implementation in a test environment for pilot institutions	140 institutions use CSC	140 institutions use CSC		430 CSC users and a module for processing data classified by the degree of secrecy in use



Accounting and reporting reform. In the 2022/2023 training period, 22 out of 23 participants acquired the certificate, and training for the 2023/2024 participants is currently underway with 32 attendees. With support from UNDP under the "Public and Private Finance for Development" Project, the training manuals have been updated and customized; these manuals were initially obtained from the CIPFA Institute in the United Kingdom.

The Government of Montenegro approved the proposal to amend the Law on Accounting in the Public Sector during its session on October 19, 2023. This amendment changes the deadline for implementing the law to January 1, 2027. The Parliament passed the relevant law on December 26, 2023.

In order to implement this law, it is necessary to develop a robust and highly sophisticated IT solution. This solution should support budget accounting and financial reporting based on the accrual accounting principle, which is different from the existing accounting information system that follows the cash accounting principle.

The State Audit Institution's report on the revision of the Bill regarding Montenegro's 2022 budget final account states that the conditions necessary for implementing the Law, specifically in the assessment of state property value and the launch of the real estate register software, are not feasible within the specified time frame. Consequently, the implementation of the Law has been postponed based on the SAI's recommendation to allow for the establishment of the necessary conditions for the application of the new accounting regulation.

With the support of UNDP, in addition to the previously prepared six by-laws and manuals for implementing the Law on Accounting in the Public Sector, which cover the accounting framework, accounting methodology, financial reporting, the register of public sector entities, and training and certification of accountants in the reporting period, a manual for applying the rulebook on financial reporting has also been prepared. The aim of this manual is to facilitate and simplify the application of this by-law for accountants in the public sector.

During the reporting period, the Ministry of Finance prepared a questionnaire to analyze the number of accountants in need of training and certification for the upcoming period. The Ministry then requested budget spending units and local self-government units to submit data required for the analysis. This data will be processed and analyzed accordingly.

The Ministry of Finance has also taken steps in drafting the analysis of the state of local self-government units for the implementation of the Law on Accounting in the Public Sector, which is scheduled for completion in 2024.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Assumptions for the application of accrual accounting in the	Accrual accounting is not in use	Preparatory activities for the introduction of accrual accounting initiated	The Draft Law on Amendments to the Law on Accounting in the Public Sector, which moves the deadline for the	↻	



property records for all immovable properties owned by Montenegro. Currently, the database contains 4,496 folders with 8,449 files. These files contain electronic records of state property and photos of the real estate in question. Elaborating thousands of government-owned buildings and hundreds of thousands of plots of land in Montenegro is a very demanding task.

It is important to note that the legislation related to this area did not change regarding activities aimed at strengthening the Commission for Real Estate Appraisal. Currently, the initiative of the Ministry and the Assembly to amend the Law is awaited. Although the start of this activity was delayed, its implementation is planned to be realized by 2026. This initiative remains key to improving the Commission's functionality and ensuring its efficient operation in the field of real estate valuation.

In order to train officials to efficiently manage state property, the most significant challenge is the lack of specialized software for keeping records of state property and managing the register. Currently, Excel is being used for these purposes, which means that specific training is not yet necessary. In previous years, trainings were conducted, ending with 2020, which included the training of officials from the State Property Records Department on the use of the now defunct ARS system, as well as 468 officials delegated by direct and indirect budget users. In the upcoming period, trainings will be organized for the use of new software for managing the Real Estate Registry after its successful implementation, as well as for the collection and exchange of international experiences and best practices in this area.

The activity to improve the functionality of IT solutions for state property management and data quality was only partially implemented. The ARS web application, which was intended to be a functional unit within the former Property Administration, was never operational within the Cadastre and State Property Administration and is still not operational within the State Property Administration. Additionally, the implementation of specialized software for recording state property was hindered by the fact that the former Property Administration submitted a proposal for amendments to the Law on State Property to the Ministry of Finance in 2019, but the ministry did not take any action on the proposal. The implementation of this activity is entirely dependent on the initiative of the competent ministry.

During 2023, efforts were made to improve the cadastre information system by ensuring all relevant prerequisites for a more efficient implementation of planned projects. A work task and necessary tender documentation for the improvement of the existing cadastre system were prepared in accordance with the available financial resources. The implementation of this project is currently underway, involving the implementation of EDMS and new e-services for the distribution of cadastre data and documentation. Based on the 2023 Public Procurement Plan, the public procurement procedure for maintaining and upgrading various systems used in the Administration has been completed. This includes the maintenance and improvement of the Register of House Numbers, Streets, and Squares, as well as other systems actively used in the Administration's work, such as Cadastral Records, Records of Spatial Units, e-Archive, Geoportal CSPA, MontePos GNSS, and the Data Center. Additionally, the procurement covers the provision of licenses for applications within the system. The Budget of Montenegro provides financial resources for maintaining existing systems. However, these resources are



insufficient to cover all planned activities, such as upgrading the Geodetic-Cadastral Information System and establishing new registers like the land cadastre, register of geographical names, and real estate price registry.

In 2023, the Cadastre and State Property Administration implemented the following activities to improve legal regulations and develop strategic documents, ensuring the quality of the system and data:

The drafting of regulations concerning the information system of the Administration is in progress, and the following Drafts have been prepared:

- Rulebook on the geodetic-cadastral information system
- Rulebook on Geodetic and Cadastral Safety
- The employees of the administration's information system prepare a Rulebook on the method of access, distribution, storage, and protection of data in the Geodetic-Cadastral Information System Documentation.

In order to improve the quality of cadastral record data in 2023, the Cadastre and State Property Administration implemented the following activities:

- The Rulebook on the creation and maintenance of the real estate cadastre was adopted. The Rulebook prescribes the technical norms, methods, and work methods that are applied in creating and maintaining the real estate cadastre and registering rights to real estate.
- In accordance with the adopted Rulebook, the Regional Units are continuously working on improving the quality of cadastral record data.
- Continuous work on translating census cadastre records into real estate cadastre records is being carried out.

The lack of a strategic document to guide the development of information systems is hindering decision-making at higher levels. To address this, it has been proposed in the 2024 public procurement plan to allocate more financial resources for the introduction of new technologies, implementation of new registers, and ensuring system security. There is also a shortage of staff to handle tasks related to the information system and insufficient funds to establish a new IS that meets technical and technological requirements. Improving data quality is not solely the responsibility of the Administration; it requires active participation from real estate owners and additional involvement of the Administration's employees. Part of the tasks for which the Administration is responsible in all Regional units are being carried out continuously. One of the obstacles is the lack of trained personnel, as is the insufficient number of employees in relation to the responsibilities and scope of work. It's crucial to highlight that financial resources will be needed to implement the next phases of system improvement. Enhancing the cadastral information system will take longer to implement, and the goals can be categorized as short-term, medium-term, and long-term planning. For such large projects, the annual funds approved by the Public Procurement Plan within the Budget of Montenegro are not sufficient to achieve the goal. Activities 3.2.2.2 and 3.2.2.3 are partially connected, so the use of funds of 75,000 can be observed for both activities.

As part of the initiative aimed at establishing new e-services, especially in connecting notaries with the cadaster for the submission of requests as electronic documents, continuous work is



being done on maintaining and improving the existing web application used by notary offices, public enforcement officers, and state and local government bodies. Following the planned activities, the establishment of new e-services for the electronic submission of requests by notaries has begun the first phase of implementing the project to upgrade the system through the implementation of new functionalities for the needs under the Administration's jurisdiction. The focus of this project is on the application of web-based services in order to enable the transparency, use, and exchange of data of all competent institutions of users of data and documentation of cadastral records. The use of existing e-services by notary offices is 100%. The indicator status cannot be fulfilled, considering that the activity is planned to be implemented by 2025, but according to the planned dynamics, the requirements are fulfilled.

As part of the initiative to establish interoperability with relevant IT systems, activities are being continuously implemented. The current information system ensures smooth use of existing e-services, while all new e-services require ensuring all relevant prerequisites. External users actively use these systems, and available e-services and applications function without any interruptions. Challenges emerge from the demands of external users, especially considering that the existing system was designed over twenty years ago. This context requires careful consideration to ensure that the system continues to meet the needs of users and adequately cope with the challenges of modern requirements.

Officials are continuously trained to use information technology systems to improve the efficiency of the Cadastre and State Property Administration's work. Training at higher levels is planned to improve the system's functionality and the application of application solutions. Special attention is paid to enhancing knowledge of the security of the entire information system, network infrastructure, and related aspects.

To enhance the management of state assets, options for updating existing regulations to effectively record state assets using a software solution and to keep current data on transfers and disposals were explored. It's important to note that no specific changes to the legal framework were made during this time. A working team was established to draft a proposal for amending the regulation on the method of maintaining records of movable and immovable property in state possession. However, no specific solutions have been finalized in this period.

As part of activities aimed at amending the regulatory framework to clarify the obligations regarding the submission of electronic documentation by notaries, especially in relation to the Law on State Survey and Cadastre, the Administration has already presented a proposal and a Draft for this purpose in 2020. Considering the shortcomings of the existing legal regulations that insufficiently define the competencies, procedures, obligations, and actions related to the electronic submission of requests by notaries, an initiative has been launched to hold a meeting of representatives of the Ministry of Finance, Ministry of Justice, Chamber of Notaries, and the Cadastre and State Property Administration. The full implementation of this activity depends on amending the legal regulation that governs the work of notaries.

A strategic document is being developed to improve the information system for the cadastre. The terms of reference and specifications are ready. Urgent funding is needed to hire consultants and ensure an efficient implementation process. The Administration's information

system includes various data and functions such as geodetic works, real estate cadastre, cable duct cadastre, house number registry, street and square records, spatial unit records, state maps, topographic maps, office operations, and state-owned property, all in compliance with legal regulations.

Considering the complexity of this information system and its vital role in several key areas, its continuous improvement is significant. The process of modernization requires thorough planning. The first stage should be creating a strategic document that includes short-term, medium-term, and long-term goals, as well as appropriate activities for their realization.

In this regard, the employees have prepared a document that explains the necessity and objectives of developing the Administration's Information System Development Strategy, along with a draft of the work assignment. Due to the heavy workload and regular tasks, the IT department employees are unable to independently create a comprehensive document that encompasses all the required analyses, evaluations, and suggestions. As a result, it has been proposed that a competent contractor carry out this assignment through a public procurement process. It is estimated that the approximate value of financial resources for preparing the document Strategy for the Development of the Information System of the Administration for Cadastre and State Property is around 50,000 euros; however, the funds for this have not yet been secured. Although the Strategy's development is planned in the 2024 Public Procurement Plan, it is necessary to consider securing funds from other financing sources due to urgency.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Records of non-financial (state assets) established	Non-financial assets are not shown	Preparatory activities for the establishment of records of non-financial assets (state assets) initiated	Drafts of internal acts "Internal procedures for quality control of collected and recorded data on state-owned real estate" and "Internal procedure for collecting and recording data for the needs of electronic records of state property" are being prepared.	↻	Records of non-financial assets (state assets) established
Cadastral information system improved	A procedure for improving data quality has not been established;	Cadastral information system improved	Rulebook on the creation and maintenance of the real estate cadastre adopted and implemented. Continuous work on translating census cadastre records into real estate cadastre records is being carried out. The first phase of the system upgrade project implementation has begun, with the aim of implementing new web-based services.	↻	Cadastral information system improved and a new platform established



3.3 Budget Execution Reporting

In the section reporting on budget execution, the main goal was to establish a transparent process for creating and publishing annual and periodic reports on budget execution. This involved two key activities in 2022, both of which were implemented during the reporting period. The first activity involved upgrading the Budget Information System (BMIS) to enhance the annual and periodic reports on budget execution. This upgrade aims to generate periodic reports on budget spending based on organizational, programmatic, functional, and economic classifications. It also includes preparing semi-annual and annual budget performance reports.

The successful preparation of the half-yearly reports on the execution of the program budget for the period January- June 2023, as well as the annual report on the execution of the program budget for the previous year, 2022, is particularly noteworthy. These reports were compiled using the BMIS system, which contributed to transparency and efficiency in monitoring budget activities. It is essential to point out that in the process of preparing the aforementioned reports, an area that requires additional improvement was identified. In the coming period, the focus will be on further improvement of the reporting system, whereby special attention will be paid to gender-sensitive indicators to ensure a comprehensive evaluation of progress.

Another initiative focuses on increasing transparency and improving the visualization of budget statements through the creation of a "Budget for Citizens." The aim is to make the "Budget for Citizens" readily available to the public, including its publication on the Ministry of Finance website. This will provide clear and accessible information about the budget. However, the "Budget for Citizens" is currently in the draft phase due to the pending budget information system (BMIS), which will include the report format, especially for budget performance reports. This format will be used to directly obtain the data needed for drafting the "Budget for Citizens." In 2023, work on preparing the budget for citizens continued in the format proposed as part of the project "Improvement of the budgeting system, multi-year budget framework, and internal financial control system in the public sector," which was completed in December 2022. Additionally, the Parliamentary Budget Office prepared a budget for citizens during the preparation and consideration of the budget in the parliamentary procedure.

The gender-responsive budget for citizens was finalized in February 2023 with the support of the OSCE. The document graphically defines gender-responsive budgeting, the preparation of a gender-sensitive budget, and its purpose. It also outlines terms such as gender analysis, assessment of the budget's impact on gender equality, the importance of the gender component in budget planning and execution, as well as defining gender goals and indicators and reporting. The document includes concrete examples from the practice of applying gender-responsive budgeting in Montenegro by the ministries, as well as information about the performance of the Budget Law for 2023, which includes defined gender-responsible goals, indicators, and budget funds allocated for the realization of gender-responsible activities. However, the gender-responsive budget for citizens has not been published on the Ministry of Finance's website because it depends on upgrading the budget information system (BMIS) and marking costs for gender-sensitive activities to obtain the exact amounts of planned spending and review defined gender-sensitive targets and performance indicators.

Under the second operational goal, "Establishing the process of creating annual and periodic reports on the performance of the budget," the activity "Preparing half-yearly and annual reports on the performance of the budget through BMIS" is continuously being implemented. The result of this activity is the Performance Report, which is carefully prepared in accordance with the provisions of the Rulebook. The Ministry of Finance, in cooperation with the OSCE, has developed Guidelines for reporting on the execution of the gender-responsive program budget. These guidelines are incorporated into the budget information system (BMIS). Spending units report on the execution of the program budget, which includes the gender-sensitive budget, through a specific form defined in accordance with the Decision on the method of preparation and content of the program budget of spending units. This decision prescribes that the report be submitted using the form prescribed by the Ministry. All spending units correctly submitted periodic and annual reports on budget efficiency. However, emphasis should be placed on improving the quality of the attached (entered) information on goals and indicators in order to improve the accuracy and completeness of budget performance reports.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Annual and periodic reports on budget execution in accordance with the program classification are prepared within the Budget Management Information System - BMIS	Reports not produced	BMIS is in the process of upgrading, which will enable the preparation of annual and periodic reports, including gender indicators	BMIS includes an upgrade that enables the preparation of annual and periodic reports, including gender indicators	↻	Periodic and annual reports improved according to BMIS upgrade, including gender indicators

3.4 Establishment of MIS for the Management of EU Funds

As part of the operational goal of establishing an MIS for the management of EU funds, the implementation of the Needs Analysis activity and the creation of a technical specification for the MIS (Management Information System) was planned for 2023. However, this activity was not implemented within the stipulated period because the preparation of the Needs Analysis and the technical specification for the MIS was postponed until 2024. In the upcoming period, it is crucial to secure sufficient expert assistance to ensure high-quality inputs. The new implementation period is the IV Q 2024 until the IV Q 2026. Regarding the objective of improving the management of EU funds through the development of a unique Project Management and Monitoring Information System - MIS, it's important to note that the target value for 2023 has not been met. This is due to the lack of initiated preparatory activities for setting up the MIS, as mentioned. This deficiency underscores the need for immediate action to address these issues and make progress towards effective management of EU funds.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026



assess the efficiency and transparency of processes within the mentioned ministries. Audit teams were not limited to employees in these ministries; moreover, auditors from other ministries were involved to encourage the exchange of knowledge and experience.

The value of the indicator measuring the percentage of ministries delegating powers for financial management and internal controls will be known with the adoption of the Consolidated Annual Report on Management and Internal Controls in the Public Sector for 2023. The value of this indicator for 2022 was 28%.

The Ministry of Finance conducted an analysis at the beginning of 2023 to examine the current state of management responsibility in the public sector of Montenegro. This included the delegation of authority to managers of organizational units for management and achievement of goals within their jurisdiction, as well as the transfer of certain jobs and tasks in the ministries. Based on the answers received, the authority to approve payments is most often transferred to the ministry or state secretary. However, payments are made only after the head of the organizational unit approves that the service has been performed or that the goods or equipment has been delivered. Certain authorizations (e.g., for budget planning, public procurement planning, and approval of business trips) are presented in internal rules and procedures.

The Ministry of Finance organized a conference on management responsibility at the end of November 2023 to raise awareness of the importance of implementing the concept of management responsibility in state administration. The conference's goal was to promote management responsibility and delegation of authority and to present the Ministry of Finance of the Netherlands' experiences. Representatives of the Ministry of Finance of the Netherlands and relevant representatives of state administration institutions attended the conference.

Considering the importance of reporting for monitoring achieved results and successful management, as it provides information about the goals, decisions, and strategies that managers implement, the Ministry of Finance has prepared the Methodology for internal reporting (in accordance with managerial responsibility and performance reporting), which has been published on the ministry's website. The methodology's purpose is to support entities in appropriately defining the information requirements they need for effective management.

At the end of 2023, an assessment of the quality of the established system for information exchange in two ministries was carried out, and reports were prepared at the beginning of 2024. The reports contain findings and recommendations for improving this system.

One of the planned activities was to train managers and employees in management responsibility, delegation of authority, and internal reporting. The plan included two training sessions, one at the central level and the other at the local level, in cooperation with the Human Resources Administration. Regrettably, only the training for representatives of local institutions was conducted, as there were not enough applicants for the central level training, resulting in its cancellation. As a result, we can conclude that this activity was only partially realized in the reporting period.



Activities related to further developing "soft skills" for managers and employees in internal audit units were implemented in the previous period. In September 2022, a two-day workshop on "Soft skills of internal audit" was held with the support of SIGMA experts. The training was held for 35 internal auditors assigned to users of budget funds at the central and local levels.

With the adoption of the Consolidated Annual Report on Management and Internal Controls in the Public Sector for 2023, one key indicator measuring the percentage of internal audit recommendations related to improving internal controls and achieving value for money will also be known. It is important to note that the value of this indicator for 2022 is 32.45%.

As part of the analysis of progress in implementing Internal Financial Control in the public sector (PIFC), we highlight the challenges and obstacles that appeared during the reporting period. One key challenge is the managers' lack of understanding about the importance of establishing clear lines of responsibility and delegation of authority for good management and successful goal achievement.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
% of ministries delegating powers for financial management and internal controls	8,3%	10%	28% (2022)	↶	80%
% of internal audit recommendations related to improving internal controls and achieving value for money	28,60%	32%	32,45% (2022)	↶	40%

4.2 External Audit

In the reporting period, the State Audit Institution (SAI) achieved positive results in improving the framework of strategic planning and annual audit planning and the process of monitoring the implementation of audit recommendations.

In order to improve the strategic planning framework, the State Audit Institution paid attention in the reporting period to the implementation of activities from the SAI Strategic Development Plan for the period 2018-2022 and other valid strategic documents in the fields of communication and human resources management.

In March 2023, the State Audit Institution (SAI) adopted the Strategic Plan for the Development of the SAI for the period 2023-2027 and the Operational Plan for the Implementation of the Strategic Plan for the Development of the SAI for 2023. It was based on the analysis of the achievement of strategic goals from the SAI's Strategic Development Plan for the period 2018-2022, the findings and recommendations from the INTOSAI Development Initiative Report (IDI) on the assessment of the performance of SAI, and the SIGMA Report on the survey conducted among audit subjects and key external stakeholders. The State Audit Institution improved the



strategic planning process for financial audits and regularity audits by implementing activities outlined in the Operational Plan for the Strategic Development Plan of SAI for the 2023 period. In this regard, the Institution adopted the Mid-Term Financial Plan in April 2023 for audits and regularity audits in SAI for the period 2023-2027, based on risk assessment.

During the reporting period, the State Audit Institution focused on further developing performance audits. This included implementing more parallel performance audits related to sustainable development goals and providing professional development for auditor staff through the International Training Program for Performance Audit organized by the National Audit Office of Sweden. The institution also actively participated in the EUROSAI Working Group for Environmental Audit to focus on audits related to the implementation of sustainable development goals in environmental protection. Additionally, the institution is working on drafting guidelines for the revision of environmental protection due to its importance.

To establish an appropriate system for managing the audit process (AMS), the State Audit Institution analyzed the situation before drafting the project assignment and prepared a technical specification for the AMS software.

The State Audit Institution applies the adopted Guidelines for preparing, monitoring, and controlling the implementation of recommendations by publishing reports on the implementation of recommendations from individual audits. Monitoring is regularly carried out through the evaluation of the implementation of recommendations from the revision of the Draft Law on the final account of the state budget and the control audit.

In the following period, the focus of the State Audit Institution will be on: conducting audits of areas of most significant risk, proactive cooperation with interested parties in the audit process, establishment of an effective system for monitoring the implementation of audit recommendations in cooperation with the Assembly; strengthening communication skills and increasing visibility and understanding of audit findings, as well as upgrading audit capacities in terms of improving their skills and competencies.

The key challenges for implementing activities pertaining to insufficient spatial capacities for the reception of an additional number of employees and a possible lack of external support funds for the realization of strategic priorities.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Negotiations on Chapter 32 (Financial Supervision) are provisionally closed	Chapter 32 open	Significant progress in meeting the closing benchmark	Strategic plan 2023 - 2027 drafted with the Action Plan for 2023. Level of implementation of the Strategic Development Plan of SAI increased	↶	Negotiations on Chapter 32 (Financial Supervision) provisionally closed

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Anti-Fraud Coordination Service (AFCOS)

In accordance with the requirements of the legal acquis of the European Union (Negotiation Chapter 32—Financial Control) and the European Commission, every country that is a beneficiary of the European Union's funds must establish an adequate functioning system of financial management and control, i.e., the AFCOS system (system for combating fraud and management irregularities). The goal of the AFCOS system is to safeguard the financial interests of the European Union. To achieve full operability and enhance the AFCOS system, as well as to ensure the protection of the EU's financial interests, planned activities are consistently and systematically implemented according to the scheduled timeline.

Establishing a legal basis and improving coordination are crucial to improving the efficiency of the AFCOS system. Activities pursuing these goals have already been implemented, but further harmonization of national legislation with the so-called PIF Directive - Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law will also be carried out. In this context, the Ministry of Finance/AFCOS office will undertake a series of activities with the Ministry of Justice to analyze the compliance of relevant laws, by-laws, and other applicable provisions with the so-called PIF Directive. After analyzing the results, it has been determined that the normative framework needs improvement to align the Criminal Code of Montenegro with the PIF Directive. This will involve either amending existing regulations or introducing new ones. Significant progress has been made through the adoption of the Law on Amendments to the Law on Budget and Fiscal Responsibility. This law was published in the "Official Gazette of Montenegro", number 27/23, on March 8, 2023. These changes are vital for enhancing the protection of the financial interests of the European Union. They involve introducing the concept of protecting financial interests, defining the role and importance of the AFCOS office, and clarifying the function of the OLAF office. Article 76(a) stipulates that "Montenegro, as a recipient of European Union funds, shall guarantee the autonomous administration of IPA funds and safeguard its financial interests by establishing a system for the prevention of irregularities and fraud (AFCOS) which shall coordinate legislative, administrative, and operational measures and directly collaborate with the European Anti-Fraud Office (OLAF)." Furthermore, Article 76(a) asserts that "The acquisition of data on irregularities and potential instances of fraud related to the management of IPA funds, as well as their disclosure to the European Anti-Fraud Office (OLAF), shall be conducted by the organizational unit within the Ministry of Finance." These provisions establish the framework for enhanced protection of EU financial interests, thereby treating EU funds with the same level of protection as national budgetary funds. Consequently, these measures lay the groundwork for aligning national legislation with European standards in the realm of handling financial resources derived from EU funds.

Also, the Decision on Amendments to the Decision on the Formation of the Coordinating Body for Monitoring and Managing the Policy of Prevention and Combating Irregularities for the Purpose of Protecting the Financial Interests of the European Union (AFCOS Network) was adopted - ("Official Gazette of Montenegro," No. 24/23, dated March 3, 2023). To further improve the system for protecting the European Union's financial interests, timely reaction,



and corrective measures, it is proposed to amend the decision and introduce a fee for the more efficient work of the AFCOS network.

The protocol on cooperation between the Ministry of Finance and the Ministry of Internal Affairs was signed in February 2023, which more clearly defined the roles of the aforementioned actors in the AFCOS network system in protecting the financial interests of the European Union. The protocol on cooperation with the Supreme State Prosecutor's Office is expected to be signed soon.

The Regulation on the detailed manner of implementation of the financial support of the European Union through the Instrument of Pre-accession Support (IPA) was adopted ("Official Gazette of the Republic of Montenegro," No. 77/23, dated July 28, 2023). This Regulation outlines the obligations and responsibilities of all stakeholders within the IPA system, including the identification and reporting of irregularities and fraud.

The activity "Develop procedures for prevention, risk analysis, detection, reporting, coordination, and cooperation" was partially implemented. Namely, in September 2023, the AFCOS office, within the framework of TAIEX, organized a workshop on the topic of managing the risks of irregularities and fraud, where Croatian experts presented the Methodology developed by the European Anti-Fraud Office (OLAF) for the purpose of conducting a systemic risk analysis in the field of fraud prevention and irregularity management. It is necessary to develop a systemic risk analysis in the field of fraud prevention and irregularity management in the coming period, within the overall AFCOS system, which will serve as the basis for the development of the next Strategy. After the training within the TAIEX workshop and Twinning project, where more than 50 officials were trained on topics such as IMS application, prevention, risk analysis, detection, reporting, coordination, and cooperation in managing irregularities, it can be said that the percentage of irregularity reports returned to agencies for implementation for review and correction has decreased, but there is still room for improvement in this area. During the reporting period, 3 regular coordination meetings were held with the AFCOS advisory body, and the continuation of regular coordination meetings in the coming period is expected with all IPA bodies (2026).

Improving the work of the AFCOS network authorities entails focusing on two key segments to enhance the effectiveness of the AFCOS network in managing irregularities. First, developing and adopting a Communication Strategy and procedures to improve communication between AFCOS authorities and the general public is a priority. Secondly, implementing a system to manage cases of irregularities and fraud related to IPA funds is crucial. In the upcoming Twinning light project of the AFCOS office named "Further improvement of the functionality of the Montenegrin AFCOS system for more effective protection of the financial interests of the EU," approved with a budget of €250,000, creating a Communication Strategy is one of the primary objectives. Although the development of this strategy has not commenced, a call for bids has been opened for the project. Implementation is anticipated to begin in September 2024. The primary focus is on achieving measurable results that will contribute to more effective management and transparency in protecting EU financial interests.



In September 2023, the Twinning light project "Strengthening the capacity of the institutions of the AFCOS system in the field of management of irregularities" was successfully implemented. It was jointly implemented by the National Agency for Transparency from the Republic of Greece and the Department for Suppression of Irregularities and Frauds (AFCOS office) in the amount of €100,000. Within this 8-month project, in addition to the evaluation component of the Strategy for the fight against fraud and management of irregularities in order to protect the financial interests of the EU for the period 2019-2022, the other two components related to the strengthening of the administrative capacities of the entire AFCOS system, i.e., the representatives of the Structure for reporting of irregularities, i.e., the IPA structure and representatives of institutions in charge of combating fraud, corruption and some other forms of illegal activities in the system (AFCOS network), through holding trainings/seminars for their officials.

When it comes to these two components of the project, it must be noted that during the 8-month duration of the project, 9 seminars were held covering topics such as conflict of interest, corruption, red flags-indicators, public procurement rules, cooperation with the European Anti-Fraud Office, the European Public Prosecutor's Office, and reporting irregularities and fraud through the European Commission software - Irregularity management system. The seminars focused on sharing experiences regarding the common irregularities that occur during project implementation. They aimed to strengthen administrative capacities and enhance knowledge of the appropriate rules and procedures for the successful implementation of projects financed by the European Union. More than 120 officials from the entire IPA structure attended these trainings, significantly increasing the number of officials trained in management (prevention, recognition, reporting) of irregularities, as well as other vital topics in the field of protection of EU financial interests.

The project fiche of the above-mentioned Twinning light project of the AFCOS office: "Further improvement of the functioning of the Montenegrin AFCOS system in order to effectively protect the financial interests of the EU," also provides for the drafting of the Strategy for the fight against fraud and management of irregularities in order to protect the financial interests of the EU for the period 2024 -2027 and the accompanying Action Plan. This activity has not yet been fully implemented. The development and adoption of the Strategy are foreseen by the Twinning Light project, which begins, as already mentioned, in September 2024 after the evaluation of submitted offers. We also note that, in accordance with the agreement with the General Secretariat of the Government, the Strategy will cover the period 2025-2028.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Negotiations on Chapter 32 (Financial Supervision) are provisionally closed	Chapter 32 open	Significant progress in meeting the closing benchmark	Law on Amendments to the Law on Budget and Fiscal Responsibility	↻	Negotiations on Chapter 32 (Financial Supervision) provisionally closed



4.4 Improving the Efficiency of the Auditing Body

The public finance management reform program, within strategic goal 4 - Financial control, defines goals that will contribute to improving the efficiency of the Audit Body through the implementation of 2 activities:

- Alignment of the Law on the Audit of EU Funds and by-laws with audit standards and future EU requirements; and
- Training of auditors on the closure of the Pre-accession Support Instrument - IPA II program and the news regarding the IPA III program period.

Implementing the planned activities represents an important step towards improving the legislative framework for auditing EU funds. Strengthening the function of the Audit Body and harmonizing national legislation with EU standards are key to progress towards EU membership. During the period 2022-2025, IPA II and IPA III will be implemented in parallel and the Audit Body will conduct audits of both program periods, as well as audit activities related to the closure of the IPA II program. In this sense, strengthening audit capacities, further training of auditors, and development of audit procedures are necessary.

In 2021, the Audit Body prepared a project proposal for the Twinning Light project titled "Improving the legislative framework and strengthening the administrative capacities of the Audit Body of Montenegro." In accordance with the set goals, on December 8, 2022, a contract was signed with a partner from a member state, the Agency for the Audit of the European Union Program Implementation System. The project aims to enhance the capacity of the Auditing Body to apply harmonized regulations and procedures related to IAS (International Accounting Standards) standards and IPA/ESIF (European Structural and Investments Funds) funds in accordance with EU legislation and best EU practice. The total value of the contract was EUR 199,999.95, and the planned implementation is set to last for 8 months. The project officially commenced its activities on January 16, 2023. Throughout the implementation phase, a team of experts from Croatia was engaged, with additional support from experts in Sweden, Hungary, and Ireland.

The implementation of the project took place through 2 components, which are in accordance with the activities defined by the Public Finance Management Reform Program, namely:

- Component I - Improvement of the legislative framework, i
- Component II - Strengthening capacity and increasing the efficiency of conducting audits.

The following results were achieved within component I:

- A detailed analysis of the relevant legislation governing the audit of EU funds in Montenegro was carried out;
- Gap report with recommendations for amendments to the Law on the Audit of EU Funds with identified prepared by-laws
- The text of the Proposal for the Law on Amendments to the Law on the Audit of EU Funds has been finalized. In accordance with the procedure, the Draft Law was submitted to the proposer for submission to the competent authorities for obtaining



an opinion and referring it to the Government of Montenegro for consideration and decision.

- The by-laws of the Audit Body have been identified and prepared and will be processed further after the adoption of the Law on Amendments to the Law on the Audit of EU Funds by the Parliament of Montenegro.

During the reporting period, the following results were accomplished within component II:

- An analysis of the relevant European Union legislation, guidelines, and requirements related to the closure of the 2014-2020 program period (IPA II) was performed, and the preparation of appropriate procedures, checklists, and working documents for performing audit activities related to the closure of the IPA II program;
- The audit manual was modified in accordance with the requirements for the audit of IPA III/ESI funds and presented to the employees of the Audit Body;
- Training needs assessment of the employees of the Audit Body was carried out;
- Training program (including plan and program) for the Audit Body developed and training materials for seminars and workshops prepared;
- 15 auditors were trained for audit activities related to the closure of IPA II and/or for the audit of IPA III/ESIF;
- Conducted practical training through two study visits of employees of the Audit Body in an EU member state (5 working days, 7 participants per study visit) with a focus on specific issues based on the needs of the institution (Hungary and Sweden);
- Organized and implemented practice for 3 auditors in the Audit Bodies of the member countries, Sweden and Croatia.


Despite the limited implementation time period, this project achieved significant progress, standing out not only through the planned activities but also through the intensification of cooperation between member countries and IPA countries. This was recorded through the holding of a mini-homologue meeting in Podgorica on May 12, 2023. This event represents the first time that an IPA country has hosted a homologous meeting, which is usually organized annually in one of the member countries. Participants included representatives of IPA countries, as well as experts from member countries such as Croatia, Hungary, Serbia and Ireland. The project was successfully completed and was officially closed on September 15, 2023.

In the following period, auditor training is planned, with a special emphasis on training related to closing the IPARD II program, information system security audits, and newspapers in the IPARD III program.

During the implementation of the activities in 2023, there were no obstacles, and everything was implemented as planned.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
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Negotiations on Chapter 32 (Financial Supervision) are provisionally closed	Chapter 32 open	Significant progress in meeting the closing benchmark	Amendments to the Law on the Audit of Funds from EU Funds for submission to the Assembly have been completed; By-laws of the Audit Body have been identified and prepared for further adoption		Negotiations on Chapter 32 (Financial Supervision) provisionally closed
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4.5 Operationalization of the Budget Inspection Function

To implement the operational goal of Establishing a legislative framework within the segment dedicated to the operationalization of the budget inspection function, the implementation of the activity "Create a regulatory and methodological framework" is foreseen. It is important to emphasize that at the session held on July 28, 2022, the Government of Montenegro considered the Rulebook on the Internal Organization and Systematization of the Ministry of Finance⁴, submitted by the Ministry of Finance. The Government adopted the conclusion on adopting the Rulebook on the internal organization and systematization of the Ministry of Finance. The aforementioned act abolished the Directorate for Budget Inspection and Suppression of Irregularities and Fraud and established the Department for Budget Inspection. In accordance with the mentioned circumstances, the competencies of the members of the Working Group for the work on the Strategy for the Development of the Budget Inspection were abolished.

Proposals for amendments to the Law on Budget and Fiscal Responsibility, especially those related to budget inspection and its work, have been prepared. They will be integrated during the amendment of this law, planned for 2024.


At the end of 2023, it was concluded that the development of the Budget Inspection Development Strategy and Budget Inspection Methodology was not necessary. This decision has been made after analyzing and recognizing that the important aspects of budget inspection development are already well covered by existing strategic frameworks, including the Public Administration Reform Strategy and the Public Finance Management Reform Program. This decision reflects the aim for efficiency and coherence in strategic planning, aligning national initiatives with the recommendations of international bodies such as SIGMA and the European Commission. These recommendations highlight the importance of consolidating related strategic initiatives into more comprehensive documents to optimize resources and enhance collaboration between different parts of public administration. By integrating the specific goals of developing the budget inspection into the broader strategic framework, Montenegro demonstrates its commitment to improving the efficiency and transparency of the public sector and its openness to implementing best practices and recommendations of international partners. The draft of the special Law on Budget Inspection will be completed in 2024.

⁴ <https://www.gov.me/dokumenta/ae1aabdb-8405-4312-8af3-012bdd982faf>



In July 2022, the Government of Montenegro appointed the chief budget inspector for a five-year term. Throughout 2023, the government carried out the process of hiring two budget inspectors, which took place from May to October. The process was hindered by complex advertising and selection procedures, which resulted in reduced interest from potential candidates, especially from outside the state sector. There were challenges in attracting candidates from within the state system, mainly because they would be required to go through the selection process again after five years. Despite these difficulties, efforts are underway to optimize and improve recruitment procedures with the aim of making the process more efficient and attractive for candidates. In 2023, two successful study visits were conducted to the Ministry of Finance of the Republic of Serbia and the Ministry of Finance of the Republic of Croatia. These visits focused on understanding the practice of budget inspection in the regional context. They facilitated the exchange of valuable experiences and information and laid the foundation for further cooperation and the development of professional capacities, particularly in the area of knowledge transfer and potential expert support. In the future, there are plans to continue such study visits while also creating customized pieces of training for budget inspectors. These trainings will be conducted by domestic and foreign experts in relevant fields and legislative frameworks applicable to the work of budget inspectors. The organization and implementation of in-house training is also planned in cooperation with colleagues from the State Budget and the State Treasury to ensure continuous improvement of professional competencies and more efficient application of prescribed procedures.

Progress was made during the reporting period on the "Establishment, development and maintenance of an IT system for detecting and reporting irregularities in the public sector, and training for it." This activity aims to enhance transparency and efficiency in the public sector through the establishment and development of innovative IT systems. It is important to emphasize that an inspection supervision initiative has been launched and submitted directly to the Ministry of Finance. To enhance supervision and improve operational efficiency, we recommend integrating budget inspectors with the Ministry of Finance's SAP and BMIS, which are currently in the development phase. Additionally, we suggest providing specialized short-term training for inspectors to use these systems, focusing on the functionalities available to them in read-only mode. This approach will ensure that inspectors have the necessary knowledge and tools to effectively perform their duties, thereby promoting greater accountability and efficiency in the public sector.

INDICATOR	INITIAL VALUE 2021	TARGET VALUE FOR 2023	REAL VALUE 2023	TREND	TARGET VALUE FOR 2026
Negotiations on Chapter 32 (Financial Supervision) are provisionally closed	Chapter 32 open	Significant progress in meeting the closing benchmark	Strengthened in terms of personnel and organization		Negotiations on Chapter 32 (Financial Supervision) provisionally closed





IV BUDGET

EU SUPPORT FOR PUBLIC ADMINISTRATION REFORM - IPA III (SECTORAL BUDGET SUPPORT)

The EU provides significant support for PFM RP through the IPA III financial perspective, specifically through the Sectoral Budget Support (SBP) program, which amounts to €16,646 million. Of the total amount, €13.1 million is directly directed as financial support to Montenegro's budget, while €3.5 million is intended as complementary support, implemented through three projects aimed at public administration and public finance management reform. The SBP functions as a results-based aid mechanism, which means that funds are paid directly to the national budget through one fixed and two variable tranches that are conditional on the fulfillment of defined indicators. The €3.5 million for the first fixed tranche was paid into the national budget at the beginning of 2024, and the payment of the first variable tranche is expected in the 2025 tranche of SBP after the request for payment of the tranche has been submitted.

V RECOMMENDATIONS FOR THE COMING PERIOD

- Intensify normative activities to enhance fiscal transparency, manage public funds, and improve budget planning.
- Intensify activities related to managing public revenues and expenditures through the development of new and improved control mechanisms while maximizing the use of available funds from EU funds, especially through the Growth Plan for the Western Balkans.
- Continue proactive publication of financial information, including regular budget reports and fiscal analyses, to increase transparency and responsibility of the public sector.
- Improve the work of coordination teams for monitoring the implementation of the Program by key objectives
- Provide training and capacity development to officials in charge of public finance management to increase their expertise and ability to implement reforms.
- Improve cooperation with international financial institutions and use available technical and financial support for the implementation of reforms.
- Ensure greater transparency and accountability in public finance management.
- Consider and, if necessary, revise the planned activities within the Program and Action Plan based on implementation dynamics and relevance.



Indicator	Baseline 2021	Target value2023	Real value 2023	Target value 2026
The number of first-level budget users who provide comprehensive inputs for the proposal of the medium-term budget framework (MTBF)	0	50%	100%	90%
Number of employees in local self-government units trained for the Medium-Term Budget Framework	0	30	0	60
The number of strategic reforms prepared in accordance with the new methodology for creating strategic documents related to the program budget	0%	0%	0%	40%

Amendment of the legal and regulatory framework that reflects the budget reform									
Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.2.1.1 Drafting by-laws for the implementation of the LBR (once the amendments to the LBR are adopted): institutional competencies, coordination process and content of the MTBF	Adopted amendments to the Law on Budget Responsibility and relevant by-laws	MINISTRY OF FINANCE	2022	2023	Adopted amendments to the Law on Budget and Fiscal Responsibility, which define in detail the institutional competencies, the coordination process and the content of the Strategic Budget Document (SBD).	IQ 2025	No additional funds are required	Budget of Montenegro Donation	Amendments to the Law on Budget and Fiscal Responsibility, which is being elaborated by the MTBF are planned to be adopted in 2024, on the basis of which the accompanying by-laws will be adopted.
Establishing a methodological framework for medium-term budget planning for local governments									
OPERATIONAL OBJECTIVE 1.2.2									
Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.2.2.1 Drafting Methodology for assessing the fiscal impact of policy initiatives and available fiscal space	Methodology developed	MINISTRY OF FINANCE	2022	2022	The Methodology draft has been completed. Drafting and assessment of the fiscal impact of new policies is already being implemented	Q4 2025	No additional funds are required	Budget of Montenegro Donation	After the adoption of the amendments to the Law on Budget and Fiscal Responsibility, the relevant Methodology will be adopted and additionally elaborated
1.2.2.2 Development of procedures for identification, prioritization, cost determination and selection of new public policy proposals/capital projects	Procedures developed	MINISTRY OF FINANCE	2023	2023	The Medium-Term Budget Framework Manual was adopted in April 2021. The Circular for the preparation of the Medium-Term Budget Framework for the period 2023-2025 was also finalized, which was then delivered to budget users for action in accordance with the same		No additional funds are required	Budget of Montenegro Donation	
Capacity building in terms of medium-term budget planning at the central and local government level									
OPERATIONAL OBJECTIVE 1.2.3									
Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.2.3.1 Conducting trainings on the medium-term budget framework	Improved capacities of local self-government units trained for the Medium-term Budget Framework	MINISTRY OF FINANCE	2023	Continuous	Representatives of local self-government units from the Northern, Central and Coastal regions have undergone 4 trainings.		€ 30,000,000	Budget of Montenegro Donation	In the next period, the capacities of local self-government units trained for the Medium-Term Budget Framework will be continuously improved.
Further strengthening of the link between strategic plans and the budget									
OPERATIONAL OBJECTIVE 1.2.4									
Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.2.4.1 Coordination with the Office for Public Administration Reform; establishing a planning function in all major expenditure units; procedures for determining the costs of strategies; and institutional competencies related to coordination	Adopted standard operating procedures for the preparation of the program budgeting with a clear division of roles in the planning and management of the program budgeting and proposing new policies	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATION SECRETARIAT-GENERAL OF THE GOVERNMENT OF MONTENEGRO	2023	2023	Adopted standard operating procedures for the preparation of the program budgeting with a clear division of roles in the planning and management of the program budgeting and proposing new policies	Q4 2025	No additional funds are required	Budget of Montenegro Donation	Their finalization and adoption is expected in 2024, after the adoption of legal prerequisites for their implementation.
1.2.4.2 Linking MTBF with the strategic planning system and the Government's Medium-Term Work Program	Data exchange between information systems assured	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATION SECRETARIAT-GENERAL OF THE GOVERNMENT OF MONTENEGRO	2024	2025			No additional funds are required	Budget of Montenegro Donation	



1.2.4.3 Linking strategic documents with the program budget	Annexments to the Methodology for the Preparation of Strategic Documents adopted, enabling clear linkage between the budget and the strategic document	MINISTRY OF FINANCE MINISTRY OF PUBLIC ADMINISTRATION SECRETARIAT OF THE GOVERNMENT OF MONTENEGRO	2024	2025	The formation of a working team with the aim of finding the most effective modality of connecting strategic documents with the program budget is underway.	No additional funds are required	Budget of Montenegro Donation	During 2024, it is planned to sign technical support that will provide support to existing team and the support to existing team and the medium-term work program of the Government of Montenegro.
SUBSYSTEM OBJECTIVE 1.3								
Indicator								
Baseline								
The number of implemented gender-oriented policies and policy objectives in the program budget	0%	10%	26%	45%				
% of local self-government units that have implemented an information system that supports program budgeting	0%	40%	0%	50%				
OPERATIONAL OBJECTIVE 1.3.1								
Activities								
1.3.1.1 Harmonization and quality improvement of the program structure of expenditure units	Gender objectives and indicators presented in the budget document	MINISTRY OF FINANCE	2022	Continuous	The BMS system was updated for the year 2023 in such a way as to enable the entry of goals and indicators for all activities or programs that are defined as gender separate, through set of selecting other dimensions (negative or neutral) is available	€ 30.000,00	Budget of Montenegro Donation	It is planned to continuously improve the process of identifying gender goals and indicators as part of budget documents.
1.3.1.2 Analyzing existing objectives and indicators and possibly improving their quality, including defining gender dimension	Increase in the % of total budget users who have advanced performance information with their annual budget requests	MINISTRY OF FINANCE	2022	2023	Spending units, through requests for budget funds up to the level of the budget document, and indicators that are visible in the budget document, and compared to 2022, in 2023, the number of spending units that have their own programs marked as gender separate, through set of selecting other dimensions (negative or neutral) is available, has increased, which represents an increase of 16% compared to 2022.			The process of improving performance information from budget documentation should continue in 2024.
1.3.1.3 Advanced training on program budgeting for different target groups	All local self-government units have adopted the program structure and performance information, including gender-oriented indicators	MINISTRY OF FINANCE	2024	2026				
OPERATIONAL OBJECTIVE 1.3.2								
Activities								
1.3.2.1 Further development of subprograms, activities and performance measures in all spending units	Increased % share of budget users who submit a Statement on Gender Responsive Budgeting that shows how each program, activity and performance measure is designed to address the gender gap and improving the position of vulnerable groups in society	MINISTRY OF FINANCE	2022	Continuous	Regarding the improvement of performance information in relation to the preparation of the budget document, in 2023, pilot ministries, which underwent training for the preparation of a gender-responsive analysis, prepared the same and submitted it through a request for 2023. Achieved percentage of increase is only 6.6% from the aspect of improving information, we consider it significant due to the quality of the data provided.	No additional funds are required	Budget of Montenegro Donation	The concept of gender responsive budgeting is complex and requires time to train personnel who will define gender-sensitive activities in the future.
1.3.2.2 Development of procedures for monitoring and reporting on the program budget	The interface between BMS and the budget execution system (SAP) is operational	MINISTRY OF FINANCE	2022	2023	BMS and SAP linked	No additional funds are required	Budget of Montenegro Donation	



1.3.2.3 BMS upgrade with new program budgeting structure and improved performance information	BMS upgraded	MINISTRY OF FINANCE	2022	2023	BMS upgraded - in the part of reporting on gender-responsive goals and indicators, half-yearly and annual comparisons were made possible in order to assess whether the program was effective in achieving the desired results.	€	30.000,00	Budget of Montenegro Donation	
OPERATIONAL OBJECTIVE 1.3.3									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.3.3.1 Introduction of BMS at the local level	Information system for budget management, which supports program budgeting, introduced in most local self-government units, introduced	MINISTRY OF FINANCE	2023	2023	BMS has not been introduced at the local level	Q4 2025	€ 100.000,00	Budget of Montenegro	Analysis of the functioning of the system of local self-governments (document preparation) is necessary, in order to scan the state of municipalities and their personnel, financial, technical and other possibilities and propose appropriate measures and activities. It is necessary to make changes to the legal framework in order to implement this activity.
1.3.3.2 Development of a Roadmap and manual for the implementation of program budgeting at the local level	Prepared manuals and conducted trainings	MINISTRY OF FINANCE	2022	2022	In 2022, the Manual for the Medium-Term Budget Framework for Montenegro Municipality and the Manual on the Capital Budget for Local Self-Government in Montenegro, as well as the Manual on Planning and Execution of the Capital Budget at the Local Level, were prepared.		No additional funds are required	Budget of Montenegro	It is necessary to define and pass regulations on the basis of which local governments will also implement program budgeting, bearing in mind that the Decision on the method of preparation and content of the program budget of spending units defines coverage only at the central level.
1.3.3.3 Training of officials of the local self-government unit		MINISTRY OF FINANCE	2022	2026	The training was conducted through 4 workshops during 2021		€ 10.000,00	Budget of Montenegro	It is necessary to carry out activities to improve cooperation between local governments and state administration - central level.
OPERATIONAL OBJECTIVE 1.3.4									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.3.4.1 Develop procedures and a manual for evaluating the performance of programs and projects	Procedures developed	MINISTRY OF FINANCE	2023	2024	In December 2023, the Draft Manual for the Evaluation of Gender Responsive Programs was prepared, which is currently in the process of discussion and commitment by the relevant stakeholders.	Q4 2024	No additional funds are required	Budget of Montenegro Donation	Finalize the procedures and manual for evaluating the impact of programs and projects
SUBSYSTEM OBJECTIVE 1.4									
Indicator	Baseline	Target value 2023	Real value 2023	Target value 2026					
Development of an Action Plan for the improvement of the Public Investment Management System	Action plan adopted (based on the PIMA report)	Plan adopted	No Action Plan was adopted	Action plan implemented					
Adoption of the Long-term Infrastructure Investment Plan	Trainings conducted	Forming a working group and starting activities on document creation	No Working Group has been formed	Long-term investment plan adopted					
OPERATIONAL OBJECTIVE 1.4.1									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.4.1.1 Strengthening the legal and regulatory framework for Public Investment Management	Adopted action plan (based on the PIMA report)	MINISTRY OF FINANCE	2023	2024	The action plan was not developed due to personnel and organizational changes in the public administration	IV Q 2025	No additional funds are required	Budget of Montenegro Donation	In the following period, it is expected that the activities for the development of the action plan will begin



1.4.1.2 Strengthening the institutional framework and improving the quality of implementation of the Capital Budgeting Manual for determining the list of capital investment priorities	Conducted trainings	MINISTRY OF FINANCE	2023	2024	The trainings were not conducted during the period and organizational changes in the institutions that appoint the members of the commission	IV Q 2025	No additional funds are required	Budget of Montenegro Donation	Training was not necessary in the previous period, considering that it was based on the Decision on the creation of the capital budget, as well as due to the many years of experience of the appointed members in the field of implementing capital projects.
OPERATIONAL OBJECTIVE 1.4.2 Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.4.2.1 Developing a Methodology for Public Investment Management: Guidelines for Conducting Economic Analyses (Feasibility and Financial Viability) and the Capital Budgeting Manual (in order to determine the list of capital investment priorities)		MINISTRY OF FINANCE	2023	2024	The manual for capital budgeting was created in 2022.	II Q 2025	€ 30.000,00	Budget of Montenegro Donation	This activity will be carried out through a technical support project by EUO during 2024.
1.4.2.2 Training on capital cost estimates	An increased % of projects that the project cost estimate was conducted, according to the new Methodology	MINISTRY OF FINANCE	2022	2023	The trainings were not conducted during the period. The accounting training is based on the development of a new methodology/model that will define the way and method of capital budget cost accounting	Q1 2026	€ 50.000,00	Budget of Montenegro Donation	This activity will be developed through a technical support project by EUO during 2024.
1.4.2.3 Promote the use of public-private partnerships		MINISTRY OF FINANCE	2023	Continuous	During 2023, representatives of the Ministry of Finance were on a study visit to Riga and Bratislava to learn about the experiences of implementing capital projects according to the PPP model.		No additional funds are required	Budget of Montenegro Donation	On the basis of study visits to EU countries, organize the promotion of the PPP model to local self-governments and other interested spending units and coordinate the activities of representatives from the EU
OPERATIONAL OBJECTIVE 1.4.3 Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
1.4.3.1 Establishment of a (public) capital project database	Public Register of capital projects released	MINISTRY OF FINANCE	2023	2026	At the end of Q3 2023, activities were started on the creation of the "Information System for the Management of Public Investments", which will be an integral part of BIMS.		€ 35.000,00	Budget of Montenegro Donation	As part of this, in the coming period, it is planned to create a "Register of Public Investments", which will enable an overview of the implemented and planned capital projects financed from public funds
1.4.3.2 Upgrade of the existing IT system (BIMS) to support Public Investment Management processes	BIMS upgraded	MINISTRY OF FINANCE	2023	2023	At the end of Q3 2023, activities were started on the development of the "Information System for the Management of Public Investments", which will be an integral part of BIMS.		€ 100.000,00	Budget of Montenegro Donation	Further development of the public register of capital projects will be realized in the following period through the development of BIMS functionality.
1.4.3.3 Develop procedures for monitoring and reporting on the capital projects implementation	The Methodology and procedures conducted	MINISTRY OF FINANCE	2023	2025	The start of this activity on the preparation of the document was prolonged due to structural and personnel changes in the management of organization	Q4 2026	€ 150.000,00	Budget of Montenegro Donation	After the establishment of the "Register of Public Investments", a form will be created on how to report each capital project individually.
OPERATIONAL OBJECTIVE 1.4.4 Activities	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
	Development of the Long Term Investment Document								



1.6.3.1 Analysis of the existing regulatory framework	Analysis conducted	2022	2023	An Analysis of shortcomings and recommendations for harmonising the regulatory framework for establishing a system of own funds management was prepared	No additional funds are required	Budget of Montenegro Donation	This document contains a detailed analysis of EU requirements and compliance of the national legal framework, including regulations on procedures and processes, which need to be established for the purpose of managing the EU's own funds.	
1.6.3.2 Preparation of amendments to the regulatory framework in accordance with EU legislation	Proposal on amendments to the regulatory framework completed	2023	2025	On February 28, 2023, the Law on Amendments to the Law on Official Statistics and the Regulation on the System of Official Statistics were adopted. The Guidelines for the management of the EU's own funds in Montenegro were adopted, as well as the Regulation on the closure of the annual procedure of the funds that Montenegro must follow into the EU budget.	No additional funds are required	Budget of Montenegro Donation	The Law on Amendments to the Law on Budget and Fiscal Responsibility, which defines the chapter related to the EU's own funds management in the system of own funds. The aforementioned provisions create a legal basis for the payment of funds that are planned and paid into the budget of the European Union by the annual budget law, in accordance with the regulations on the management of the system of own funds.	
SUBSYSTEM OBJECTIVE 1.7								
Official Statistics Improvement								
Indicator	Baseline	Target value 2023	Real value 2023	Target value 2025				
Negotiations on Chapter 17 (Economic and Monetary Policy) are temporarily closed	Open negotiation chapter 17	Significant progress in meeting Chapter 18 final benchmark	Amendments to the existing Law on Official Statistics and the System of Official Statistics have been prepared	Chapter 17 is temporarily closed/closed				
Negotiations on Chapter 18 (Economic and Monetary Policy) are temporarily closed	Open negotiation chapter 18	Significant progress in meeting Chapter 17 final benchmark	The scope of production and transmission of data to Eurostat defined by the transmission program has been increased in order to meet the criteria for closing Chapter 18.	Chapter 18 is temporarily closed/closed				
OPERATIONAL OBJECTIVE 1.7.1								
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Sources of funding	
1.7.1.1 Improve coordination between the MGr, MONSTAT and the Central Bank by forming working teams and improving data exchange	The Government Finance Statistics prepared in accordance with GFSM and ESA 2010 Methodologies	STATISTICAL OFFICE OF MONTENEGRO MINISTRY OF FINANCE CENTRAL BANK	2022	2026	By amending the Law, when the conditions are met, the related agreements and annexes to the cooperation agreement will be amended.	No additional funds are required	Budget of Montenegro	
1.7.1.2 Training of statisticians			2023	2026	Training within the ESF course			
1.7.1.3 Development of an integrated IT system for collecting, processing, publishing and disseminating the results of official statistics			2023	2024	The method of data collection for research in the field of social statistics (ABS and SILC) has been improved, and the number of data sets for which SDMX files are created using the SDMX RI tool has been increased.	€ 150.000,00	Budget of Montenegro Donation	
OPERATIONAL OBJECTIVE 1.7.2								
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Sources of funding	
1.7.2.1 Providing Government Finance Statistics in accordance with the ESA 2010 Methodology and the Government Finance Statistics Manual (GFSM) requires improvement of data collection procedures	Fiscal notifications for the pre-accession negotiations with the ESA 2010 Methodology and the requirements of the ESA 2010 Methodology	STATISTICAL OFFICE OF MONTENEGRO MINISTRY OF FINANCE CENTRAL BANK	2023	2024	It has not been implemented. The transfer of competences for the completion and adoption of the Law on Official Statistics and the System of Official Statistics.	Q4 2026	Budget of Montenegro € 700.000,00	



Improved pre-accession fiscal notifications, i.e. reporting on the excessive deficit procedure										
Operational Objective 1.7.3	Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
	1.7.3.1 Capacity building for the professionalization of the financial reporting system, especially fiscal notifications for pre-accession requirements in accordance with the ESA methodology	Amendments to the Law on Official Statistics and the System of Official Statistics in order to define institutional roles in the production of Government Finance Statistics in accordance with best practices	STATISTICAL OFFICE OF MONTENEGRO MINISTRY OF FINANCE CENTRAL BANK	2023	2025	The transfer of competence for GFSYEP is in progress. It will follow after the completion and adoption of the Law on Official Statistics and the System of Official Statistics		€ 250,00	Budget of Montenegro Donation	Adoption of amendments to the existing Law on Official Statistics with the aim of adopting the first draft during 2024. Also, the signing of the Memorandum of Understanding on the coordination of the production of official statistics by MONSTAT is expected
STRATEGIC OBJECTIVE II BUDGET EXECUTION										
Improving efficiency in revenue collection										
SUBSYSTEM OBJECTIVE 2.1										
	Indicator	Baseline Chapter 16 opened	Target value 2023 Significant progress in meeting the final benchmark for Chapter 16	Real value 2023 The Law on Amendments to the Law on Value Added Tax was adopted	Target value 2026 Chapter 16 is temporarily closed/closed					
	Harmonized legislation in Chapter 16 – Taxation with the EU acquis	Chapter 29 opened	Significant progress in meeting the final benchmark for Chapter 29	On July 30, 2022, the Parliament of Montenegro adopted the new Law ("Official Gazette of Montenegro 86/22"), the implementation of which began on February 11, 2023.	Chapter 29 is temporarily closed/closed					
	Harmonized legislation in Chapter 29 – Customs Union with the EU acquis	The officials are not trained	150 customs and 300 tax officials trained	486 customs and 200 tax officials trained	200 customs and 350 tax officials trained					
Strengthening the capacity and development of human resources of the Revenue and Customs Administration in the field of information technology										
OPERATIONAL OBJECTIVE 2.1.1										
	Activities	Outcome indicator MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	Competent institutions MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	Start date 2022	End date 2026	Implementation status The Law on Amendments to the Law on Value Added Tax was adopted ("Official Gazette of the Republic of Montenegro", No. 3/23). This law foresees additional harmonization with EU Council Directive 2006/112 on the common VAT system.	New deadline	Funds	Sources of funding Budget of Montenegro Donation	Recommendation for an upcoming period The Law on Amendments to the Law on Value Added Tax was adopted ("Official Gazette of the Republic of Montenegro", No. 3/23). This law foresees additional harmonization with EU Council Directive 2006/112 on the common VAT system.
	2.1.1.1 Continuous compliance with EU directives in the tax field		MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	Continuous changes and additions to customs regulations have achieved a high level of legislative compliance.		No additional funds are required	Budget of Montenegro Donation	Continuous changes and additions to customs regulations have achieved a high level of legislative compliance.



High compliance with EU directives in the customs area		2023	2026	Regarding the ratification of the Convention on the Common Transit Simplification of Formalities in Trade in Goods, the European Commission indicated that the conventions should be ratified after Montenegro meets the requirements for the application of the said conventions, after which Montenegro will receive an invitation to access to the conventions in order to ratify them. The ratification was ratified at the time of Montenegro's accession to the aforementioned conventions.	Budget of Montenegro Donation	Regarding the ratification of the Convention on the Common Transit Simplification of Formalities in Trade in Goods, the European Commission indicated that the conventions should be ratified after Montenegro meets the requirements for the application of the said conventions, after which Montenegro will receive an invitation to access to the conventions in order to ratify them. The ratification was ratified at the time of Montenegro's accession to the aforementioned conventions.
2.1.1.3 Continuous compliance with EU directives in the customs area	MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION					
2.1.1.3 Draft Law on the Ratification of the Convention on the Simplification of Formalities in Trade in Goods	MINISTRY OF FINANCE REVENUE AND CUSTOMS ADMINISTRATION	2023	2026	Regarding the ratification of the Convention on the Common Transit Simplification of Formalities in Trade in Goods, the European Commission indicated that the conventions should be ratified after Montenegro meets the requirements for the application of the said conventions, after which Montenegro will receive an invitation to access to the conventions in order to ratify them. The ratification was ratified at the time of Montenegro's accession to the aforementioned conventions.	Budget of Montenegro Donation	Regarding the ratification of the Convention on the Common Transit Simplification of Formalities in Trade in Goods, the European Commission indicated that the conventions should be ratified after Montenegro meets the requirements for the application of the said conventions, after which Montenegro will receive an invitation to access to the conventions in order to ratify them. The ratification was ratified at the time of Montenegro's accession to the aforementioned conventions.
Improvement of procedures, development and implementation of IT systems in the customs and tax area						
OPERATIONAL OBJECTIVE 2.1.2		Competent institutions		Recommendation for an upcoming period		
Activities	Outcome Indicator	Start date	End date	Implementation status	Funds	Sources of funding
	IRMS system implemented	2022	2026	Completed reconstruction of the project, by which it was extended until September. Strategic documents for the project were adopted and implementation started. The implementation of the activities from Phase 1 is in progress - creation of the conceptual document along with 2 additional documents (system infrastructure and b) data migration.	€ 10.000.000,00	Budget of Montenegro Kredit
2.1.2.1 Development of an integrated Revenue Management System	NCTS (phase 5) operational	2024	2026		€ 2.000.000,00	Budget of Montenegro Donation
2.1.2.2 Implementation of the VAT Information Exchange System (VIES)	NCTS (faza 5) operativan	2022	2023	During 2023, activities are being carried out on the preparation of the system for the national application of NCTS, and the economic entities are also being carried out. The pilot application of NCTS at the national level continued, with the gradual inclusion of customs offices and business entities, and the implementation of the activities that carry out the customs transit procedure. The public procurement procedure for the service of maintaining and upgrading application software in the NCTS system has ended.	€ 3.300.000,00	Budget of Montenegro Donation
				The start date of the national implementation of the NCTS was postponed to February 2024 due to the postponement of the implementation of the migrated CIS, which was implemented in Montenegro in January 2023. Namely, the connection between NCTS and CIS was made on the migrated CIS.		



2.1.2.3 Complete NCTS implementation (phase 5)		Other customs IT systems for interconnection and electronic data exchange implemented and operational	2022	2026	Activities within the Project "Support to the Revenue and Customs Administration of Montenegro in the improvement of the Customs Information System (CIS) continued	€ 9.200.000,00	Budget of Montenegro Donation	The ITIMS project has been postponed for implementation from IPA 2025, if there are funds, and also after the update of the Strategic Document. Also, according to the suggestion of the EC, the implementation of the NCTS project-phase 6 was also postponed. At the end of March 2023, the UPC submitted to the competent unit of the Ministry of Finance the Draft Action Sheets for the Project that would be implemented from the IPA 2024: 1. Support to the Revenue and Customs Administration in establishing an automated export system (AES) and import control system (ICS2) in the amount of 3 million euros; 2. Support to the Revenue and Customs Administration in the development of the E-commerce Movement Control System-EMCS		
2.1.2.4 Implementation of IT systems required for interconnection and electronic data exchange with the EU, especially ITMS, AES, ICS2, NCTS Phase 6 and EMCS, etc.		Implementation of activities continued.	2022	Cont.	Activities continued on the implementation of customs IT systems necessary for interconnection and electronic data exchange with the EU, as well as the reduction of administrative barriers through the further implementation of trade facilitation measures in line with the trade facilitation strategy 2018-2022 and ERP	No additional funds are required	Budget of Montenegro	It is necessary to connect the Customs Decision System with the CIS and other customs systems by the end of the project "Implementation of the Customs Decision System (CDS) at the national level."		
2.1.2.5 Reduction of administrative barriers through further implementation of trade facilitation measures in accordance with the Trade Facilitation Strategy 2018-2022 and ERP		Improving efficiency in revenue collection								
OPERATIONAL OBJECTIVE 2.1.3		Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities		Increasing the % of submitted e-applications on time	REVENUE AND CUSTOMS ADMINISTRATION	2023	Cont.	The rate of timely submitted returns is 89% for profit and 85% for VAT.		No additional funds are required	Budget of Montenegro Donation	Based on the recommendations of IMF consultants, the centralization of tax control was carried out, as well as the centralization of VAT refunds based on risk analysis.
2.1.3.1 Strengthening tax risk management through risk profiling, recording tax audit results and collecting information from third parties; in particular risk analysis for the control and processing of VAT refunds		Improvement of voluntary tax discipline and compliance with tax obligations								
OPERATIONAL OBJECTIVE 2.1.4		Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities		Continuous implementation of activities	REVENUE AND CUSTOMS ADMINISTRATION	2023	2024	Organized educational campaign called "Tax Caravan", and key points of cooperation with the Tax Calendar. Educational material known as "Tax Calendar" was developed and published. During Q2 2023, four forums were organized in different cities.		€ 150.000,00	Budget of Montenegro	
2.1.4.1 Strengthening external and internal communication through targeted raising of public awareness and taxpayer education programs		Development and improvement of human resources								
OPERATIONAL OBJECTIVE 2.1.5		Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities		Training of official conducted	REVENUE AND CUSTOMS ADMINISTRATION	2022	2026	There was no employment in the Information Systems Sector during 2023		No additional funds are required	Budget of Montenegro	Additional employment is expected in the Information Systems Sector in the coming period
2.1.5.1 Ensure further employment of IT department officers			REVENUE AND CUSTOMS ADMINISTRATION	2023	2026	During 2023, 486 customs officials were trained in various areas of customs activities within the framework of 45 trainings.		€ 120.000,00	Budget of Montenegro Donation	

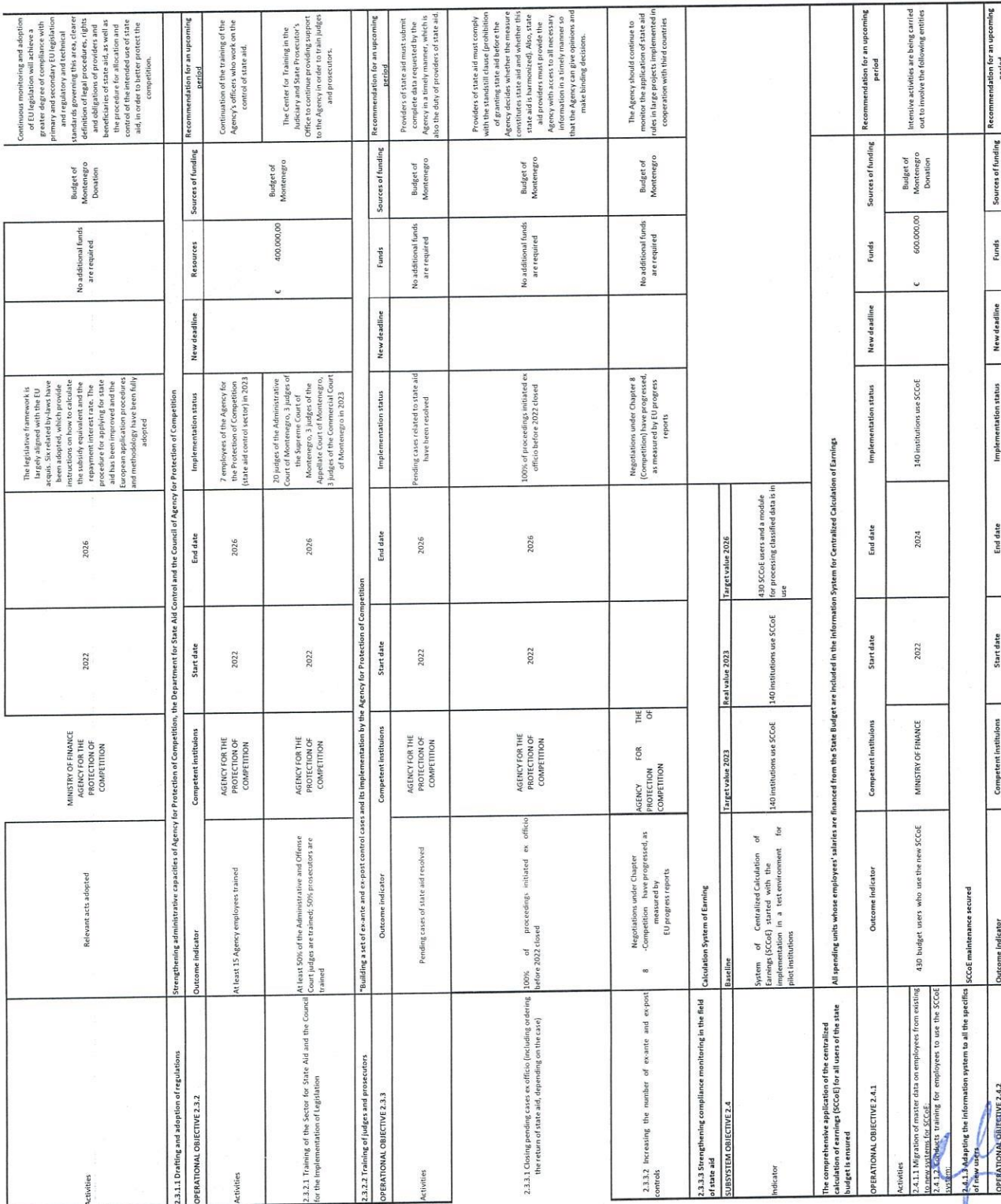


Public procurement									
SUBSYSTEM OBJECTIVE 2.2		Baseline	Target value 2023	Real value 2023	Target value 2026				
Indicator		23	20	41	18				
The actual time of processing complaints in public procurement		0	0	0	0				
Proportion of contracts subject to formal ex post evaluation		14.28%	13.20%	7.50%	11.10%				
Share of public procurement appeals challenged in courts		0	0	6.77	0				
The number of public procurement complaints in relation to the number of published tender notices		2.82	2.8	3.16	3				
Average number of bidders per procurement procedure		96.4	97	97.52	97				
Established capacities for the implementation of the new legal framework for Public Procurement and Public-Private Partnership									
OPERATIONAL OBJECTIVE 2.2.1	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities:	700 public procurement officers trained 16 trained trainers	MINISTRY OF FINANCE	2022	2026	430 officers trained 15 trainers trained		No additional funds are required	Budget of Montenegro	The Directorate for Public Procurement Policy, both independently and in cooperation with the Directorate for Human Resources, continuously conducts professional training of personnel in the field of public procurement. Also, in the reporting year, several specialist trainings were held on the topics of green procurement, procurement in the energy sector, corrupt practices in public procurement, etc.
2.2.1.1 Develop a training system for the needs of PP and PPP in the instructor training scheme for different target groups (customers)	The necessary bylaws adopted	MINISTRY OF FINANCE	2022	2023	Adopted 4 expert instructions		No additional funds are required	Budget of Montenegro	Instructions for the client for submitting a request to the Revenue and Customs Administration Instructions for bidders Publication of simple procurements in accordance with the amended rulebook Instructions for entering procedures
Improving the functionality of the e-procurement system and user training, in order to achieve value for money in public procurement and PPP									
OPERATIONAL OBJECTIVE 2.2.2	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities	Increased business entities active in the e-procurement system by 10% per year	MINISTRY OF FINANCE	2022	Cont.	The number of bidders at the end of 2023 is 3,573		No additional funds are required	Budget of Montenegro	The number of bidders since the day the electronic system was used was 2,484, while at the end of 2023 that number is 3,573 and is constantly increasing.
2.2.2.1 Increasing the number of business entities registered in the e-procurement system	Increased number of business entities trained in e-procurement 20% per year	MINISTRY OF FINANCE	2023	Cont.	3 trainings held for the use of the electronic public procurement system		€ 100,000.00	Budget of Montenegro Donation	In cooperation with the Human Resources Administration, three trainings were held on the topic of using the electronic public procurement system for public procurement officials. The Administration has prepared 4 expert instructions for using the e-system for business entities, and the help desk is operational every day providing advisory assistance to bidders. According to the above, the interest in training on the part of business entities is fewer.
2.2.2.2 User training for the e-procurement system	Information System for public procurement improved	MINISTRY OF FINANCE	2023	Cont.	Connected e-system with the system of the Revenue and Customs Administration New complaints mechanisms New analytical reports created in the system			Budget of Montenegro Donation	During the reporting year, the e-system was successfully connected and operated with the system of the Revenue and Customs Administration, numerous new reports were also created in accordance with the needs of monitoring the system, and the appeals system was improved.



2.2.2.3 Further development of the functionality of the e-procurement system	Interface between e-procurement and related IT systems	MINISTRY OF FINANCE	2023	2025	The electronic system of public procurement is connected to the system of the Revenue Administration and the Customs Administration, on a daily level there are 7-20 inquiries to the system of the Revenue Administration and the Customs Administration	Budget of Montenegro Donation	The electronic system of public procurement is connected to the system of the Revenue Administration and the Customs Administration
2.2.2.4 Establish interoperability of e-procurement with related IT systems and registers	Continuous increase in the number of created analytical reports (profitability)	MINISTRY OF FINANCE	2023	2026	The directorate created 9 new analytical reports in the reporting period	€ 150.000,00	As part of the daily monitoring of the e-system and in accordance with the needs, the Administration has created following analytical reports for the reporting period: statistics reporting Complaint procedures Total number of bids by procedures - lots Clients without a published plan for the next year System need Report on concluded framework agreements (for all clients) Estimated/contracted value of all procedures for all clients Number of bids for each stage of the procedure Report on terminated contracts Report on amended contracts
2.2.2.5 Improve the monitoring system by developing an analytical framework for measuring the economy of the e-procurement system	Improvement of the system for consideration of appeals						
OPERATIONAL OBJECTIVE 2.2.3	Outcome Indicator	Competent Institutions	Start date	End date	Implementation status	New deadline	Sources of funding
Activities	Trainings implemented	COMMISSION FOR THE PROTECTION OF RIGHTS IN THE PUBLIC PROCUREMENT PROCEDURES	2023	Cont.	The trainings were not implemented		Budget of Montenegro Donation
2.2.3.1 Capacity building of the Commission for the Protection of Rights in Public Procurement Procedures (training, case management system)	Increasing market competition, especially the participation of SMEs						
OPERATIONAL OBJECTIVE 2.2.4	Outcome Indicator	Competent Institutions	Start date	End date	Implementation status	New deadline	Sources of funding
Activities	Annual implementation of trainings encouraging SMEs inclusion in public procurement procedures	MINISTRY OF FINANCE	2023	Cont.	Trainings are conducted in continuity		Budget of Montenegro Donation
2.2.4.1 Educational program for encouraging SMEs inclusion in public procurement procedures, especially simple procurements	State Aid Reform						
SUBSYSTEM OBJECTIVE 2.3	Baseline	Target value 2023	Real value 2023	Target value 2026			
Indicator	Negotiation Chapter – 8 officially open	Significant progress in meeting the final benchmark	Chapter 8 negotiations have progressed, as measured by EU progress reports	Chapter – 8 is conditionally closed/closed			
Chapter 8 negotiations temporarily closed (in relation to the state aid reform)	Harmonization of legislation with the EU acquir						
OPERATIONAL OBJECTIVE 2.3.1	Outcome Indicator	Competent Institutions	Start date	End date	Implementation status	New deadline	Sources of funding

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3.2.1.1 Completing the property register of all expenditure units at the central level with an assessment based on the single method of state property listing at the cadastre	The AIS IT system for state property management, used by all beneficiaries.	CADASTRE AND STATE PROPERTY ADMINISTRATION	2022	2025	The electronic records of state property contain 399,049 immovable properties that are controlled and updated daily.	No additional funds are required	Budget of Montenegro	The electronic records of state property have been completed, and for now the records are kept in real time in Excel. The databases in question are being updated after the acquisition of specialized software. In terms of movable property, property lists for 2022 were submitted by 80 direct budget users, 87 indirect budget users, 20 local governments, 10 private companies and 10 joint stock companies. The register does not contain the estimated value of the immovable property at the time of registration. It is necessary to prepare a plan for the assessment of the real estate value of state property.
3.2.1.2 Establish a control function to assess the quality of recorded data	Control function established	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	Currently the database contains 4495 folders with 8449 files. The files represent electronic records of state property and photos of the real estate in question.	No additional funds are required	Budget of Montenegro	The control function has been established, the aggravating circumstance is the volume of data that is being processed. Accordingly, the creation of records of state property for all immovable properties owned by the state of Montenegro. It is necessary to elaborate the building and plots of land owned by Montenegro that are at the disposal of the central or local governments, which is a demanding task.
3.2.1.3 Strengthening of the Real Estate Valuation Commission	Amendments to the Law on State Property and relevant by-laws adopted which create prerequisites for more efficient work of the Commission	MINISTRY OF FINANCE CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	There was no change in the legislation regarding the Real Estate Assessment Commission	No additional funds are required	Budget of Montenegro	In the following period, it is necessary to make amendments to the Law, as soon as the initiative of the Ministry and the Assembly is awaited.
3.2.1.4 Staff training in the field of state property in the area of data collection and exchange of international experiences and best practices	Staff training of the Cadastre and State Property Administration conducted	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2024	The trainings were carried out during the previous year and will continue after the implementation of the new specialized software.	€ 30,000.00	Budget of Montenegro	Officials of the State Property Records Department were trained in the use of the AIS system, as well as 468 officials delegated by direct and indirect users of the budget. Currently, the AIS system is used and software for keeping records of state property and managing the register. Instead Excel is used, and specific training is not provided.
OPERATIONAL OBJECTIVE 3.2.2								
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Recommendation for an upcoming period
3.2.2.1 Improving the functionality of IT solutions for state property management and data quality	Information system improved and operational		2023	2026	The AIS system is not operational. However, activities to record property in excel tables are being carried out by direct and indirect budgetary users, as well as local governments and public services, continued.		€ 500,000.00 Budget of Montenegro	Currently, real-time logging is done in Excel, which is a temporary decision. It is necessary to adopt new specialized software whose development is being carried out in order to be able to keep the Property Register. The Property Administration submitted Draft Amendments to the Law on State Property to the Ministry of Finance in 2019, but the Ministry did not take the initiative.



LEGISLATION AMENDMENT AND STRATEGIC DOCUMENTS DEVELOPMENT TO ENSURE SYSTEM AND DATA QUALITY		Competent institutions		Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
OPERATIONAL OBJECTIVE 3.2.3 Activities	3.2.2 Improvement of the cadastral information system and improvement of data quality	The system based on the new platform, developed and operational	CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	The work task and the necessary tender documentation for the improvement of the existing cadastral system is provided, in accordance with the available financial resources. The implementation of this project is in progress. Implementation of EDMs and new services for the distribution of cadastral data and the use of the system that has been used for many years and data are available, quantitative data related to the database of real estate cadastre records completeness (owned and public structures).		€ 800.000,00	Budget of Montenegro Donation	For the implementation of the next phase of system improvement, it will be necessary to provide financial resources, with a note that the improvement of the cadastral information system requires a longer period of time than the current system and the goals can be viewed in the domain of short-term, medium-term and long-term planning. Annual funds have been approved for such large projects.
	3.2.2.1 Establishment of new e-services (connection of notaries with the cadastre for submission of electronic documents)			2023	2025	All notary offices use the existing system. The system is used by the Notary for the e-service of receiving abstract of title/deed		€ 100.000,00	Budget of Montenegro Donation	The use of existing e-services by notary offices is 100%. Bearing in mind the fact that the activity is planned to be implemented by 2025, the implementation of the project will be fulfilled, but according to the planned dynamics, the requirements are fulfilled. The absence of clearly precise norms in the way of using new e-services by notary offices.
	3.2.2.4 Establish interoperability with relevant IT systems			2023	2026	The number of institutions/users (public sector) is 40		€ 150.000,00	Budget of Montenegro Donation	Challenges are requests from external users, because the existing system was developed twenty or more years ago.
	3.2.2.5 Draft training of the Cadastre and State Property Administration on the IT system use			2023	2026	Trainings are done continuously		€ 80.000,00	Budget of Montenegro Donation	It is necessary to conduct training at a higher level related to the safety of the complete system, network infrastructure, etc. As part of the improvement of the system and application solutions that are in use, trainings at different levels are planned
3.2.3.2 Amendment to the regulatory framework in terms of documentation by notaries	Adopted amendments to relevant regulations or being prepared	MINISTRY OF FINANCE CADASTRE AND STATE PROPERTY ADMINISTRATION	MINISTRY OF FINANCE CADASTRE AND STATE PROPERTY ADMINISTRATION	2023	2026	There were no changes to the legal framework for the management of state assets.		No additional funds are required	Budget of Montenegro	There was a working team for the drafting of the Draft Regulation on Amendments to the Law on State Property Management in 2019, but the initiative from the Ministry did not follow.
				2023	2026	Regarding the law on the state survey and the cadastre of real estate, the Administration initiated a meeting with representatives of the Ministry of Finance, the Ministry of Justice, the Chamber of Notaries and the Administration for Cadastre and State Property.		No additional funds are required	Budget of Montenegro	The existing legal regulations do not decisively prescribe the competence, procedures, obligations and manner of proceeding when submitting requests for state property. The work on the amendments to the legal regulations related to the work of Notaries. Amendments to the Law are pending the initiative of the Law Ministry and the Assembly.



4.1.1.2 Assessing the quality of the established system for detecting and handling notifications of suspected irregularities and fraud, and prepared reports on the basis of the established regulations in this area	Quality review reports prepared	2022	2023	Prepared quality review reports	No additional funds are required	Budget of Montenegro	At the end of 2022, the MoF conducted a quality review of the established system for detection and handling of notifications of suspected irregularities and fraud, and prepared reports on the basis of the established regulations in this area. The quality review 2023 was started in December 2023. The meetings with the entities that are the subject of review were held, and the reports will be prepared in 2024.
4.1.1.6 Training of managers and employees on management responsibility, delegation of authority and internal reporting	Number of trained managers and employees	2023	Cont.	The Human Resources Administration invited all institutions at the central and local level to organize training. However, the training for the central level was completed and 8 of them responded to the training for employees at the local level.	No additional funds are required	Budget of Montenegro	There is still insufficient understanding by managers of public sector entities of the importance of establishing clear lines of responsibility and delegation of authority for good management and successful achievement of goals.
OPERATIONAL OBJECTIVE 4.1.2							
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	Funds	Sources of funding
4.1.2.1 Strengthening the capacity of managers and employees in the field of management and internal control in companies in which the state has a majority share	Held trainings for managers and employees in companies in which the state has a majority share	MINISTRY OF FINANCE	2023	Cont.	The fourth round of the localized training program for internal auditors in the public sector was implemented for 25 candidates, companies majority owned by the state. Also, lectures and theoretical knowledge testing were held for all four subjects within the training program. Also, 24 managers and employees were held for internal auditors deployed in internal audit units at the central and local level.	€ 150.000,00	Budget of Montenegro
OPERATIONAL OBJECTIVE 4.1.3							
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	Resources	Sources of funding
4.1.3.1 Strengthening the capacity of CIU employees to monitor and assess internal control in public sector (training, employee support, exchange of experiences from EU member states)	Continuous increase in the number of procedures for monitoring and management of internal controls and internal audit	MINISTRY OF FINANCE	2022	Cont.	Support was provided to CIU employees for improvement of management and internal control in the public sector, through the development of additional methodological tools for monitoring. Also, a training program was organized in institutions in the Kingdom of Spain was organized in order to acquaint CIU employees with examples of good practices in the host country. Also, CIU employees spent time in the Kingdom of Spain and meetings organized by FEMPAAL.	€ 15.000,00	Budget of Montenegro Donation
4.1.3.2 Further development of methodological guidelines for external quality assessment through mutual assessment	Methodological guidelines for external quality assessment prepared	MINISTRY OF FINANCE	2022	2023	Guidelines for the implementation of mutual assessment of the quality of internal audit work have been prepared with detailed instructions and steps of the mentioned activity.	€ 5.000,00	Budget of Montenegro Donation
Recommendation for an upcoming period							
In November 2023, a workshop was held for about 50 internal auditors for the implementation of mutual external quality assessment, and the feedback was used for preliminary planning for the implementation of mutual assessment in practice.							



4.1.3.3 Strengthening the capacity of the internal audit function at budget users, among other things for conducting performance audits, risk management audits, IT audits and conducting mutual quality assessment	Trainings for conducting performance audits, risk management audits, IT audits and conducting mutual quality assessment conducted	MINISTRY OF FINANCE	2022	Cont.	During 2022 and 2023, 44 trainings were held for four groups - internal auditors, in 2023, 24 trainings (for four groups) were held for internal auditors.	€ 15.000,00	Budget of Montenegro Donation	Continue training in the coming period.
4.1.3.4 Advanced training for developing "soft skills" for managers and employees in internal audit units	Training for the development of "soft skills" for managers and employees in internal audit units	MINISTRY OF FINANCE	2022	2023	Soft skills of internal audit training was held	€ 5.000,00	Budget of Montenegro Donation	In September 2022, with the help of SICMA experts, a two-day workshop on "Soft skills of internal audit" was held. The training was held for 35 internal auditors assigned to users of budget funds at the central and local level.
SUBSYSTEM OBJECTIVE 4.2								
Indicator	Baseline	Target value 2023	Real value 2023	Target value 2026				
Regulations on Chapter 32 (Financial Supervision) are temporarily closed	Chapter 32 open	Significant progress in meeting the final benchmark	Developed Strategic Plan 2024-2027 with Action Plan for 2023 and increased degree of implementation of the Strategic Plan for the Development of SA	Negotiations on Chapter 32 (Financial Supervision) temporarily closed				
OPERATIONAL OBJECTIVE 4.2.1								
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Recommendation for an upcoming period
4.2.1.1 Create the Strategic Plan for the Development of SA for the period 2023 - 2027 and the Action Plan for the implementation of the Strategic Plan for the Development of SA for the period 2023 - 2027	Strategic Plan 2024 - 2027 with Action Plan drafted	STATE AUDIT INSTITUTION	2023	2026	In March 2023, the Senate of the SA adopted the Strategic Development Plan 2023 - 2027 with an increased implementation level of 47%, which includes the implementation of activities from the Operational Plan 2023.		Budget of Montenegro Donation € 40.000,00	
4.2.1.2 Create the SA Communication Strategy for the period 2025 - 2028 and the Action Plan for the implementation of the SA Communication Strategy for the period 2025 - 2028	The SA Communication Strategy for the period 2025 - 2028 and the Action Plan drafted	STATE AUDIT INSTITUTION	2022	2026	Developed SA Communication Strategy 2025 - 2028 and Action Plan;		Budget of Montenegro Donation € 40.000,00	Increased degree of implementation of the SA Communication Strategy 2025-2028 and Communication Strategy 2025-2028.
4.2.1.3 Create the SA Human Resources Management Strategy for the period 2026 - 2029 and the Action Plan for the implementation of the SA Human Resources Management Strategy for the period 2026 - 2029	The SA Human Resources Management Strategy for the period 2026 - 2029 with an Action Plan for the implementation of the SA Human Resources Management Strategy of 2026 - 2029.	STATE AUDIT INSTITUTION	2022	2026	The Human Resources Management Strategy of the SA 2026 - 2029 with an Action Plan was drawn up.		Budget of Montenegro Donation € 40.000,00	Increased degree of implementation of the Strategy for Human Resources Management of SA 2026 - 2029.
OPERATIONAL OBJECTIVE 4.2.2								
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	Funds	Sources of funding	Recommendation for an upcoming period
4.2.2.1 Draft mid-term SA audit plan	Increased degree of implementation of the Mid-Term Plan of Success Audit 2020 - 2024. Medium-Term Financial Audit and Regularity Audit Plan of SA 2023-2026, drafted and implementation started	STATE AUDIT INSTITUTION	2022	2026	Medium-Term Financial Audit and Regularity Audit Plan of SA 2023 - 2027 was adopted	€ 30.000,00	Budget of Montenegro Donation	Increased level of implementation of the Medium-Term Performance Audit Plan 2020 - 2024 compared to the previous reporting period (2022). The instructions for the Annual Audit Plan 2024 were made taking into account the priorities from the Medium Term Financial Audit and Regularity Audit Plan and the Medium-Term Performance Audit Plan.



4.2.2.2 Draft Guidelines for Environmental Protection Audits	Guidelines for environmental auditing drafted	STATE AUDIT INSTITUTION	2022	2023	The Working Group for the preparation of the Guidelines for the environmental auditing was formed and the working version of the Guidelines was prepared.	2024	€ 30.000,00	Budget of Montenegro Donation	Create guidelines for environmental auditing
4.2.2.3 Strengthen performance review	Increased number of performance audits, number of sectors within SA for performance audits, number of trainings and parallel performance audits	STATE AUDIT INSTITUTION	2022	2026	Performed 5 performance audits in 2023. The total number of performance audits within the State Audit Institution increased by 2. Successful implementation of the International Training Program for performance auditing organized by NAO Sweden; 1 parallel performance audit "Own revenues of municipalities in order to provide services to citizens during the pandemic" was carried out and 3 parallel performance audits are underway; "Successful implementation of gender-responsive budgeting"; "Rural management: Protection of agricultural land and waste disposal" and "Implementation of water management projects".		€ 30.000,00	Budget of Montenegro Donation	
OPERATIONAL OBJECTIVE 4.2.3	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities									
4.2.3.1 Acquire, develop and implement software for managing the SA audit process	Established AMS system for managing the audit process according to the needs of SA	STATE AUDIT INSTITUTION	2023	2026	Established AMS system for managing the audit process according to the needs of SA		€ 500.000,00	Budget of Montenegro Donation	A Working Group was formed to create an information system for managing the audit process. Engaged consultants from the State Audit Institution prepared the introduction of AMS; prepared situation analysis for the purposes of creating the project assignment; developed project task and technical specification. The project is currently in progress. Due to lack of professional knowledge in software development.
4.2.3.2 Ensure full implementation of the Guidelines for drafting, monitoring and control of the implementation of the recommendations of the State Audit Institution through the Register of Recommendations.	Increased number of controlled audit recommendations compared to the number of given recommendations	STATE AUDIT INSTITUTION	2022	2026	Increased number - 69,21% of controlled recommendations compared to the number of given recommendations in financial audit, regularly audit, IT audit and performance audit reports.		€ 50.000,00	Budget of Montenegro Donation	Provision of necessary funds for system innovation according to needs and maintenance of the existing system.
SUBSYSTEM OBJECTIVE 4.3	Anti-Fraud Coordination (AFCS)								
Indicator	Baseline	Target value 2023	Real value 2023	Target value 2026					
Negotiations on Chapter 32 (Financial Supervision) are temporarily closed	Chapter 32 open	Significant progress in meeting the final benchmark	Law on Amendments to the Law on Budget and Fiscal Responsibility	Negotiations on Chapter 32 (Financial Supervision) temporarily closed					
OPERATIONAL OBJECTIVE 4.3.1	Outcome Indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
Activities									
4.3.1.1 Establishment of the legal basis and improvement of the implementation of the Law on Budget and Fiscal Responsibility and adoption of by-laws	Regular holding of coordination meetings of the AFCS system	MINISTRY OF FINANCE	2022	2026	3 coordination meetings of the AFCS system were held		No additional funds are required	Budget of Montenegro Donation	28 February 2023 passed the Law on Amendments to the Law on Budget and Fiscal Responsibility. Adopted Decision on Amendments to the Decision on the Formation of the Coordinating Body for Monitoring and Control of the Implementation of Irregularities for the Purpose of Protecting the Financial Interests of the European Union (AFCS) on February 15, 2023. In the following period, it is necessary to harmonize the Criminal Code with the Directive



Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Resources	Sources of funding	Recommendation for an upcoming period
4.3.4.1 Development and adoption of the Strategy to Combat Fraud and the Management of Irregularities in order to protect the financial interests of the EU for the period 2025-2028 with the accompanying Action Plan	Strategy for Combating Fraud and Managing Irregularities adopted	MINISTRY OF FINANCE DEPARTMENT FOR COMBATING IRREGULARITIES AND FRAUD (MCOX OFFICE)	2023	2025	A call for bids has been announced, the evaluation will be conducted in May-July and the implementation is expected to start in September 2024		No additional funds are required	Budget of Montenegro	Development and adoption of the Strategy to Combat Fraud and the Management of Irregularities in order to protect the financial interests of the EU for the period 2025-2028. The accompanying Action Plan is planned as part of the after-mentioned twinning project in the amount of €250,000.00, which, as already stated, was supposed to start implementation at the beginning of 2024.
	SUBSYSTEM OBJECTIVE 4.4								
	Indicator	Baseline	Target value 2023	Real value 2023	Target value 2026				
	Chapter 32 open	Significant progress in meeting the final benchmark	Amendments to the Law on the Audit of EU Funds for submission to the Assembly have been completed; By-laws of the Audit Authority have been identified and prepared for further adoption	Negotiations on Chapter 32 (Financial Supervision) temporarily closed					
OPERATIONAL OBJECTIVE 4.4.1									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
4.4.1.1 Alignment of the Law on the Audit of EU funds and By-laws with audit standards and future EU requirements	Number of harmonized/new legal acts related to the audit of EU funds	AUDIT AUTHORITY OF MONTENEGRO	2023	2026	Proposal for amendments to the Law on the Audit of EU funds and 3 by-laws (Regulation on Earnings, Rulebook on Internal Organization and Systematization of the Audit Authority, Rulebook on the Work of the Audit Authority)		€ 200,000.00	Budget of Montenegro Donation	A detailed analysis of the relevant legislation governing the audit of EU funds in Montenegro was carried out, a Gap report with recommendations for amendments to the Law on the Audit of EU Funds with identified gaps was prepared by law. Amendments to the Law on the Audit of EU Funds for submission to the Assembly have been completed; By-laws of the Audit Authority have been identified and prepared for further adoption
OPERATIONAL OBJECTIVE 4.4.2									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
4.4.2.1 Training of auditors on the closure of the IPA II program and novelties related to the IPA III program period	Number of auditors trained	AUDIT AUTHORITY OF MONTENEGRO	2022	2026	15 trained auditors		No additional funds are required	Budget of Montenegro	An analysis of the relevant legislation of the European Union, guidelines and requirements related to the closure of the 2014-2020 program period (IPA II) was carried out and the preparation of appropriate procedures, checklists and working documents for performing audit activities related to the closure of the IPA II program; the audit manual was amended; conducted an analysis of the training needs of the Audit Authority; developed a training program through two study visits – 7 participants per study visit; organized and conducted practice for 3 auditors in the RT member countries.
SUBSYSTEM OBJECTIVE 4.5									
Indicator	Baseline	Target value 2023	Real value 2023	Target value 2026					
	Chapter 32 open	Significant progress in meeting the final benchmark	Personnel and organizational capacity enhanced	Negotiations on Chapter 32 (Financial Supervision) temporarily closed					
OPERATIONAL OBJECTIVE 4.5.1									
Activities	Outcome indicator	Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
	Establishing the legislative framework								



4.5.1.1 A regulatory and methodological framework drafted		Drafting of the Budget Inspection Development Strategy and Budget Inspection Work Methodology	MINISTRY OF FINANCE	2022	2026	This activity has not been implemented	No additional funds are required	Budget of Montenegro Donations	Amendments to the Law on Budget and Fiscal Responsibility related to budget inspection and the work of inspectors, as well as amendments concerning provisions related to the recovery of illegally and inappropriately spent funds, which represent, in addition to misdemeanor provisions, a more effective and ultimate goal and essence of budget inspections. In the course of 2024, work will be done on the draft of a special Law on Budget Inspection.			
OPERATIONAL OBJECTIVE 4.5.2												
Activities	Capacity building		Outcome indicator		Competent institutions	Start date	End date	Implementation status	New deadline	Funds	Sources of funding	Recommendation for an upcoming period
4.5.2.1 Staff recruitment and training	Increasing the number of inspectors and the number of trainings		MINISTRY OF FINANCE	2022	2026	During 2023, 2 study visits were carried out. Employed 1 inspector	No additional funds are required	Budget of Montenegro	Inspectors will attend specialized training during 2024 for inspection supervision. A complicated recruitment process with a high risk of candidates not passing the tests at all. Lack of interest in inspection positions of personnel from the system, because they are fixed-term (for a period of 5 years).			
4.5.2.2 Establishing, developing and maintaining an IT system for detecting and reporting irregularities in the public sector, and training for the same				2023	2026	Initiatives for the initiation of inspection supervision are reported directly to the Ministry of Finance	€ 500,000.00	Budget of Montenegro	Budget inspectors should connect to SAP of the Ministry of Finance and BMS, which is still under development, as well as undergo a short training for using both systems in the area of the inspector's competence - read only.			