



MINISTRY OF FINANCE OF MONTENEGRO




April - June, 2015

BULLETIN XXXV

MINISTRY OF FINANCE OF MONTENEGRO

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Dr Radoje Žugić

UVODNIK:

ECONOMIC FRAMEWORK

We are aware of the fact that previous period was full of challenges for economic and developmental policy makers, both in terms of internal vulnerability and from the aspect of negative spill over of external effects on the economic systems of the countries in the region. Bearing in mind the current global EU - NATO trends, Montenegro is facing objectives in relation to the acceleration of economic growth and/or elimination of barriers for more thorough evaluation of the significant developmental potential.

In such a constellation of relations, the Government of Montenegro is taking significant actions in the range from finding a solution and/or answer to the challenges, primarily from the sphere of public finances, with the key vulnerabilities of the budget deficit and public debt, the real sector illiquidity and insufficient credit activity of banks up to the need to boost competitiveness and stronger attracting foreign direct investment. In this regard, in 2015, it has been continued with the implementation of measures towards the consolidation of public finances, strengthening tax discipline and implementation of austerity measures in the area of unproductive spending.

The growth rate in the first quarter of this year, amounting to 3.2% has been the result of upward trend in all economy sectors.

Taxation policy was directed toward ensuring the sustainability of public finances and curbing the growth of public debt, reducing the tax burden and improving the investment environment and the competitiveness of the Montenegrin economy. The adopted tax reform model, as defined in the medium-term strategy of fiscal policy

implementation, is based on a change in the structure of taxation, which involves the transfer to the taxes that have less negative impact on economic growth.

The reduction of the informal economy, despite of the significant results achieved, remains one of the priorities of the Government of Montenegro, with zero tolerance, respecting the principle of non-selectivity and full transparency and rigorous application of penal policy. Measures to combat the grey economy are focused on the highest risk areas in terms of irregular operations, such as: the labour market, excise goods, the failure to issue fiscal receipts and a high level of tax debt.

At the same time, it has been continuing with the implementation of fiscal consolidation measures in relation to the following: the rationalization of public procurement; additional tax burden on property that is not put into operation, as well as illegally constructed facilities; tax and customs benefits for taxpayers who pay regularly; write-off of interest for the tax debt repayment as a whole; a higher level of sustainability of the pension system; higher tax rates on personal income - "crisis" taxes; taxes on smoking zones (abolished the tax on SIM card, electricity meters and cable television).

The realization of this measure in the first half of 2015 resulted in the collection of current budgetary revenues amounting to 587.9 million euros, which is the increase of 2.3% in relation to comparable period in 2014, and/or 1.5% compared to the plan.

However, as the implementation of consolidation measures, in the longer term, carries the risk that can slow

The reduction of the informal economy, despite of the significant results achieved, remains one of the priorities of the Government of Montenegro, with zero tolerance, respecting the principle of non-selectivity and full transparency and rigorous application of penal policy

down the future growth and development, through the negative impact on the competitiveness of the economy, the of measures of stimulating character are implemented simultaneously, such as:

- incentives for new businesses and new jobs in the northern municipalities of Montenegro;
- approval of the discount to taxpayers who perform one-off payment liability arising from corporate income tax;
- write-off of interest on one-time repayment of the tax debt;
- recognition of the standard cost of a higher amount (from 30% to 70%), to private accommodation providers in the tourism sector;
- providing possibility to offset tax obligations against taxpayers' property

Also, for the purpose of more thorough evaluation of important resources, and/or attracting potential investors for new investment, as part of the tax policy reform, fiscal incentives have been introduced, relating to investment in the following sectors: high tourism - hotels with 5 or more stars; production of food products, beside primary agricultural production and capital investment in the energy sector.

Provision and maintenance of fiscal stability is not only a precondition for overall economic stability and long-term economy growth, but also a determinant of access to international financial markets, and/or Montenegro negotiating position in the EU accession process. Increasing budgetary revenues, reducing current spending and increasing investment in infrastructure, establishing a downtrend of public debt and financing it out of economic growth, are the expected results of measures and activities undertaken in the field of fiscal policy.

Public debt is, in the focus of fiscal policy too, while

respecting the needs of financing capital/infrastructure projects which, in the construction phase, generate significant investment spending, with multiplier effects on the overall economy. In the long term, the realization of these investments shall be effectuated by the increase in overall economic growth and balanced development of the country.

Pertaining, above all, to the construction of the highway, which will contribute to strengthening internal cohesion in the country, and better links between the north with the rest of Montenegro, which is a prerequisite for faster development of the region, particularly in the areas of tourism and agriculture, and thereby stimulate overall economic growth.

To achieve the projected growth rates (3.5% in 2015, 3.8% in 2016, 4.0% in 2017 and 3.0% in 2018) it is necessary to continue with activities on the implementation of comprehensive reforms in order to eliminating structural weaknesses and attracting foreign direct investment.

Fiscal policy measures are crucial, but not sufficient, so that the structural reforms have become a priority of economic policy of the Government of Montenegro. The creation of competitive economic system, which will, in the long run, ensure a more balanced and sustainable economic growth and development is conditioned by the effective implementation of initiated structural reforms and realisation of relevant sectorial policies. In accordance with the identified obstacles, and in response to the imperative of development, systemic solutions towards the improvement of business environment, financial and institutional support to development of entrepreneurship, and the small and medium-sized enterprises, improving labour legislation, the pension system, health, education, and achieving greater efficiency and productivity of public administration are being implemented.

Radoje Zugić, PhD, Ministry of Finance

“Montenegro Development Directions 2015-2018”



Jasna Janjić

In March 2013, the Government of Montenegro adopted the Montenegro Development Directions 2013-2016 and thus realized the obligation of determining the vision of socio-economic development, which it committed itself to as a candidate country for EU membership.

In accordance with the conclusions of the Government on the occasion of adoption of the foregoing document, the Ministry of Finance, in cooperation with the competent institutions, has prepared the directions of development of Montenegro 2015-2018, which the Government adopted at its session held on July 2, 2015.

Montenegro Development Directions 2015-2018 (hereinafter: Development Directions) "lean" on the Montenegro Development Directions 2013-2016, which determined the strategic goal of development of Montenegro – i.e. to increase the quality of life in the long run. At the same time, the four priority development sectors were formally determined (tourism, energy, agriculture and rural development, and industry), individual goals and development directions identified, aligned with the strategy "Europe 2020", and policy areas selected, which are still valid.

Based on the assessment of the conditions and the importance of individual policy areas for the overall socio-economic development of Montenegro, as well as the results and identified problems in the implementation of projects/development measures defined by the Development Directions 2013-2016, the development measures/projects were proposed for the period 2015-2018.

Montenegro Development Directions 2013-2016 were implemented in the post-crisis period, followed by the negative external influences, in addition to the internal restrictions, i.e. the vulnerability of the fiscal, banking and real sectors of economy. Realizing the largest number of investments/development measures significant results were achieved, with the effects that will completely be visible in the medium or long term.

Thus, the reason for the preparation of Montenegro Development Directions of 2015-2018 is a need for innovation of development measures/projects, i.e. their adjustment to the current conditions and to the developmental aspirations of the EU.

A key challenge facing Montenegro is to increase the economic growth again. At the same time, the policy preparation must be of a long-term character, allowing for consideration of the time gap between the occurrence of the risk and its materialisation.

In this sense, the concept of the economic policy of Montenegro is focused on solving the identified problems, i.e. the reduction/elimination of the effects of an unfavorable macroeconomic environment, which primarily relates to fiscal sustainability and financial stability, particularly the banking sector. The foregoing is supported by the package of structural reforms that will, along with the implementation of priority sectoral policies and infrastructure projects, effect the increase in the competitiveness of the Montenegrin economy, and thus the acceleration of economic growth.

The success of economic policy will be measured by the following indicators:

- The average growth rate of GDP, from 5.3% in nominal and in real terms from about 3.6%;
- Reducing of the unemployment rate from 19.8% in 2014 to 18.1% in 2018;
- Maintenance of current and developmental needs of the Budget;
- The total volume and dynamics of investments (average growth rate of 7, 9%), with FDI inflow and reaching the level of about 13.2% of GDP in 2018.

Development Directions determined the scope and structure of the required investments/development measures and funds available at the level of defined development



directions and their respective policy areas. The total estimated value of identified projects/development measures at the level of defined directions of development (smart growth, sustainable growth and inclusive growth) is EUR 2,889,114,3741.

The scope and structure of the funds required for the implementation of the identified projects/development measures in individual directions of development for the period 2015-2018 vary significantly when compared to the period 2013-2016, partly due to changes in the methodology/coverage, and partly because of the decisions made, and started realization of significant capital projects, primarily within the field of policies of "Tourism" and "Transport".

Based on the macroeconomic and fiscal forecasts and projections of budget and EU funds (IPA), as well as on the loan indebtedness of Montenegro for the period 2015-2018, it was identified a financial gap between available and required public funds to finance identified investments/development measures per individual policy areas for the next four-year period.

The estimated required funds from public sources (budget, loans, EU funds) to finance identified investments/development measures are in the amount of EUR 1,831,400,0962,

1 - The overall estimated value of the identified projects in the Montenegro Development Directions 2013-2016 amounted to EUR 1164.71 mil.

2 - The amount of necessary funds from public sources is equal to the difference between

and the estimated available public funds are in the amount of EUR 1,282,220,000. The difference between these funds is in the amount of EUR 549,180,096, which represents the estimated finance gap for the entire period, while on the annual level, the estimated finance gap amounts to EUR 137,295,024. This means that the available public funds represent 70% of the estimated necessary funds from public sources.

Taking into consideration that the significant capital projects, especially in the areas of policies of "Tourism" and "Energy", will be implemented with the private funds, it is necessary to create the conditions for a greater involvement of private capital, domestic and foreign one, which will put the significant Montenegrin resources both in the function of dynamic and sustainable economic growth and, thus, improvement of the quality of life of all citizens. This will be necessary especially since the implementation of the development directions shall be a common responsibility of the public sector, and partly, of the other members of society.

**Jasna Janjić, the Head of
The Directorate for Structural Reforms in the Directorate
for Economic Policy and Development**

the total required estimated funds (EUR 2.889114.374) and estimated funds from other sources, i.e. private funds (EUR 1057714278.0), which mainly refer to the policy areas of "Tourism" and "Energy"



Maja Mitrović

Law on Public Procurement and Secondary Legislation for its implementation

During the last two years, practical implementation of the applicable Law on Public Procurement proved that its concept was well-defined, as well as that some its legal provisions were not the most precise, and as such, affected the certainty in initiated public procurement procedure.

The Law Amending the Law on Public Procurement, published in the Official Gazette of Montenegro, no. 57/14, in implementation since 4 May 2015, appropriately removed all deficiencies in the implementation of public procurement procedures, without changing the concept of the core Law and with additional compliance with the international standards and regulations in this area.

More comprehensive and adequate legislative work was done in the communal sector issues, particularly water supply, energy, transport and postal transport, and defence and safety.

The primary intention of the Law Amending the Law on Public Procurement was to simplify public procurement procedures and facilitate participation of bidders in public procurement procedures, and to establish more qual-

ity, efficient and cost-efficient mechanisms for protecting the rights and legal interests of participants in the public procurement proceedings, as well as the protection of public interest.

To ensure implementation of foreseen solutions in practice, the Law laid down the obligation of passing a set of implementing acts. To that end, the Ministry of Finance adopted and published the following rulebooks:

- 1) Rulebook on forms in public procurement procedures (OGM 23/15);
- 2) Rulebook on methodology of expressing sub-criteria for the selection of the most favourable offer in public procurement procedure (OGM 24/15, 29/15);
- 3) Rulebook on detailed criteria for establishing the Commission for the opening and evaluation of bids (OGM, 24/15) i
- 4) Rulebook on the methodology for disclosing of calculation error in a bid in the public procurement procedure (OGM, 24/15).



The Rulebook on forms in public procurement procedures lays down the following forms in public procurement procedures:

- 1) Public Procurement Plan (FORM 1);
- 2) Decision on starting the public procurement procedure (FORM 2);
- 3) Tender documents for open public procurement procedure (FORM 3);
- 4) Tender documents for the first phase of restricted public procurement procedure (FORM 4);
- 5) Tender documents for the second phase of restricted public procurement procedure (FORM 5);
- 6) Tender documents for negotiated procedure with prior publication of a contract notice (FORM 6);
- 7) Tender documents for negotiated procedure without prior publication of a contract notice (FORM 7);
- 8) Tender documents for public procurement procedure with contest (FORM 8);
- 9) Tender documents for public procurement procedure with shopping method (FORM 9);
- 10) Advertising notification on public procurement procedure (FORM 10);
- 11) Minutes of opening of bids (FORM 11);
- 12) Minutes of the review, assessment and evaluation of bids (FORM 12);
- 13) Minutes of negotiations in negotiated procedure

with/without prior publication of a contract notice (FORM 13);

14) Minutes of review and evaluation of submitted applications for recognizing applicants' qualifications in the first phase restricted public procurement procedure (FORM 14);

15) Decision on selection of the most favourable bid (FORM 15);

16) Decision on Suspension of Public Procurement Procedure (FORM 16);

17) Decision on the annulment of the public procurement procedure (FORM 17);

18) Form on informing on the intention of establishing and conducting the qualification system (FORM 18).

Contracting authority adapts the form to the concrete public procurement procedure, depending on the type of procurement item and conditions set for the participation in the public procurement procedure, so this will make the creation of tender documents, minutes, statements and decisions of all contracting authorities uniform, reduce costs for purchasing tender document, since tender documents will as of now be downloaded from the Public Procurement Directorate's website. Tender documents contain the instruction to bidders, as well as the form of all evidences and statements to be submitted.

Rulebook on methodology of expressing sub-criteria for the selection of the most favourable offer in public procurement procedure lays down the manner of expressing the economically most advantageous bid, as a

sub-criteria for the selection of the most favourable offer, is expressed into the appropriate number of points and the manner of assessing and comparing bids.

Rulebook on detailed criteria for establishing the Commission for the opening and evaluation of bids lays down the detailed criteria for establishing the Commission. The authorised person of the contracting authority determines the number of Commission members and their professional classification depending on the topic of public procurement. A Commission member, an expert in public procurement area, needs to have at least university degree classification, the VII education degree at the volume of 240 MSCT/ECTS credits in the area of public procurement, passed professional exam in public procurement, if it is regulated by special legislation, and at least three years of experience in profession. If a public procurement subject includes more different areas, the Commission needs to have at least one expert from each area who meets the defined criteria. If the procurement topic belongs to many different or similar areas, the Commission needs to have at least one expert from these areas who meets the defined criteria from paragraph 1 of this Article. This provides high level of Commission's competence, thus reducing the possibilities of errors during the procedure.

A graduate lawyer, who is a Commission member, needs to have at least university degree, the VII education degree at the volume of 240 MSCT/ECTS credits, passed the professional exam for working in public administration bodies and at least at least three years of experience in performing legal operations. Other Commission members need to have at least the classification of secondary general or vocational education, university degree, the IV education degree at the volume of less than 240 MSCT/ECTS credits.

As a rule, an employee of the contracting authority is appointed a Commission's member, but there is a possibility that a person who is not employed by the contracting authority may be a Commission member

Disclosing a calculation error in a bid in the public procurement procedure and the manner of its correction for the purpose of removing calculation error is performed pursuant to the methodology laid down in the **Rulebook on the methodology for disclosing of calculation error in a bid in the public procurement procedure**

Calculation error in bid is a bidder's error in:

- 1) expressing the amount of offered price without VAT for a specific good, service or work;
- 2) calculation and expressing the rate and the amount of VAT for a specific good, service or work;

- 3) the amount of offered price with economically most advantageous bid economically most advantageous bid VAT for a specific good, service or work;

- 4) expressing total offered price without VAT;
- 5) calculation and expressing the total amount of VAT;
- 6) expressing total offered price with VAT.

If the total amount of established accounting error in the bid with the VAT does not exceed 3% of the total amount of offered price with the VAT, the Commission and/or the Public procurement officer shall, immediately after disclosing the calculation error, inform the bidder in writing on calculation error disclosed in bid, its amount and the manner of its disclosing and, with a view to removing the calculation error, request from bidder to submit written agreement for correcting the financial part of the bid within 5 days of receiving the information. The bidder may examine the offer and check whether the accounting error was properly disclosed. If the bidder submits the agreement, the Commission, and/or the Public procurement officer shall, correct the calculation error in the financial part of the bid and, by signing, confirm each correction. The correction of disclosed calculation error is done in the manner that provides the duration of corrections and their clear distinction from the bid. If the bidder does not submit the written agreement for removing the disclosed calculation error, its bid shall be assessed incorrect.

In addition to the abovementioned rulebooks, the applicable legislation also include: **Rulebook on the manner of conducting and content of records in breaching anti-corruption rules (OGM 63/11)**, **Rulebook on detailed content and manner of performing electronic public procurements (OGM 61/11)**, and **Rulebook on public procurement procedures records (OGM 63/11)**.

This has established the comprehensive public procurement system in Montenegro, which is largely compliant with the **acquis communautaire**. It also provides high degree of competition, transparency, equality, efficiency and cost-effectiveness in use of public funds in public procurement procedures.

**Maja Mitrović, Independent Advisor I
In the Directorate for Property Legal Affairs**



Mitar Bajčeta

Tariff preferences in 2015

Percent amendments to the Customs Law ("Official Gazette of Montenegro", No. 62/13) and the adoption of the Decree on conditions and procedures for exercising the right to exemption from customs duty ("Official Gazette of Montenegro", No. 20/15), once again harmonized the national legislation in the field of tariff preferences with the relevant EU legislation in this field.¹ It should be noted that the changes did not cover part of the *acquis* relating to exemptions in export, as our customs system does not apply export duties, while the so-called "national exemptions", which already existed in our system, were retained.

From the so-called new exemptions prescribed by the Customs Law, special attention deserve those relating to the import of production lines or household items to Montenegro, so we will elaborate them in more detail below.

The production lines and other equipment imported by persons who in the state of their previous residence performed activity for at least 12 months, for the conduct of activities in Montenegro, shall be released from duty. Persons importing this equipment are obliged to register a company in Montenegro to achieve the said privilege. Exemption is granted only for the equipment that is placed in free circulation before the expiry of twelve months

from the date of cessation of business in another country. The customs authority may extend the period in the case of justified reasons, with a substantiated and documented request.

In order to achieve the said privileges, right's holder shall produce:

Documents proving the right of ownership and that the production lines and equipment are used for at least 12 months before the cessation of operations in another country;

Documents certifying the day of termination of the performance of registered activities in another country;

Excerpt from the Central register of companies or another appropriate document of the competent authority, which includes authorization for performance of registered activities in Montenegro,

A list of means of production and other equipment to be imported.

It should be noted that that the privilege does not apply to vehicles that are not used for production or service activities, supplies intended for human consumption or animal feed, fuel and stocks of raw materials or finished or semi-finished products and animals owned by entities dealing with their trade.

Another important exemption applies to import of household items by a person who before moving has resided or had obvious intention to reside outside of Mon-

1 - Council Regulation (EC) no. 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty and Council Directive 2007/74 / EC of 20 December 2007 on the exemption from VAT and excise duty for non-commercial imports of goods by persons traveling from third countries.

tenegro for at least 12 continuous months, and who had owned and used the household items in his household for at least six months.

Household items, among others, are considered to be items for furnishing and decorating living space, private motor vehicles, and household supplies to suit the needs of a normal family. Commercial vehicles, alcohol and tobacco products are not considered household goods.

Household items can be released for free circulation within a period of twelve months from the date when an individual registered permanent or temporary residence in Montenegro. In the case of justified reasons, the customs authority may extend the said period, with a reasoned and documented request of the applicant. Exceptionally, the right to exemption can be allowed before the user is entitled to register temporary/permanent residence, provided that he presents adequate security and reports residence/temporary residence within six months from the date of importation.

An application for the exercise of rights shall be filed with the customs authority competent, according to the place of residence or domicile of the right's holder in Montenegro. With the application, right's holder shall produce:

Confirmation of the diplomatic or consular mission of Montenegro or other appropriate document proving previous continuous stay abroad of at least 12 months;

Certificate of registration or proof of approved temporary stay (copy of passport - stamped "APPROVAL OF TEMPORARY STAY"), or a decision on permanent residence in Montenegro; and

A list of household items which are imported with proof of their possession and use abroad for at least six months.

User of privileges may not alienate household items (the same applies to production goods and equipment), use them for other purposes or surrender as security for other obligations within twelve months from the date of their release for free circulation, without prior notification to the competent customs office and the payment of customs duties. Any practices with them in this way entails the payment of customs duty at the rate applicable on the date of such conduct, based on the type of goods and the customs value on that date determined and accepted by customs office.

In addition to the above exemptions, special attention should also be paid to exemptions relating to the

importation of goods contained in the personal luggage of travelers. This exemption was included in the previous regulation², but was not fully compliant with the Council Directive 2007/74/EC of 20 December 2007 on the exemption from VAT and excise duty of goods imported by persons traveling from third countries, by relevant EU regulation. The main innovation of the new regulation refers to the mobilization of the thresholds on the value of goods a traveler can bring in their personal baggage, from the existing 150.00 euros to 300.00 euros for travelers on the road, or 430.00 euros for travelers in air and maritime transport. If a passenger is younger than 15, then the exemption applies only to the value of goods in the personal luggage of up to 150.00 euros, regardless of the means of transport.³

The list of excise products that can be imported is expanded in a way that the exemption from customs duties is determined for still wine (four liters) and beer (sixteen liters).⁴ Exemption on import of excise goods in the personal luggage cannot be achieved by persons under the age of 17 years.

It has already been stated in the introduction that the new regulation retained the so-called "national exemptions," so we will hereinafter refer to the issues that are in practice most interesting to the parties and relate to the importation of motor vehicles by persons with disabilities.

Exemption from payment of customs duty applies to vehicles imported for personal use by persons with 100% physical damage, or at least 80% of physical damage to the organs of motion. This right can be exercised by:

Persons with disabilities who have a valid driving license for the steering of a motor vehicle, and

Persons who do not meet the health requirements for the issuance of driver's licenses, if the second person undertakes to steer the motor vehicle for the needs of a disabled person (a close family member of the user of exemption living with him in the household or another person entrusted with custody of the exemption user on the basis of regulations or decisions of the competent authority for social welfare).

Exemption from customs duty may be exercised once in five years. The request for the exercise of the right's holder shall be accompanied by:

² - Regulation on the procedure for obtaining exemption from customs duties ("Official Gazette of RM" No. 22/03).

³ - Article 7, point 2 of Council Directive 2007/74/EC.

⁴ - Article 9, point 3 of Council Directive 2007/74/EC.



The Decision of the competent authority on the entitlement to allowance for care and assistance, and the entitlement to a personal disability allowance;

Valid driver's license or certified written authorization of the right's holder given to the person who will drive it, if the user does not have a driver's license or is unable to drive; and

Decision of the competent authorities on determining a guardian.

The Decision of the competent customs authorities on the exercise of relief from customs duty shall determine the persons authorized to steer the car, while the vehicle registration of a passenger car which acquired exemption from customs duty shall include the following text: "The vehicle cannot be alienated without payment of duty to

(enter the expiry date of the five-year period). The vehicle is intended exclusively for the handicapped."

Finally, we note that the provisions of the Decree on conditions and procedures for exercising the right to exemption from customs duty, as the name suggests, prescribed procedure for exercising rights to exemption from customs duty, which is not the matter of the acquis, but a matter of domestic law of each Member State.

Mitar Bajčeta
Chief Directorate for Customs System and Customs
Policy the Directorate for Tax and Customs System

An authorized economic operator in the customs territory of Montenegro



Snežana Vujanović

Danko Dragović

Over the past years, bearing in mind the surge in global trade and the increasing security threats to international movement of goods, the role of customs services has changed significantly from the traditional collection of customs revenues to creating conditions for the safe functioning of the international supply chain of goods. This role of the customs service has resulted in the development of security programs at the global level, which in the framework of the World Customs Organization (WCO) are defined as the SAFE Framework of Standards. A key part of the SAFE standards represents the institute of an authorized economic operator.

By WCO definition, an authorized economic operator is a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration as complying with World Customs Organization or equivalent supply chain security standards. The official definition of AEO in the EU implies a person who in the course of his business is involved in activities covered by customs legislation, is reliable throughout the Community and as such is entitled to enjoy benefits throughout the Community. An authorized economic operator is an economic operator that has been granted the status of a reliable partner, after being found to meet specific criteria.

One of the main tasks of customs authority is to carry out a risk assessment in the movement of goods. The determination of the customs services of the EU member states is to base controls of economic operators on risk management, taking into account measures the economic operators themselves have taken to prevent risks in the business.

The advantages that the status of an authorized economic operator provides, among other things, are reflected in

customs simplifications or exemptions in the form of a simpler approval of simplified customs procedures, fewer physical and document-based controls, possibility to request a specific place for such control, as well as other simplifications and exemptions when it comes to the protection and security of the supply chain.

The Institute of an Authorized Economic Operator was first introduced in the Montenegrin legal framework by the Decree on the conditions for granting the status of an authorized economic operator in the customs territory of Montenegro, which the Government of Montenegro adopted at its session of 18 June 2015 and which entered into force on the eighth day after the publication in the Official Gazette of Montenegro.

The said Decree lays down the conditions for granting the status of an authorized economic operator to a party headquartered in the customs territory of Montenegro, as well as conditions and procedures under which the status of an authorized economic operator may be revoked or suspended.

Economic operators can obtain the status of an authorized economic operator for the purpose of:

- customs simplifications,
- security checks or
- a combination of these benefits.

The said Decree defines in detail the conditions and acceptance criteria that an economic operator must meet to obtain the status of an authorized economic operator. Basically, these criteria are related to:

- compliance with customs regulations in the past period;

- conduct of business and transport records, which allow appropriate customs controls;

- financial reliability and stability of the operator who applied for the status of an authorized economic operator; and

- fulfillment of appropriate protective and safety measures.

The above mentioned Decree regulates the issue of compliance with customs regulations in the past period by an economic operator lodging an application. The operator meets the criteria of compliance with customs regulations in the past if in the last three years preceding the application, the applicant, persons who manage the operator or persons exercising control over its management, a representative of the applicant in the customs procedure, if any, and/or a person responsible for customs matters – have not been in serious or repeated breach of customs legislation.

The operator meets the criteria of a satisfactory way of conducting business and transport records which allow the customs controls if keeping accounting records in accordance with generally accepted accounting standards, thus facilitating customs controls, which include also the subsequent controls. Accordingly, it is necessary to possess a logistical system which distinguishes national from foreign goods, has a proper procedure for managing permits and licenses in connection with trade policy measures, has the administration corresponding to the type and scope of business, and is suitable for the management of the movement of goods.

It is considered that the applicant is financially reliable and stable if solvent, i.e. has been able to execute his

commitments in the previous three years from the date of lodging the application.

If the applicant has not been operating for more than three years, his financial solvency shall be assessed on the basis of available records and data, from the date of the establishment.

Furthermore, the Decree authorizes the customs authority to suspend the status of an authorized economic operator, in cases where the AEO fails to meet the conditions and criteria of the Decree or where there is reasonable suspicion that a violation of customs regulations has occurred. If within the time limit economic operator takes measures to meet the conditions and criteria under which the AEO status has been approved, the suspension status shall be revoked and he can continue to use the privileges the status allows. Otherwise AEO status authorization shall be repealed. Approval of the AEO status shall also be repealed when AEO commits a serious violation of customs legislation and has no more right to appeal, or upon his request.

The Decree provides that the provisions of the Decree shall apply until the accession of Montenegro to the European Union.

Snežana Vujanović - Independent Advisor II
Danko Dragović - Independent Advisor I
Directorate for Tax and Customs System



mr Snežana Mugoša

Overview of Public Expenditures at the Local level for the period January - March 2015

Pursuant to provisions of Article 74 of the Law on Local Self-Government Financing, the municipalities are required to present to the Ministry of Finance the data on planned and actual revenues and expenditures, as well as on budget borrowings on quarterly basis, not later than within 30 days from the end of quarter. Based on the submitted reports, the Ministry of Finance prepares the Report on Public Expenditures at the Local Level for a specific period.

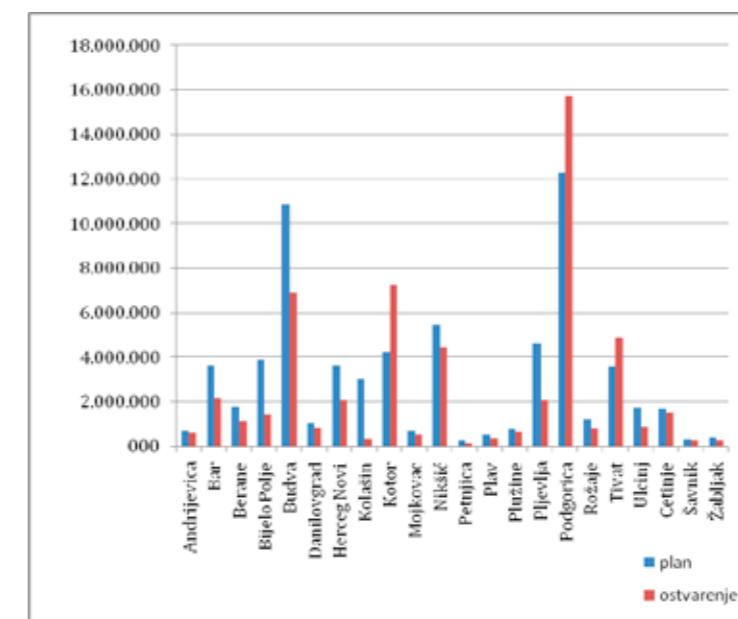
REALISATION OF RECEIPTS OF THE LOCAL SEL-GOVERNMENT IN THE FIRST QUARTER OF 2015

The following table provides an overview of planned and actual municipal budget receipts in the first quarter of 2015.

Municipality	Local self-government receipts in the 1st Quarter 2015 (in mill €)		
	Planned	Actual	% of realization
Andrijevica	0.67	0.59	89.19
Bar	3.62	2.14	59.27
Berane	1.77	1.09	61.67
Bijelo Polje	3.87	1.44	37.17
Budva	10.87	6.89	63.37
Danilovgrad	1.04	0.82	79.36
Herceg Novi	3.64	2.06	56.72
Kolašin	2.99	0.31	10.48
Kotor	4.22	7.23	171.40
Mojkovac	0.66	0.50	75.55

Nikšić	5.45	4.41	80.80
Petnjica	0.22	0.13	58.10
Plav	0.52	0.34	64.27
Plužine	0.75	0.65	86.65
Pljevlja	4.63	2.04	44.03
Podgorica	12.26	15.72	128.21
Rožaje	1.20	0.77	64.60
Tivat	3.55	4.85	136.49
Ulcinj	1.74	0.87	50.32
Cetinje	1.66	1.49	89.77
Šavnik	0.26	0.23	87.65
Žabljak	0.38	0.24	63.10
TOTAL	65.97	54.82	83.10

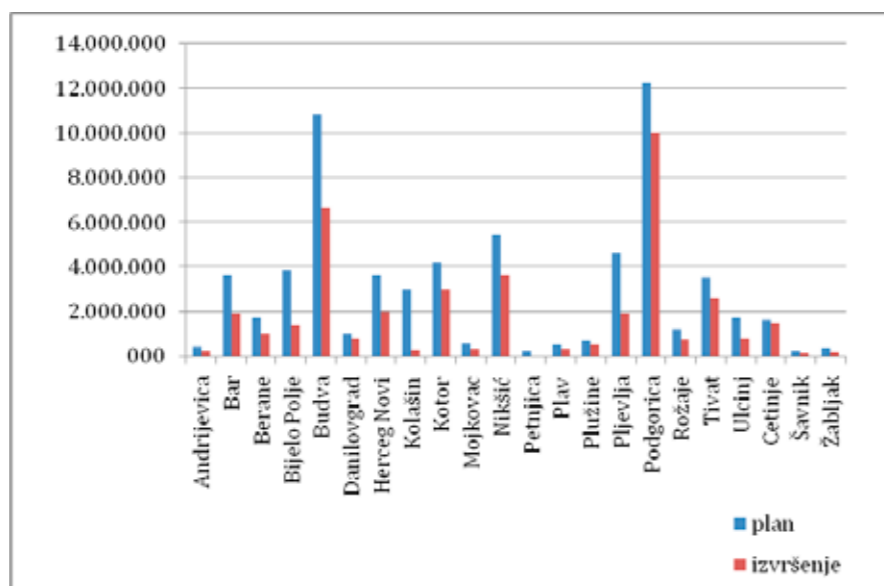
Total local self-government receipts for the first quarter of 2015 were planned in the amount of 65.97 million euros, while the actual realization totaled 54.82 million euros, or 83.10% of the plan for the stated period.



EXECUTION OF EXPENDITURES OF THE LOCAL SELF-GOVERNMENT IN THE FIRST QUARTER OF 2015

Total expenditures of the local self-government for the first quarter 2015 were estimated in the amount of 65.63 million euros, while the total execution of the municipal budgets for the same period amounted to 40.27 million euros, accounting for 61.36% of execution compared to the plan for the same period.

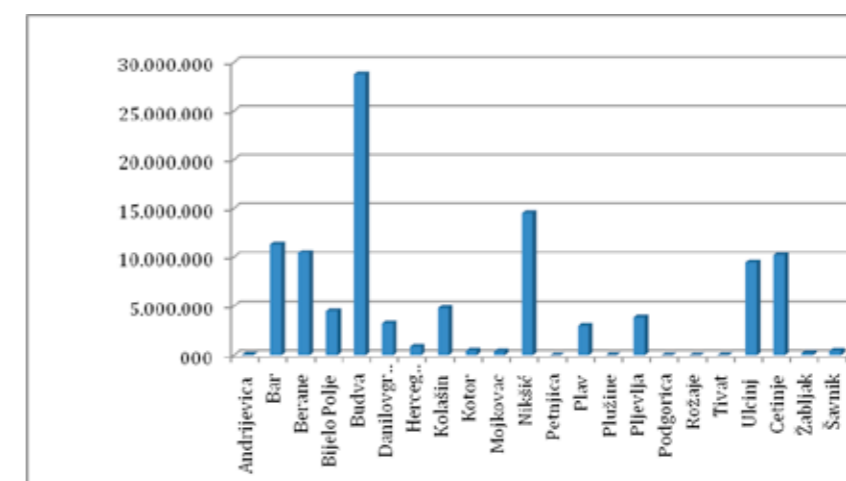
Municipality	Local self-government receipts in the 1st quarter of 2015 (in mill €)		
	Planned	Executed	% of execution
Andrijevica	0.42	0.23	54.14
Bar	3.62	1.94	53.66
Berane	1.77	1.03	58.21
Bijelo Polje	3.87	1.42	36.61
Budva	10.87	6.66	61.29
Danilovgrad	1.04	0.82	78.81
Herceg Novi	3.64	2.01	55.15
Kolašin	2.99	0.28	9.51
Kotor	4.22	3.00	71.04
Mojkovac	0.57	0.33	57.44
Nikšić	5.46	3.63	66.45
Petnjica	0.22	0.05	24.44
Plav	0.52	0.32	60.67
Plužine	0.75	0.52	69.54
Pljevlja	4.63	1.94	41.96
Podgorica	12.26	10.01	81.68
Rožaje	1.20	0.77	64.25
Tivat	3.55	2.63	74.12
Ulcinj	1.74	0.84	48.44
Cetinje	1.66	1.49	89.86
Šavnik	0.26	0.16	59.98
Žabljak	0.38	0.20	52.46
TOTAL	65.63	40.27	61.36



OUTSTANDING LIABILITIES OF THE LOCAL SELF-GOVERNMENT AS AT 31 MARCH 2015

According to the data provided by the municipalities and submitted to the Ministry of Finance, the total outstanding liabilities of the local self-governments as at 31/03/2015 amounted to 106.57 million euros.

Outstanding liabilities of the local self-government as at 31 March 2015 (u mill €)	
Andrijevica	0.06
Bar	11.34
Berane	10.47
Bijelo Polje	4.47
Budva	28.72
Danilovgrad	3.26
Herceg Novi	0.86
Kolašin	4.79
Kotor	0.47
Mojkovac	0.39
Nikšić	14.53
Petnjica	0.00
Plav	3.01
Plužine	0.01
Pljevlja	3.84
Podgorica	0.00
Rožaje	0.00
Tivat	0.01
Ulcinj	9.46
Cetinje	10.20
Žabljak	0.21
Šavnik	0.45
TOTAL	106.57



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



Marija Goranović

The activities of the Minister of Finance in the period from 1 April to 30 June 2015



01/04/2015- Cooperation with partners from the Netherlands continued

Finance Minister Mr. Radoje Žugić, PhD, met with representatives of the Dutch Ministry of Finance, Mr. Arjan Vos and the Ministry of Infrastructure and Environment, Mr. Wim Kooij. The meeting was an opportunity for the interlocutors to discuss further steps in the implementation of program budgeting in Montenegro on the basis of the Memorandum of Cooperation between the Ministry of Finance of Montenegro and the Ministry of Finance of the Netherlands. The meeting participants agreed that the implementation of the program budgeting is one of the key activities in the reform of public finances in the future, which will contribute

to better management of public resources through the introduction of performance indicators of all budget users. The interlocutors informed the Minister that following their visit to Montenegro they expect a development of a detailed plan of action, defining the stakeholders and deadlines for the implementation.



02/04/2015 – Intensified cooperation with UNICEF in expanding the coverage of pre-school education

Finance Minister Mr. Radoje Žugić, PhD, together with his associates, hosted a meeting with the representatives of the United Nations Fund for Children (UNICEF) led by the Head of Montenegro Office, Mr. Benjamin Perks. The meeting focused on expanding the coverage of preschool education, as the most important foundation for further

acquisition of knowledge and the overall improvement of individual and social development of young people. Pointing to the need of expanding the primary role of pre-school educational institutions, Mr. Perks informed the Minister of the results of the study UNICEF initiated in cooperation with the Ministry of Education in order to examine the ways in which services of pre-school education can be further substantially enriched and expanded to a greater number of children, with a special focus on vulnerable and marginalized groups. Bearing in mind the need for Montenegro to harmonize with the EU standards in this field, Mr. Perks informed the Minister that the current coverage of preschool education at the national level is only 40%, while the projection of the European Union is 95% for the period up to 2020, and stressed the importance of intensifying activities in this regard. Minister Žugić outlined that the Ministry of Finance, in the scope of its jurisdiction, through its budgetary resources but also through cooperation with local governments, leads a proactive policy in this area, and expressed willingness to provide support in the design of further structural reforms in this area.



02/04/2015 – Statement by the Finance Minister Mr. Radoje Žugić after a cabinet meeting on the occasion of the adoption of the Guidelines of macroeconomic and fiscal policy for the period 2015-2018, and the presentation of the state of public debt at the end of 2014

“...Guidelines of macroeconomic and fiscal policy adopted by the cabinet include medium-term objectives and scope of economic and fiscal policy, forming foundation to the limits in the public spending as the dominant element of a potential deficit. The conclusion of the Government is that the austerity measures must intensify in the future, so that already next year we achieve a balance in the budget and leave room for the items of deve-

lopment policy through the financing of capital projects. When it comes to the level of government debt, we report that on December 31, 2014 the debt amounted to 57.2% of GDP, and public debt, which includes debt of local governments, to 59.6% of GDP, taking into account the deposits of public finances in Montenegro. Formally, this level of public debt does not impose a legal obligation to develop the remediation plan pursuant to the Budget Law and the fiscal rules, but the Government have concluded that, irrespective of the above, the moral obligation of the Government is to deal with all the austerity measures and at this stage these remain, to avoid waiting for the next year when we will primarily because of development projects have exceeded the levels of debt and deficit levels and also create a greater base for servicing precisely these key vulnerabilities of the fiscal sector, which we define as the dynamics and level of public debt...”



02/04/2015 - Collective agreement in the field of administration and justice signed

“The signing of the collective agreement is an evidence of social dialogue, partnership and commitment of not only unions but also the government. Starting from the objective financial possibilities, this contract is a proof that we want to take care to the maximum extent possible of the rights of employees and I hope that in the future we will strive to improve all essential prerequisites for the realization of labor rights, guided by this example and other positive elements that we encounter daily.”

03/04/2015- AmCham, a partner in promoting development in Montenegro

Finance Minister Mr. Radoje Žugić, PhD, together with his associates, hosted a meeting with the representatives of the American Chamber of Commerce, led by the new executive director, Mrs. Ivana Jovović. The meeting was an opportunity to exchange information, on a partnership

basis, on business environment and investment climate in Montenegro in order to identify areas in which to strengthen cooperation, with a view to removing barriers and presenting the domestic market offer to foreign partners. Bearing in mind that the US Chamber of Commerce is the association of entrepreneurs of great international influence, Minister Žugić stressed that more intensive cooperation with the U.S.



investors would bring Montenegrin economy not only economic benefits, but also an element of security, which is crucial for its sustainability and financial stability. Representatives of AmCham Montenegro stressed that the association is trying to be an active intermediary between the international business community and decision makers in Montenegro, and thus contribute to improving the business climate to attract foreign investment.



08/04/2015 - The first official meeting between Minister Žugić and the Ambassador Uyehara - Attracting American investors the focus of future cooperation

Finance Minister Mr. Radoje Žugić, PhD, received the new Ambassador of the United States in Montenegro, H.E. Mrs. Margaret Uyehara, in her first official visit. The meeting was an opportunity to reaffirm the friendly relations between the two countries and to continue dialogue on the intensification of cooperation at the political

and diplomatic, as well as the economic level. Special emphasis was placed on the process of joining the NATO as one of the most important foreign policy goals of Montenegro. The meeting participants agreed that the presence and the operation of U.S. companies in our country contribute to improving the image of Montenegro as a safe investment destination, and concluded that there is a mutual interest in further promotion of cooperation in this field. Noting the progress that Montenegro has made on the political and economic levels, Ambassador Uyehara expressed readiness to promote investment opportunities in our country before the U.S. investors, and conveyed the support for the continuation of the reform processes, with the belief that the future joint cooperation will yield better and more actionable results.

09/04/2015 - FASP Montenegro development

Finance Minister Mr. Radoje Žugić, PhD, met with a delegation of the International Monetary Fund and the World Bank, led by Mr. Peter Lohmus and Mr. Alexander Pankov. The reason for the meeting was the preparation of the Financial Sector Assessment Program (FASP) for Montenegro, to define the potential volume of FASP main mission, planned for September this year. In the framework of the Program, the experts of these financial institutions assess the stability of the financial sector and its possible contribution to the growth and development through evaluation of the quality of regulation and supervision of the banking market, insurance market and the financial market in comparison to accepted international standards. Also, an analytical FSAP framework includes identifying benefits and possible disadvantages and sources of risk, and development needs. In this context, Minister Žugić stressed the need to strengthen incentives in the sphere of banking system, primarily through an increase in banks' activities and efficient operations, bearing in mind that the stability of the real sector is one of the key commitments of the Government, but also the dominant basis for dynamic growth and the strengthening of competitiveness.

09/04/2015- Statement by the Finance Minister Mr. Radoje Žugić following a Cabinet meeting that adopted the 2015 Action Plan to combat the gray economy and Strategy for implementation of the ESA 2010 methodology in the Montenegrin public finance statistics



“Government Work Program for 2015 envisages the adoption of the Action Plan to combat the gray economy which defines the measures to combat the gray economy, while strengthening fiscal discipline, eliminating unfair competition and raising awareness of the importance of legal business. The Action Plan itself, depending on the type of measures envisaged, is comprised of four areas, namely: the legal framework and regulatory measures, operational measures (with the division to: the competent authorities, individuals, stakeholders, and reporting), the strengthening of institutions (not just staff but also technological) and the cooperation of institutions responsible for combating the gray economy, as well as external control and collection of public revenue. At the session, we further affirmed the basic principles of our fiscal policy, above all the certainty and predictability of fiscal policy for the dominant real economy, so that decision makers, in addition to the existing regulatory framework, would have knowledge of potential intentions and activities of the regulator. The following is a consistency or coherence in the uniform application of the law for all, and eventually the competitiveness of our fiscal policy through the levels of tax rates i.e. public revenues, wishing thereby to make a contribution to sustainability of the real economy. Despite a number of implemented activities in certain business segments presence of the gray economy is still evident, and therefore there is need to intensify the work of competent authorities, predominantly in the gray market and the market of excise products...”

20/04/2015- Spring meetings of the IMF and World Bank

Montenegrin delegation, headed by Finance Minister, Mr. Radoje Žugić and CBM Governor Mr. Milojica Dakić, took part in the spring session of the IMF and the World Bank. The Montenegrin delegation during the session met with senior officials of the World Bank, IFC and MIGA: Mrs. La-

ura Tuck, World Bank Vice President for Europe and Central Asia, Ms. Edith Quintrell, MIGA Vice President, Mr. Tomasz Telma, IFC Director for Europe, Mr. Frank Heemskerck, executive director of the Dutch constituency at the World Bank and Ms. Ellen Goldstein, regional director of the World Bank.



The meeting participants agreed that a successful cooperation between Montenegro and the World Bank has been accomplished in the previous period and discussed the possibility of establishing even a better cooperation through the adoption of a new Strategy for Montenegro, which is expected by the end of this year. It was concluded that the directions of Montenegro's economic policy largely coincide with the priorities that have been provisionally set by the World Bank through the System Diagnostics. With the representatives of the IFC, the delegation talked about already open and potential new investment projects with reputable investors in the field of transport, high tourism and energy. They simultaneously discussed the possibility of a systemic approach to microcredit institutions, through the analysis of corporate governance, and the possibility of their potential funding. This kind of cooperation would be aimed at supporting micro and small businesses. Finally, they also discussed the provision of expert assistance by the IFC to commercial banks in order to develop their skills in the management of non-performing assets. With representatives from MIGA the delegation discussed the possibility of obtaining financial support for development projects to support small and medium-sized enterprises, with particular emphasis on the northern part of Montenegro, as well as the possibility of obtaining a guarantee to cover non-commercial risks for individual infrastructure projects. World Bank representatives have expressed their readiness to help Montenegro in the implementation of development projects through the creation of a new framework strategy of engagement of the World Bank in Montenegro. The Finance Minister and the Governor of the Central Bank of Montenegro have expressed gratitude to the World Bank for their support.

21/04/2015 - Talks in the U.S. continue

In the continuance of the spring session of the International Monetary Fund and the World Bank, the Montenegrin delegation, headed by Finance Minister Mr. Radoje Žugić and CBM Governor Mr. Miloica Dakić, met with senior representatives of the IMF: Mr. Paul Thomsen, IMF Director for Europe, Mr. Menno Snel, Executive Director of the Dutch Constituency in the IMF, Mr. John Mueller, Director of the Statistics Department in the IMF and Mr. Alasdair Scott, head of mission for Montenegro. IMF Director for Europe, Mr. Thomsen congratulated the Montenegrin delegation on the successful issue of Eurobonds, after which Mr. Žugić acquainted them with the results achieved by fiscal consolidation in the previous period as well as ways of financing the highway, which will not jeopardize fiscal stability. At a meeting with Executive Director of the Dutch Constituency in the IMF, Mr. Snel, they exchanged views on the current economic situation in the countries of the Constituency and plans relating to the future work. Past progress in the development of statistical system in Montenegro was the topic of a meeting with the Director of the Statistics Department in the IMF, Mr. John Mueller. It was noted that there has been great progress in the past, particularly in the areas of national accounts, but that further improvements are required. The IMF has expressed willingness to provide technical assistance to Montenegro in the future in the area of statistics improvement. The Finance Minister and the Governor of the Central Bank of Montenegro emphasized the high level of cooperation with the IMF in the past and agreed the next IMF visit to our country and discussed the possibilities for providing technical assistance by the IMF to Montenegro.



24/04/2015- Possible cooperation with Goldman Sachs

Finance Minister Mr. Radoje Žugić, PhD, met with the representatives of Goldman Sachs International, headed by the President Mr. Antonio Esteves. The meeting was

an opportunity to exchange opinions on the financial situation in Montenegro, and identify potential fields of cooperation in the future. The representatives of the institutions have expressed interest in providing support in multiple segments, with the aim of preserving sustainable public finances. Stressing the need for stronger economic growth and development, and promoting the competitiveness of the Montenegrin economy, Minister Žugić noted the importance of creating partnerships with reputable institutions such as Goldman Sachs, and in this context agreed to intensify communication in the future, and swiftly create preconditions for concrete activities.



28/04/2015- Strengthening cooperation with Turkey

Finance Minister Mr. Radoje Žugić, PhD, received the Ambassador of Turkey Mr. Mehmet Niyazi Tanilir to discuss the topic of strengthening the partnership between the two countries in the field of economy by the presentation of Montenegro's offer to Turkish investors. Bearing in mind the activities that the Government of Montenegro implemented to reduce business barriers and create incentives with a view to launching a stronger investment cycle, Minister Žugić stressed the importance of the presence of reputable Turkish investors and their involvement in projects that transcend local boundaries and contribute to the national image. In this context, the interlocutors also discussed the project of construction of sewage collector in Herceg Novi, and expressed belief that all outstanding issues regarding the successful realization of the same will be solved through joint action of all stakeholders.

29/04/2015 – Montenegro, an example of excellent cooperation with CEB

Finance Minister Mr. Radoje Žugić, PhD, met with representatives of the Council of Europe Development Bank

(CEB), headed by Vice Governor Mr. Mikolaj Dowgielewicz. The meeting was an opportunity to discuss the implementation of projects by the Government of Montenegro conducted with the CEB support, as well as to define further steps and activities for successful finalization of the same.



Specifically, the word was about projects of social housing, then the construction of pre-school institutions, reconstruction and expansion of prison capacities, as well as the construction and equipping of the Gynecology Clinic and Maternity Ward and the Department of Mental Health. Commenting on the first two projects, Minister Žugić informed the CEB representatives that the activities carried out within the projects follow the dynamics of implementation, while the projects in the areas of health and justice need additional synchronization with the relevant ministries, in terms of defining the objective framework that would satisfy the real needs of the institutions mentioned, but at the same time be in line with the budget resources and the principle of rationality. Welcoming the efforts of Montenegro in the process of implementation of the goals, Vice Governor Dowgielewicz stressed that Montenegro is the best example of regional cooperation, and that the CEB support in the forthcoming period could be focused on cooperation in the management of IPA funds, bearing in mind that the institution he represents has the necessary knowledge and expertise in this area.

05/0/2015 - Strengthening partnership with Societe Generale Bank

Finance Minister Mr. Radoje Žugić, PhD, received the Chief Executive of Societe Generale Bank, Mr. Miroslav Hirsch. On this occasion, Minister Žugić expressed appreciation for the activities the bank implemented, which correspond to the measures of the Government of Montenegro in the part addressing the vulnerabilities of the real economy, with the aim of strengthening economic growth and the provision of sustainable financial system.



Bearing in mind that the momentum of growth of the real economy is reflected in an increase in the activity of banks by reducing the level of NPLs and interest rates, the importance of cooperation with reputable partners such as Societe Generale bank has been recognized, which, as pointed out by Mr. Hirsch, registers consistent positive trend in its operations through increase in the total portfolio. The interlocutors agreed that only through joint efforts and compromise solutions can they meet the interests of general importance, but also liberate the banking potential in order to strengthen competitiveness and create new value.



06/05/2015 - Final conference of the SAM project "Strengthening State Aid Management in Montenegro"

Finance Minister Mr. Radoje Žugić, PhD, opened the final conference of the EU project "Strengthening State Aid Management - SAM Project" at Podgorica Hotel, which was organized by the German International Cooperation (GIZ), with the support of the Ministry of Finance and the European Union in Montenegro. As part of the opening ceremony, the participants were addressed by the Head of the EU Delegation to Montenegro, H.E. Ambassador Mr. Mitja Drobnič, the Ambassador of the Federal Republic of Germany in Montenegro H.E. Mr. Gudrun Elisabeth Steinacker and a representative of GIZ and SAM project Team Leader Ms. Daiga Lagzdina. With the assessment that

the implementation of the project itself provided numerous benefits in terms of improving state aid policy and quality of harmonization of national legislation with the European, Finance Minister Mr. Radoje Žugić pointed out that the success of the said project is reflected in the fact that, thanks to the same, the domestic legal framework, for the first time, introduced the contours of soft law, by the publication of thirteen relevant regulations that closely define certain segments of state aid. Ms. Daiga Lagzdina, representative of GIZ and SAM Team Leader noted that Montenegro has already set a good basis to meet the opening benchmarks in the field of state aid under Chapter 8. The conference was organized with a view to launching an open debate about the concept of services of general economic interest and state aid system, in the light of the current accession negotiations of Montenegro with the EU.



07/05/2015- German Ambassador's visit

Finance Minister Mr. Radoje Žugić, PhD, met with the Ambassador of Germany in Montenegro, Mrs. Gudrun Elisabeth Steinacker. Looking back on a very successful cooperation between the two countries in several areas and projects of economic importance, the meeting was an opportunity to discuss the possibilities of finding the most appropriate funding model and the provision of sustainable use of wastewater treatment plants in the Municipality of Budva, through available legal instruments, such as the possibility of introducing dedicated environmental taxes. Bearing in mind the great interest of German investors to invest in Montenegro, interlocutors were unanimous in their assessment that effective address of this issue would be a good example for the sustainability of similar systems in other municipalities, and a confirmation of the openness of the Government to continue cooperation in the future.



12/05/2015 - HAAB director meets with Finance Minister Mr. Radoje Žugić

Finance Minister Mr. Radoje Žugić, PhD, together with his associates, met with the Chief Executive Officer of Hypo Alpe-Adria-Bank AD Podgorica, Mr. Christoph Schoen. During the meeting, Mr. Schoen introduced the Minister with the results of the bank in 2014, as well as business plans for 2015. As for the privatization of the HAA, Mr. Schoen informed the Minister that the closing of the transaction is expected, as planned, in June, and that future owners (Advent International and EBRD) want to expand retail and SME banking, while maintaining a successful business in the sector of the economy and public finances. Minister Žugić praised growth trend in new loans, especially at lower interest rates, which provide the real economy a better access to cheaper money. They both concluded it is necessary to give further impetus to financial sector and real economy, in order to strengthen the healthy sectors of the economy through an increase in banking activity, while reducing the level of NPLs.



15/05/2015 - Partnership support of the World Bank in several fields

Finance Minister Mr. Radoje Žugić, PhD, received the World Bank Country Manager for Bosnia and Herzegovina and Montenegro, Ms. Tatiana Proskuryakov, to discuss further forms of cooperation and development models, for the already started joint projects. In this regard, Minister Žugić emphasized the urgency of solving the debt problems of the municipalities, through the expertise and financial support of the World Bank. This support, as Minister informed Ms. Proskuryakov, would proceed on two tracks that would involve continuous reporting and analysis of financial conditions and viability of local governments, but also the realization of pilot projects that could serve as a model for solving the problems in other local governments. Taking into account the needs highlighted by the Minister Žugić, Ms. Proskuryakov communicated the readiness of the World Bank to provide advisory and financial assistance to Montenegro, as support to reforms that Montenegro wants to implement.



26/05/2015 - Support to the development of the film industry

Finance Minister Mr. Radoje Žugić, PhD, met with the representatives of the U.S. based company "Immersive Artistry", headed by the Executive Director Cary Granat. The representatives of the company have expressed interest in contributing to the development of the film industry in Montenegro, bearing in mind that the same is recognized as a country rich in natural beauties, and as such is an attractive presentation for the world public, and investors. Noting that the aforementioned industry is underdeveloped at present, and that there lies a great potential, which, through direct and indirect effects, could contribute to strengthening the competitiveness of our economy, and dynamic economic growth, Minister Žugić expressed his readiness to provide support for in-

centives to reputable investors to act in this area. It was agreed that, in the future, a detailed analysis of possible modalities of cooperation will be designed, primarily in terms of budgetary exposure of Montenegro, and the sustainability and stability of public finances, in coordination with the competent authorities.



27/05/2015 - Talks with Prince Nikola II Petrović-Njegoš

Finance Minister Mr. Radoje Žugić, PhD, received Prince Nikola II Petrović-Njegoš, to continue talks on further activities on the implementation of the obligations of the Law on the status of descendants of the dynasty Petrović-Njegoš, primarily related to housing the representatives of the royal family. In this sense, it was considered to adapt an existing building for the purposes of the representatives of the dynasty Petrović-Njegoš, rather than building a new one, and thus finish the matter, as soon as possible. Outlining the importance of maintaining good relations and reputation of the monarchy, Minister Žugić, expressed the commitment of the Government of Montenegro, to fully carry out, to the extent possible, the remaining obligations of the State in this segment.



27/05/2015 - The preparatory work of the project on the Blue Horizon in progress

Finance Minister Mr. Radoje Žugić, PhD, together with his associates, received the Executive Director of Qatari Diar Mr. Greg Bankhurst, to discuss the dynamics of implementing the construction of a luxury tourist complex in Montenegro, at the location Blue Horizon. In this regard, Mr. Bankhurst informed the Minister that after the construction of telecommunications network on the project site, a wider range of preparatory work will follow, involving traffic infrastructure and utility equipping, in order to create conditions to start the construction of an information center in the autumn of the current year, and by year-end a luxury hotel. Bearing in mind that the opening of the said tourist complex is planned for 2018, interlocutors also agreed that the role of the courts in terms of timeliness and effective implementation of legal procedures is of crucial importance, as was the case in the previous period. Mr. Bankhurst once again thanked the team of the Minister of Finance for recognizing the importance of this capital project, and announced that in the near future they will disclose the name of the hotel operator to manage the complex.



29/05/2015 - Support to the projects of social importance

Finance Minister Mr. Radoje Žugić, PhD, met with the executive director of Telekom Crna Gora, Mr. Ruediger Schulz, to discuss models of improvement of cooperation in projects that promote social responsibility. Expressing support to all initiatives and projects which, by their nature, promote social responsibility, transparency and humanity, Minister Žugić conveyed the openness of the Government, within the framework of existing legislation, or objective possibilities, to find space for the realization of projects and thereby further encourage the participation of citizens in solving community problems. Bearing

in mind that the above principle of solidarity and united action of the government and investors, as well as other individuals of society, is successfully applied in some developed European countries, the interlocutors agreed that the discussions on the issue should intensify in the future.



03/06/2015- Visit from representatives of the European Court of Auditors

Finance Minister Mr. Radoje Žugić, PhD, met with a member of the European Court of Auditors, Mr. Hans Gustaf Wesseberg, a member of his cabinet, Mr. Peter Eklund, as well as Ambassador H.E. Mr. Mitja Drobnič, head of the EU Delegation to Montenegro. The reason for the meeting was the current visit of auditors of the European Court of Auditors to the Montenegrin institutions, which is focused on the performance audit of a number of projects, managed by the Delegation of the European Union, but also those related to the decentralized management of EU funds and public procurement. Particularly emphasizing the fact that the accession to the European Union and NATO, are the most important strategic goals of Montenegro, as well as the only guarantor of stability, not only of our country but the entire region, Minister Žugić informed the representatives of European institutions with the dynamics of relevant Montenegrin authorities regarding the implementation of structural reforms, especially through the prism of the management of EU funds, which is one of the most important essential components of our cooperation. In this context, Minister Žugić stressed that progress is more than obvious, bearing in mind that the country obtained accreditation for the IPA III - Regional development and IV - Human Resources Development, and that the regulatory framework in terms of making all the necessary legal documents, manuals and agree-

ments that define roles and responsibilities of the IPA bodies, was significantly strengthened. Mr. Wesseberg agreed with the assessment that the fulfillment of and compliance with EU standards is of great importance for the stability of the Western Balkans, and informed the Minister of the primary role of the institution he represents, which is reflected in the control of legal, efficient and purposeful use of the funds made available to the European Union. Pointing out that what he had the opportunity to see in our country is promising, Mr. Wesseberg expressed interest in the challenges faced by the representatives of the Montenegrin Government, especially in areas of full harmonization with the EU acquis and conveyed support to the continuation of reforms.



03/06/2015- Continuation of successful cooperation with the German Development Bank

Finance Minister Mr. Radoje Žugić, PhD, met with the Ambassador of Germany, Ms. Gudrun Steinaker, as well as with the representatives of the German Development Bank (KfW), led by the project manager, Mr. Bodo Schmulling. Stressing that the up to now communication was successful and professional in all aspects, the representatives of the bank have expressed their interest to continue the cooperation with Montenegro through investments in renewable energy, and support to energy efficiency projects, and the development of municipal infrastructure, predominantly on the coast of Montenegro. Guided by the positive experiences in working with the Government on the implementation of energy efficiency projects in public institutions, which, as Mr. Schmulling pointed out, proved to be the most successful in the region, and as such, represent a good example for the implementation of similar models in surrounding countries, the representatives of KfW expressed openness to expand the scope of joint

action. Thanking for a quality partnership, Minister Žugić conveyed the readiness of the Government, and the institution he represents, to fully support the development projects that are of national interest and which do not pose a risk to the sustainability of public finances.



03/06/2015- World Bank is an important partner in several fields

Finance Minister Mr. Radoje Žugić, PhD, and Tax Administration Director Mr. Milan Lakićević, PhD, met with the World Bank delegation led by the Country Manager for Bosnia and Herzegovina and Montenegro Ms. Tatiana Proskuryakova. The meeting was an opportunity to reflect on the successful cooperation and exchange of information about ongoing projects in the areas of tax administration and health, as well as on the provision of expert support in several areas. In the part relating to the reform of tax administration, it was agreed to revise the scope of the project, so that the requirements for the modernization of the Tax Administration would be adapted to objective possibilities of financing. The meeting also discussed the possibility of providing financial support to the health sector through a model based on measurable results and agreed on the technical assistance of the World Bank to build the capacity of the country to manage foreign exchange risks. Mrs. Proskuryakova informed the Minister that the preparation of financial status analysis of local governments is in the final stage, and conveyed positive expectations in designing a model of financial support to municipalities with vulnerable finances. Bearing in mind that the preparation of Systematic Country Diagnosis of the World Bank for Montenegro is in progress, which will analyze the Montenegrin economy, both in terms of key challenges and opportunities and the potential for dynamic growth and development, the in-

terlocutors agreed that the document is to be presented to members of the Montenegrin Government, in order to achieve a consensus on priority measures and objectives for the future.



04/06/2015 – Strengthening cooperation with the U.S.

Finance Minister Mr. Radoje Žugić, PhD, met with the U.S. Ambassador, Ms. Margaret Uyehara, to exchange information about current activities, and make space for new forms of cooperation with renowned U.S. companies. Minister Žugić stressed that the presence and activities of U.S. investors in Montenegro are of great importance, both from the point of view of public revenue collection, but also in terms of corporate social responsibility, and in this regard, stressed that the government is continuously working on improving the business environment with the aim of creating a more supportive investment environment. Ms. Uyehara has transferred the interest of U.S. companies for business expansion in Montenegro, and stressed personal commitment to attracting U.S. investors. The interlocutors discussed the issues of restitution of property of U.S. citizens living in our country, through the process of restitution and agreed to continue engagement by all stakeholders in this area.

08/06/2015 - Meeting of the Commission to combat the gray economy

The Ministry of Finance organized a meeting of the Commission to combat the gray economy, which was chaired by Minister Mr. Radoje Žugić. The theme of the meeting was the intensification of activities on combating the gray economy and achieving higher revenue collection during the tourist season, with special emphasis on monitoring the traffic of excise goods and an increase in

the collection of taxes and contributions on salaries of employees. It was noted that the activities to fight the gray economy in the previous period gave positive results, such as the improvement in fiscal indicators, particularly in the area of excise taxes, collection of which for the first five months of the year increased by 10% compared to the same period last year. The Commission has initiated a debate on the issue of improving the legal infrastructure for traffic control of products, in terms of introducing compulsory marking of fuel by markers and revocation of work permits of duty-free shops in the case of illegal business. Also, the inspection services are obliged to introduce the duty to control the traffic of certain excise products in open spaces and markets. Special emphasis was placed on establishing a more agile cooperation between the inspection bodies, with full institutional responsibility.



10/06/2015- Visit of the Monitoring Committee of the Council of Europe

Finance Minister Mr. Radoje Žugić, PhD, together with his associates, met with representatives of the Monitoring Committee of the Council of Europe, led by Ms. Gaye Doganoglu and Mr. Henrik Brade Johansen, special rapporteurs for Montenegro. The reason for the meeting was to inform the representatives of these institutions of the implementation of the Charter of the Council of Europe in local government of our country, for the purpose of the Report of the Council of Europe. Specifically, the document should clearly define the elements that threaten, or those that promote the development of municipalities, both from the point of view of sustainability, and the rule of law and that, in the end, could be a good roadmap for the future prosperity of Montenegro. Bearing in mind that the independence of local go-

vernments is one of the essential pillars of any democratic regime, but also an important factor in the public finance system, Minister Žugić stressed the importance of close cooperation with the heads of municipalities, while fully respecting their independence, which must be in line with financial stability and sustainability. In this regard, Minister Žugić briefly presented the regulatory framework within which municipalities operate, their main challenges and measures, which, in cooperation with the State, are implemented in order to recover identified vulnerabilities.



12.06.2015.- Continuation of productive cooperation with Azmont infection

Finance Minister Mr. Radoje Žugić, PhD, met with representatives of the company Azmont Investments, headed by its President, Mr. Ahmet Erentok. The meeting was an opportunity to reaffirm the Commitment of the company, in cooperation with the Government, to continue its successful work on the realization of a luxury resort Portonovi near Herceg Novi, which will be the first "One & Only" resort in Europe, thereby positioning Montenegro as one of the most attractive tourism destinations. Commending the encouraging measures that the Government continuously implemented in all priority sectors of development, Mr. Erentok informed Minister Žugić of the existing situation, and expressed his conviction that, through joint efforts, the activities of the project will take place in accordance with the planned dynamics. Minister Žugić stressed that the successful realization of this major project will certainly raise value of an important resource in Montenegro, and contribute to attracting new credible investors. Noting that the partnership and cooperation is at a high level, and based on a high degree of confidence, transparency and efficiency, it was agreed to intensify the work on realization of joint goals.

15/06/2015 - German company WTE visit

Finance Minister Mr. Radoje Žugić, PhD, met with the representatives of German company WTE, director of the Montenegro branch Mr. Gunter Faust and President for Sales and Finance, Mr. Joachim Dudey. The meeting was attended by the Ambassador of Germany to Montenegro, H.E. Ms. Gudrun Steinaker and Mayor of Budva, Mr. Lazar Radjenovic. The reason for the meeting was the discussion of potential models for ensuring the financial sustainability of wastewater treatment project, which was implemented in collaboration with the Municipality of Budva. In this regard, Mr. Dudey informed the Minister of the current status of the project as well as the existing open issues. Stressing that the State has to be a reliable partner in cooperation with investors, Minister Žugić expressed support to all infrastructure projects that create conditions for stronger economic growth and development, but also stressed the necessity of respecting the principle of rational consumption and operations in line with fiscal sustainability. Bearing in mind the ecological importance which derives from the successful implementation of the said project, it was agreed to intensify communication between all relevant ministries and international partners on this topic.

06/24/2015 - Brussels welcomed the progress in the fulfillment of obligations from the European agenda

Montenegro, with significant expert, technical and financial support from European partners, has good dynamics in meeting the requirements of the European agenda within the jurisdiction of the Ministry of Finance, it was concluded in talks between the Finance Minister Mr. Radoje Žugić with officials from the European Commission and the European Anti-Fraud Office (OLAF) in Brussels. On the first day of a three-day official visit to the European institutions, the Minister of Finance Mr. Radoje Žugić met in Brussels with Director General of the European Anti-Fraud Office (OLAF), Mr. Giovanni Kessler, Director-General for Competition of the European Commission Mr. Alexander Italianer and Director General of the Customs Policy, legislation and Tariff of the EC, Mr. Philip Kermode. In an interview with the OLAF Director General, Mr. Giovanni Kessler, it was proposed to improve the cooperation between the Montenegrin institutions and OLAF in the area of prevention of trafficking, by forming joint teams and realization of joint investigations, while the focus of

the meeting with the Director-General for Competition at the European Commission Alexander Italianer was the question of state aid. It was concluded that in this area, along with suggestions of the European Commission, a series of activities were conducted towards meeting the benchmarks for opening negotiation chapter 8 - Competition. In the meeting with the Director General for customs policy, legislation and tariffs in the European Commission, Mr. Philip Kermode the progress in implementing the standards and conditions for closing the negotiation chapters 16 - Tax policy and 29 - Customs union was discussed. The Minister thanked the European Commission for the support to the operation and modernization of customs services in order to strengthen the internal market, which is realized through the participation of Montenegro in Community programs Customs and Fiscalis.

25/06/2015- Adoption of European standards for the stronger economic growth and a better quality of life

Montenegro progresses well in meeting commitments under the negotiation process in the field of economy and finance, and can expect the full support of the European Commission on the path - said the European Commissioner for Economic and Financial Affairs, Taxation and Customs Mr. Pierre Moscovici in his talks with Finance Minister Mr. Radoje Žugić at the headquarters of the European Commission in Brussels. Minister Žugić, apart from meeting with the European Commissioner, also met with the Director-General for Economic and Financial Affairs Mr. Marco Buti and Deputy-Director General and Accounting Officer of the European Commission Manfred Kraff. In talks with the European officials, Minister Žugić welcomed the new approach of the European Commission, which is aimed at strengthening economic governance in the enlargement countries, through the development of national programs of economic reform. After the meetings in Brussels, the minister at the headquarters of the European Investment Bank in Luxembourg signed the loan agreement for water supply projects and waste water treatment in the country's municipalities, worth 10 million euros. This is a very favorable credit arrangement which includes repayment term of 25 years, a grace period of 4 years and an average interest rate of about 2.2 percent, whose implementation will create the conditions for dynamic economic development, improve public services in the field of ecology, reduce the risk to the public health and increase the attractiveness of Montenegro as

a tourist destination. It was emphasized that this credit arrangement does not carry the debt burden, as it represents an investment in the share capital and generates income that provides regular servicing of repayment.

26/06/2015- A good pace of reforms continued with the support of European and Belgian partners

Messages of encouragement and support to Montenegro from European and Belgian partners, as well as specific expert cooperation and assistance, will ensure continued good pace of reforms in our country, which will be reflected in this year's Progress Report of the European Commission, Finance Minister Mr. Radoje Žugić said at the end of a three-day visit to the European institutions and the Belgian Ministry of Finance. The Belgian minister said that Belgium and Montenegro share the same strategic approach in politics of public finances and face similar challenges, which is a good basis for further development of cooperation, exchange of good practices and experiences. Minister Žugić also met with the European Commissioner for the internal market, industry, entrepreneurship and small and medium-sized enterprises Ms. Elzbieta Bienkowska, Director-General for financial stability, financial services and capital markets in the European Commission, Mr. Jonathan Faull and Director for Western Balkans in the European Commission Mr. Jean-Eric Paque. The focus of discussion with Commissioner Bienkowska were issues concerning the reform of public procurement. The Commissioner stressed that Montenegro is progressing well towards fulfilling conditions for closing the negotiation chapter 5 - Public procurement. Minister Žugić and Commissioner Bienkowska agreed that the reform of public procurement, from the legal and administrative point of view, is an extremely demanding area in which the quality of the reforms should have absolute priority over speed. In an interview with the Director-General Faull and Director Paque, Minister Žugić thanked for the considerable support of the European Commission to the reform processes in Montenegro and the adoption of the European standards through the process of accession negotiations.

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Velibor Damjanović

Protecting the financial interests of the EU in the field of irregularities in the new program perspective of the Instrument for Pre-Accession Assistance - IPA II

In the course of accession to the European Union, Montenegro and other countries have at disposal pre-accession funds (IPA) intended to provide financial and technical assistance to candidate countries in preparing for the full membership in the European Union.

On 11 March 2014, the European Parliament and the European Council adopted the Regulation No. 231/2014, establishing an Instrument for Pre-Accession Assistance for the new financial perspective (IPA II). This instrument provides a legal basis for providing financial assistance to the beneficiary countries with the aim of providing support to the adoption and implementation of political, institutional, legal, administrative, social and economic

reforms that require the beneficiary to be in accordance with the values of the European Union, and conduct a gradual harmonization with the rules, standards, policies and practices with regard to the application for membership in the Union.

In accordance with Annex H (Reporting of suspected fraud and other irregularities in connection with the Instrument for Pre-Accession Assistance II) of the Framework Agreement, which regulates the implementation arrangements under the Instrument for financial support from the EU (IPA II), signed between the European Commission and the Government of Montenegro on 26 February 2015, a necessity was established to determine the

mechanisms of control and reporting with regard to possible irregularities in the system, between Member States, candidate and potential candidate countries that use EU aid. It is worth noting that the atmosphere of efficient protection of the financial interests of the EU in this field was initially established through the activities of national authorities in the framework of implementation arrangements of IPA in the first financial perspective and was based in Article 28 of the Framework Agreement signed between the European Commission and the Government of Montenegro, on 15 November 2007.

Accordingly, the national authorities are obliged to take all necessary actions, in accordance with the newly adopted Framework Agreement for the financial perspective IPA II and the provisions of Annex H, to implement all necessary changes in the management of tools offered by a new financial perspective. The definition of a new structural model for all of these policy areas is in progress, as well as the necessary procedures to guide the competent authorities. Accordingly, the national authorities and the authorities in the Ministry of Finance work promptly on the harmonization and innovation of a model relating to the management of irregularities.

Montenegro has conducted in the past intensive activities in terms of establishing a system that will adequately allow for the management, control and the use of funds from the IPA program. A well established and functioning system, with clearly defined system of responsibility, is the best preventive measure in terms of combating irregularities and fraud. Also, Montenegro has actively worked on the harmonization of legislation in the field of protection of the financial interests of the European Union, through the relevant legal acts pertaining to the punishment of the perpetrators who carry out activities to the detriment of financial interests in this field.

One of the prerequisites of efficient and effective environment for the protection of financial interests is the familiarity of officials working on the IPA tasks with the Code of Ethics of civil servants and employees, as well as a special code at the level of a particular institution, if adopted. The aim of the Code of Ethics is the preservation, affirmation and enhancement of the dignity and reputation of civil servants and state employees, as well as strengthening citizens' confidence in the work of state bodies. Any unethical and unacceptable behavior and

actions of officials undermine the integrity and pose the risk of possible resultant irregularities, fraud or corrupt practices. The behavior of employees in the public administration in accordance with the rules of the Code of Ethics contributes to creating the image of a professional, impartial and honest public administration and further ensures the institutional capacity in the field of the knowledge of regulations relating to the management of irregularities and fighting fraud and embezzlement in the system.

The most effective way to neutralize irregularities is to make them unacceptable to different actors involved in the process of the implementation of funds that come in the form of EU support. Irregularities can occur at any stage or life cycle of a project or a program, as well as the daily operations of any institution/organization. The systems established with a view to ensuring, detecting and preventing irregularities must cover the entire life cycle of a project. In the arrangements of both the first and new (IPA II) financial perspectives, many irregularities may occur and be diagnosed during the administrative checks, which also involve spot-checks by the competent authorities in places where the project/program is implemented.

When it comes to the process of the management of irregularities, it is important and necessary to promptly react to the perceived suspicion of certain irregularities, which should be notified to a competent officer for the management of irregularities in the institution where the irregularity was detected. This applies to all institutions and programs across all the IPA components within the first financial perspective and at the level of the programs in the financial perspective for IPA II. If the observed irregularity has financial implications, it is necessary to take steps to recover the portion of the loss of European Union funds. If financial losses are not caused by human error, it is necessary to take administrative measures to prevent further negative consequences. In the event that the losses incurred due to fraud, negligence or criminal activity, national legislation provides for and prescribes actions that will at that point be initiated.

Identification and reporting based on specific suspicions of fraud or an irregularity are as important as the immediate implementation of corrective action (including sanctions and launching of civil or criminal proce-



dings) with further investigations into cases of fraud and/or irregularity.

In the entire process of the management of irregularities in the new program perspective of the Instrument for Pre-Accession Assistance (IPA II), the National Authorizing Officer (NAO), working at the Ministry of Finance, is at the top of the accountability system, and is responsible for the overall implementation of IPA assistance. His role is defined by IPA Implementing Regulation (718/2007, for the first financial perspective IPA, financial period 2007 - 2013) and the IPA Implementing Regulation (447/2014, for the second IPA financial perspective, financial period 2014 - 2020), resultant Framework Agreements and specific manuals on procedures used by the competent institutions in the process.

The National Authorizing Officer is responsible for the financial management of EU aid and plays a key role in the management of irregularities. He has to ensure a satisfactory degree of recognition and separation of the actual cases of suspected fraud and irregularities, respecting national controls or control by the auditing body of the European Union. He shall establish regular repor-

ting to the European Commission by informing European Anti-Fraud Office (OLAF) of cases of irregularities that may occur, as well as their status in the period of monitoring the impact on the established financial framework.

The National Authorizing Officer must be informed that there has been a recognition and a certain suspicion of irregularity by officials responsible for the management of irregularities in the Ministry of Finance (Directorate for National Fund) and the Head of the Directorate for National Fund, based on communication with the officers of institutions that make up the Operational structure for individual IPA components/programs, internal auditors, external auditors, the audit authority, employees or any other institutions and/or individuals who have discovered an irregularity or had doubts that the irregularity occurred. The NAO, after informing AFCOS office in the Ministry of Finance, is obliged to forward information on suspected fraud or irregularity to the European Commission and the European Anti-Fraud Office without delay, in urgent procedure.

Officials responsible for the management of irregularities have been appointed in all institutions responsible

for the implementation of IPA. Officer authorized for the management of irregularities is responsible for gathering all the information related to irregularities, fraud, possible corrupt activities, and for reporting any suspected irregularities and actual cases of irregularities.

The descriptions of the jobs of officials who are designated to be responsible for handling irregularities, contain integrated descriptions of the duties and activities on the basis of responsibilities and obligations in this field. The competent officer for the management of irregularities must be a trustworthy person, who nurtures integrity, ethical standards and moral principles at the highest level, with relevant work experience.

The Government of Montenegro on 5 December 2013 adopted the Decision on Establishment of the Coordination Body for monitoring and managing the policy of prevention and suppression of irregularities in order to protect the financial interests of the European Union (AFCOS network).

The responsible persons, who will represent their institutions in the AFCOS network, as well as their tasks, have been established by the Decision. When it comes to establishing an institutional framework for the overall functioning of the AFCOS, the European Commission has not strictly limited modalities for its establishment in a particular country, and the national authorities in Montenegro decided for the network of bodies that includes the following structure:

- IPA structure - bodies that manage IPA program funds. Within the IPA components/ programs, Operating Structures have been defined in charge of programming, implementation and monitoring of the use of EU funds. Officers were appointed at all levels of the operating structures in the line ministries and other institutions for the management of irregularities in accordance with the priorities and objectives of individual programs, with activities in the AFCOS network represented by the officer in charge of the management of irregularities in the Directorate for the National Fund;
- Institutions dealing with combating fraud, corruption or any other type of irregularities in the system at the national level;
- Independent department for the prevention of irregularities and fraud (AFCOS Office), which has a coordina-

ting role and the main liaison with the European Office for the fight against fraud. This office in the Ministry of Finance, under the direct control of the Minister, is in charge of coordinating the work of the bodies in the AFCOS network by conducting legislative, administrative and operational activities in order to protect the financial interests of the EU.

The main tasks of the AFCOS offices are tasks relating to the coordination of legislative, administrative and operational activities and the exchange of information between authorities and institutions that make up a system in charge of combating fraud, with the aim of protecting the EU financial interests. Key tasks include the exchange of information with other state authorities in cases of suspected fraud, corruption or other forms of irregularities in the system, lodging of an appropriate application to the competent authorities and institutions that compose the AFCOS network, monitoring of the procedures relating to the unlawful use of EU funds.

At the very least, it should be noted that the National Authorizing Officer, ending with the second quarter of 2015, submitted to the European Anti-Fraud Office, European Commission Directorate General for Regional Development and the Directorate General for Employment two reports on the absence of irregularities in the system of the use of funds available to Montenegro, following the signing of the financing agreements referring to the Operational Programs in the field of regional development and human resources within the financial perspectives of the IPA I.

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Anja Pavličić

The strategy for combating fraud and irregularity in order to protect the financial interests of the EU

Montenegro, as a candidate country for EU membership, has at disposal funds of the Program for Pre-Accession Assistance (IPA), and therefore is obliged to provide their proper use. The acquis on the protection of the financial interests of the European Union represents part of Chapter 32 - Financial control, and one of the priority requirements to be met is the development of a Strategy for the fight against frauds and irregularities in order to protect the financial interests of the EU for the period 2015 - 2017 and the accompanying Action Plan, which was adopted by the Government of Montenegro on 16 April 2015. In this way, Montenegro shows a willingness to develop and improve the legal framework, institutions and capacities to further develop inter-sectoral cooperation, and to use all available capacities in the fight against irregularities and frauds concerning EU funds.

In accordance with Article 28 of the Framework Agreement signed between the European Commission and the Government of Montenegro, on 15 November 2007, it was stated that it was necessary to establish a control and reporting mechanism concerning irregularities between Member States, candidates and potential candidate countries that use EU aid.

In this regard, Montenegro at a Cabinet meeting on 5 December 2013, adopted the Decision on Establishment of the Coordination Body for monitoring and managing the policy of prevention and suppression of irregularities in order to protect the financial interests of the EU (AFCOS network), where they appointed members of certain institutions that participated in drafting the Strategy and Action Plan, and whose work is coordinated by AFCOS Office within the Ministry of Finance, with comprehensive support of SIGMA experts and representatives of OLAF



Jasna Ilić Bošković

Carrying out spot-checks

In order to ensure the existence and effective functioning of the management and control system, as well as to provide conditions for the implementation of the procedures of system management and disbursement of funds prescribed by the framework agreements, financing agreements, European and national legislation, the National Authorizing Officer (NAO) is obliged to implement regular checks in all the bodies constituting the operating structure.

The annual plan of spot-checks is prepared on the basis of a risk analysis of all bodies involved in the operating structure. This plan provides the basis for the regular enforcement of spot-checks in order to provide monitoring system for management and control in one financial year and adequate information, in order to confirm the funds spent by the European Commission.

Annual plan of the spot-checks is based on risk analysis, which includes the following factors:

1. The progress made at the level of programs/actions, in order to carry out spot-checks (account is taken of the number of signed contracts, reported expenses and payments);
2. Information concerning the possible risks in the implementation of programs/actions or information on possible irregularities;

3. Information made available to the Directorate for National Fund (conducted administrative checks, previously carried out spot-checks, the reports of internal and/or external audits);

4. The existence of written procedures (Manuals of Procedures);

5. The experience and knowledge of employees within the bodies constituting the operating structure.

Spot-checks are carried out by officers of the Directorate for National Fund responsible for overseeing the system. Before going into the field, i.e. prior to the implementation of spot-checks, the officials responsible for monitoring the system are required to develop a Plan of implementation of spot-checks, using annexes prescribed in the Manual of Procedures.

Plan of the Implementation of spot-checks should contain:

1. Subject of the spot-checks;
2. The projects/contracts subject to checks (following risk assessment);
3. Timetable for the preparation of spot-checks;
4. The time frame for the execution of spot-checks.

In order to ensure the principle of dual control, at least two officers in charge of monitoring the system are required.

(the European office for combating fraud).

The purpose of the adoption of this strategy is to ensure quality and efficient protection of the financial interests of the EU to the same extent as in the case of own resources, which will be achieved through the coordination of activities aimed at establishing a normative, institutional and operational framework, as well as the definition of risks, objectives and measures that will contribute to more effective and efficient fight against fraud and corruption, through the promotion of cooperation between the competent institutions at national and international level.

The general objectives of the Strategy are:

- Improvement of the legal framework for the protection of EU financial interests in Montenegro, i.e. alignment with EU legislation in terms of ensuring a higher level of protection of EU financial interests;
- Strengthening administrative capacity and implementation of continuing education at all levels of AFCOS network;
- Prevention of irregularities and frauds through

communication with the public and among employees, through the respect of prescribed rules of conduct and the Code of Ethics in state administration bodies;

- Improving the system of communication between the actors in the AFCOS network (IPA structures, AFCOS offices and other bodies dealing with combating fraud, corruption or any other type of irregularities in the system, which are part of the AFCOS network);

- Strengthening cooperation with national institutions and OLAF;

- Ensuring timely reporting of irregularities and frauds.

The adoption of the aforementioned Strategy cannot be regarded as the responsibility of only one or several bodies within the AFCOS network, but the overall Government of Montenegro is responsible for the adoption and implementation of the Strategy.

Anja Pavličić,
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red to perform the spot-checks.

Officials responsible for monitoring the system, who carry out spot-checks, are obliged to inform the body subject to checks at least 5 working days prior to the check. Before the start of the implementation of spot-checks officials responsible for monitoring the system are bound to deliver to the body subject to check, an authorization letter containing information on officials who shall conduct a check in their body, together with a list of documents that will be the subject of the check and the goal of the spot-check.

During the spot-check, officials responsible for monitoring the systems who conduct the check shall fill in a checklist list prescribed by the Manual of Procedures. The checklist, after being filling, shall be signed by the officers who filled it.

During the process of implementation of spot-checks, officers responsible for monitoring the system are required to verify:

1. Control environment (includes chapters Human Resource Management, Irregularities, Internal Organization and Human Resources, Risk Management);
2. Planning / risk management (includes chapters Risk Management, Planning and Monitoring the Implementation of Activities in relation to the planned);
3. Control activities (which includes all the chapters of a Manual on Procedures, processes and procedures described in the manuals and exceptions to the standard procedures);
4. Monitoring (includes chapters Internal/External control and monitoring of the implementation of recommendations);
5. Communication (includes coordination meetings and reporting);
6. Issues relating to the implementation of the operations at the level of transactions.

Spot-Check Report

Results of conducted spot-checks should provide an assessment of the existence of any defect/problem, which entails risks within a body constituting the operating structure.

Based on the findings of conducted spot-checks, Spot-Check Report should be composed within 10 days

of the check carried. The report shall be developed by the officers who have conducted spot-checks. The comments to the Draft Report shall be delivered within 5 working days by the body subject to the check.

The Final Report should include finding of problems and recommendations. After submission of the Final Report on Spot-Check, the body that has been subject to control shall be obliged to fill the annex to the Manual of Procedures - Weaknesses in internal control with all the findings and recommendations.

Monitoring the implementation of spot-checks

Spot-checks carried out by the officers responsible for supervising the system, should be recorded in the annex to the Manual of Procedures - Registry of Checks.

For any internal control weakness or shortcoming identified during the review of documentation or conducting of spot-checks, monitoring and the remediation of the findings should be in accordance with the procedures laid down in the chapter - Internal Control under the Manual of Procedures.

If the course of the implementation of spot-checks any irregularities have been established, they should be reported in accordance with the procedures laid down in the chapter Misconduct under the Manual of Procedures.

Jasna Ilić – Bošković
an independent adviser in the Directorate
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Nataša Boljević

Introduction of accrual accounting in the Instrument for Pre-Accession (IPA)

The accounting system in all bodies included in the implementation of activities in the Instrument for Pre-Accession (IPA) was set out in line with the requirements of the European Commission's Regulation 718/2007, to ensure that all bodies manage special accounting system or special accounting codification. This will satisfy the generally accepted accounting principles, as well as applicable regulations for public internal financial control.

The main task of the accrual accounting is monitoring of all emerging business activities independently of their real collection and payout. Since the accounting in public sector is set on the modified cash basis, this may not ensure monitoring of all business activities appearing before the real payout or payment. To ensure follow up of all business activities appearing before the real payout or payment, it is necessary to apply accrual accounting.

Accounting transactions that refer to European Commission's financial support and to co-financing (provided by beneficiary state) are based on dual, analytical and accrual basis. What does this mean? This means that

each accounting change needs to have "credit" and "debit" items, that there are analytical accounts that provide detailed monitoring of specific synthetic accounts (where needed) and that all changes are recorded in the period when they appeared. This is the only way to ensure relevant, reliable, comparable and understandable financial reporting and informing. Moreover, transactions appearing in specific time period that refer to actual obligations and receivables between bodies are harmonized at the specific harmonization form. This ensures the monitoring of incoming requests for payout of funds by Implementation Agencies (hereinafter: IA – bodies in charge of project financing and contracting) to the National Fund (hereinafter: NF – body in charge of payout of European part of funds to IAs), as well as receivables from NF in the case of return of funds to the IA. The procedures described in accounting manuals lay down that harmonization is done by the middle of the current month for the previous month. Thereby, all transactions and forms for harmonization follow the control lists which serve for checking and application of "four-eye" principle, and thus ensure additional control in bodies. All irregularities and discre-



mr Žana Jovanović

IPA 2014 national projects (indirect project management by the CFCU)

Montenegro will use the pre-accession assistance for the period 2014-2020 in line with priorities, i.e. sectors defined in the national strategic programming document (Country Strategy Paper – CSP) for the period 2014-2020. To wit, this document includes the analysis of specific needs of Montenegro sorted by sectors, and/or support areas, in line with EU objectives and policies. On the basis of the CSP, the EU's pre-accession assistance to Montenegro will first be implemented through national programmes for 2014.

Bearing in mind the aforesaid, the programming phase, which is the starting basis for using the EU's pre-accession assistance, resulted in the adoption of the (Annual Country Action Programme for Montenegro for the year 2014) by the European Commission (EC). Therefore, at its very beginning of using, Montenegro will, in the beginning of using, implement projects with the total value of 39,227,420.00 euros, of which the EU will contribute with 35,707,300.00 euros, and the remaining amount of 3,520,120.00 euros are co-financing funds. Furthermore, funds from IPA 2014 will be implemented though total of 17 actions, under the following 6 sectors¹:

1. Democracy and Governance;
2. Rule of Law and Fundamental Rights;
3. Environment and climate action;
4. Transport;
5. Competitiveness and Innovation;
6. Agriculture and Rural Development.

pancies in accounting transactions are corrected using the correction form which records first wrong and then correctly entered transactions. Such manner of recording discrepancies of a wrongly entered transaction additionally ensures the audit trail, also laid down in the accounting manual. Furthermore, financial reporting is done quarterly (Trial balance, Profit and loss account, Report on cash flows) and annually (Balance sheet and Notes to financial statements). Financial statements are prepared by accountant, examined by financial manager/supervisor (person not included in the preparation of financial statements) and approved by head responsible for financial management. Financial statements present information on results achieved in the specific period, as well as information that will serve for further decision making.

The specific feature of accrual accounting in IPA is that the chart of accounts used for booking accounting changes is used pursuant to the Rulebook on unique classification of accounts for Budget of Montenegro, budgets of extra-budgetary funds and budgets of municipalities, whereby the off-balance sheet or correction accounts have been introduced for specific documents recorded off-balance sheet for the purpose of accrual accounting. Documents recognized in off-balance sheet records include: signed Financial Agreement, information letters on future transfer of funds, long-term liabilities and receivables which are not yet due for collection. All these transactions are booked to off-balance sheet items class 9. In addition to this off-balance sheet class, the following classes are also used: 1 - financial assets, 2 - liabilities, 3 - net property/capital, 4 – expenditures and 7 - revenues. The applicable chart of accounts is de-

finied in the manual on accounting procedures for each specific body. Besides the chart of accounts, the specific accounting codification is used and it shows the type of document and its source. An example of coded document is – IPA3.1.1.1.01.01.co1.ro1. This code indicates that this is a document Request for funds arising from source: IPA component III, programme 1, priority1, measure 1, operation 01, procedure 01, contract 01 and Request for funds 01. This connects bodies at all levels, even those that do not have their own accounting system and provides monitoring of all programmes and projects within one component.

All the above-mentioned accounting obligations are supported by the accounting software and its belonging project-information software (PIS). All data contained in software serve for reporting and informing all bodies included in implementation of activities from IPA, and future funds' beneficiaries.

With a view to good reporting, using and implementation of all projects supported by the European commission, it is necessary to use accrual accounting, not only to meet the requirements laid down in EU regulations, but also for the needs of the beneficiary state who will be using the allocated funds.

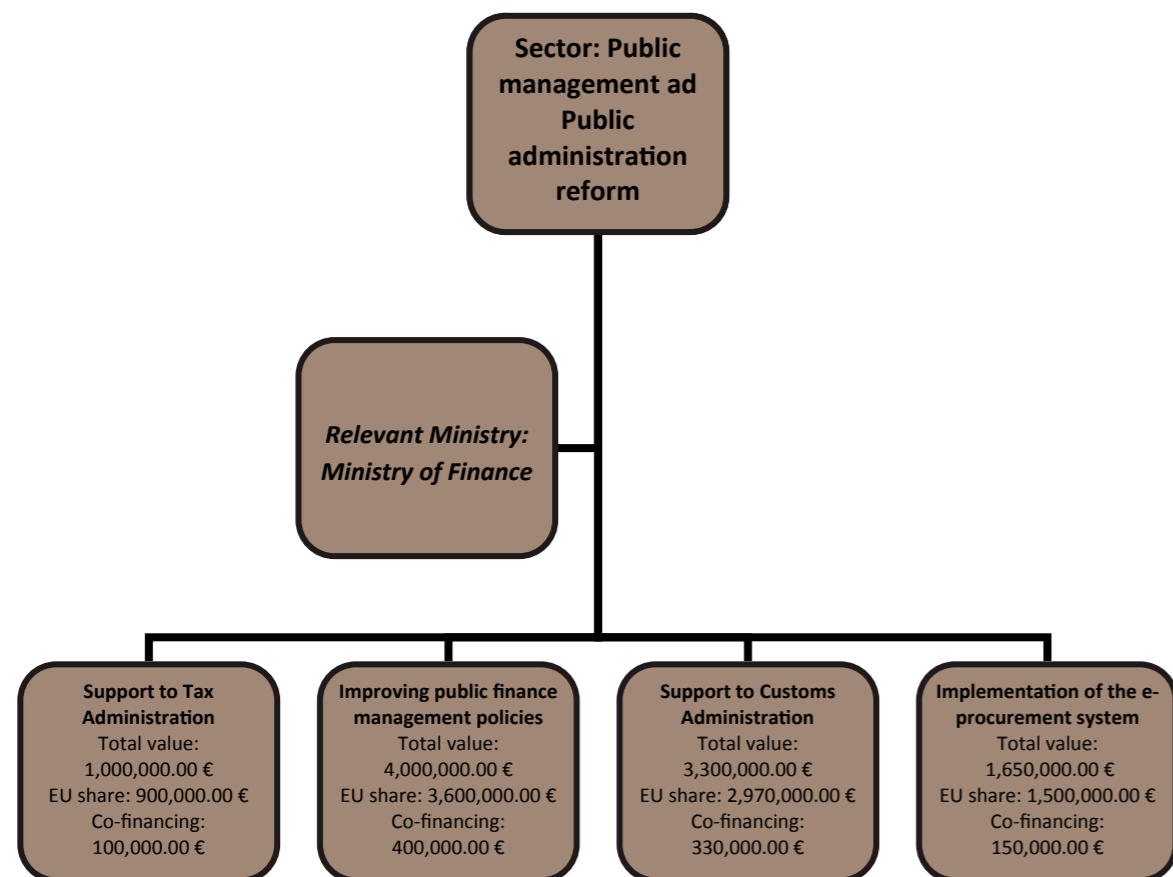
**Nataša Boljević, Independent Advisor III
in the u Directorate for Treasury**

1 - The EU support to the sector Employment, social policy and human resources development will be implemented through the separate Sector Operational Programme for this area, and the support to the sector Cross-border and Territorial Cooperation will be implemented through action programmes, and/or bilateral, trilateral and multilateral cross-border cooperation programmes.

Bearing in mind that, when granting the financial assistance, particularly the support in the pre-accession period, the EU implements its assistance either “independently” (so-called direct management²), the assistance of the beneficiary state itself (so-called indirect management³), funds allocated to Montenegro through IPA 2014 will be implemented partially through direct and partially through indirect management. This means that direct management by the Delegation of the European Union to Montenegro will implement 6 actions within 4 sectors⁴, while indirect management by the Directorate for Finance and Contracting of the EU Assistance Funds (the CFCU) under the Ministry of Finance, and/or the Directorate of Public Works, implement the remaining 11 actions also within 4 sectors⁵.

In implementing the IPA 2014, the role of the CFCU, as a Contracting Party under indirect management, will be to perform bidding procedures, contracting procedures and the implementation of 9 actions with the total value of 18,255,500,00 euros (16,290,300.00 euros as the EU’s share € and 1,965,200.00 euros as co-financing), which accounts for some 45% of funds available under IPA 2014.

The figures below give the overview of sector and/or activities under the competence of the CFCU within IPA 2014.

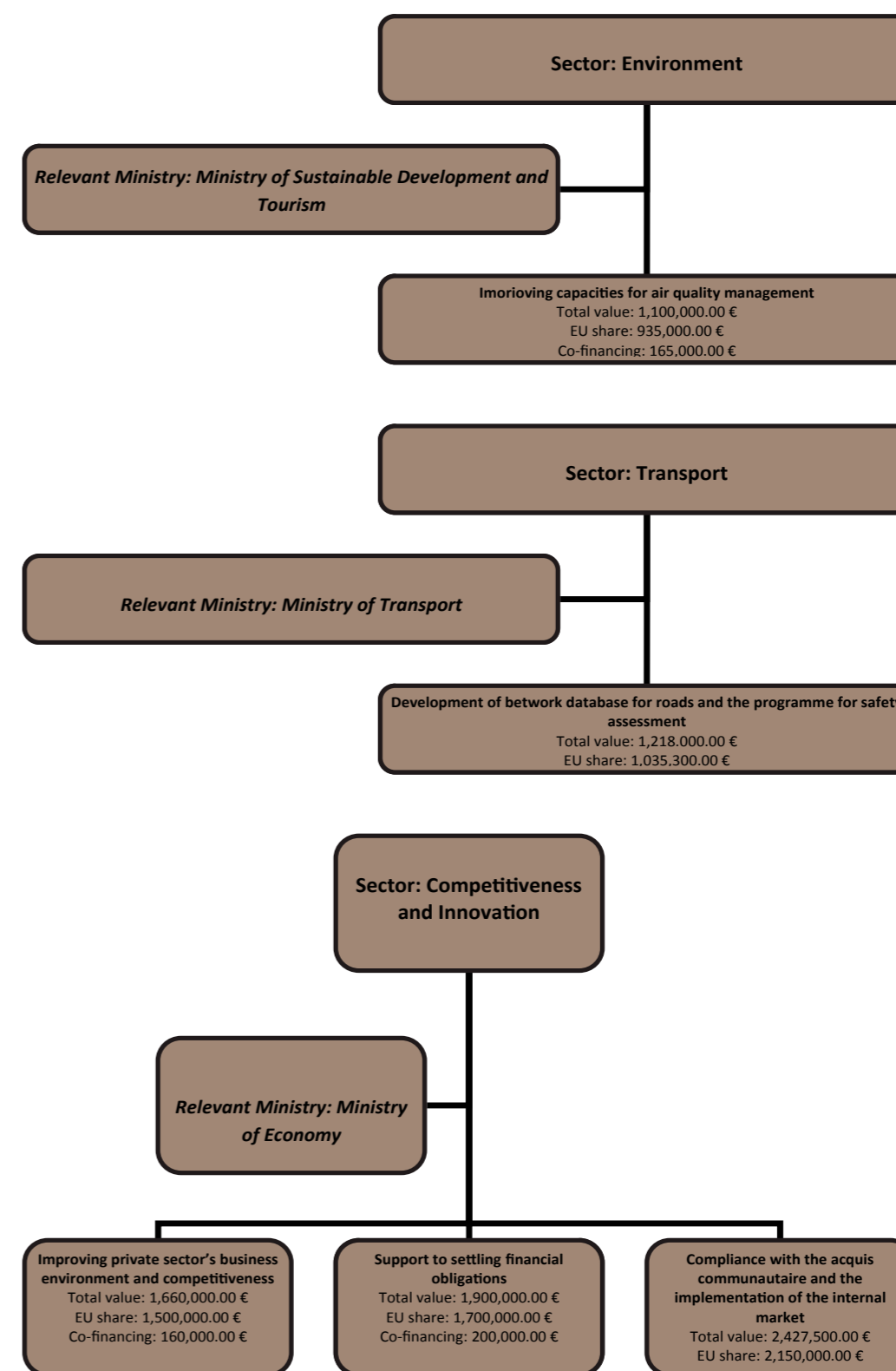


2 - Under the financial perspective and pre-accession support for the period 2007-2013, the EU managed the projects “independently” through so-called centralised management system. In Montenegro, this referred to funds of components I (Support to transition and institutional building) and IIb (Cross-border cooperation, bilateral programmes).

3 - Under the financial perspective and pre-accession support for the period 2007-2013, the beneficiary state managed the projects “independently” through so-called decentralised management. In Montenegro, this was the case with funds of components III (Regional development) and IV (Human Resource Development).

4 - Actions within sectors Rule of Law and Fundamental Rights and Agriculture and Rural Development will fully be implemented as direct managements.

5 - Actions under sectors Transport and Competitiveness and Innovation will fully be implemented in indirect managements.





Ivona Mihajlović

Info web of the Ministry of Finance for the period 1 April - 30 June 2015

The precondition for starting the operations, i.e. the realisation of defined actions, is the signing of Financial Agreement between the European Commission and Montenegro, by which the EC officially provides allocated funds to the beneficiary state. Thereby, as regards IPA 2014 national programmes, the deadline for signing Financial Agreement is 31 December 2015. Moreover, signing of Financial Agreement will create formal preconditions for starting the beginning of conducting bidding and contracting procedures, whereby it should be borne in mind that, in line with EU rules, the deadline for concluding all agreements within defined actions is three years of the date of signing the Financial Agreement. Another EU rule to have in mind is that allocated funds, i.e. the signed contracts, should be spent and/or implemented within 6 years after the date of signing the Financial Agreement. Bearing in mind the aforesaid, it may be concluded that the funds from IPA 2014, intended for national programmes, have to be absorbed by 31 December 2021 the latest.

Bearing in mind demanding EU procedures and rules, and the set deadlines, it would be necessary to ensure efficient and timely implementation of all obligations and inclusion of all actors, with a view to better absorption of allocated funds. Moreover, funds at our disposal now are just a start of new financial perspective and seven-year period during which we will significant amount of funds at disposal, allocated for Montenegro's progress on its path to full EU membership.

Žana Jovanović. M.Sc., Independent Advisor II
in the Directorate for Finance and Contracting of the EU Assistance Funds



3 April 2015 – “Be responsible” campaign continues in 2015

After highly successful implement of two phases of the “Be responsible” campaign during which citizens reported over 5 thousand irregularities in the area of shadow economy and

which resulted in issuing pecuniary fines at the amount of over 1,100,000 euros, the Government decided to continue the campaign by the end of 2015. This will enable further collection of funds to finance projects of wider social importance, proposed and supported by citizens themselves. We are reminding that, since the campaign started, some 550,000 euros were re-directed to 11 projects of general social importance to finance activities on the project “Inclusion of residents into combating shadow economy”. The amount of imposed pecuniary fines based on citizens' reporting will finance investments at the list of previous 11 proposed projects which have not qualified for financial support on the basis of the amount of imposed fines in 2014 according to the new formula amounting to 30% of the amount of imposed fines, and according to ranking list established on the basis of population's support. To provide project's sustainability beyond 2015, 5% of the amount of pecuniary fines imposed by citizen's reporting will be directed to finance activities on the project “Inclusion of residents into combating shadow economy”.



9 April 2015 – Third round of internal auditors' training opened; Montenegro is the best in the region

The third round of the programme of training and certification of internal auditors in Public sector (TIAPS III), organised by Ministry of Finance in cooperation with Centre for Excellence in Finance (CEF) and Chartered Institute of Public Finance and Accountancy (CIPFA) and financially supported by the Government of Germany, was opened in Podgorica. Emphasizing the importance of internal audit as a precondition and key instrument of accountable and professional management of public funds, Mrs. Krsmanović pointed out that, owing to the programme, we have 44 certified auditors whose success has been recognised internationally, which has given better quality to audit reports. Moreover, Director Krsmanović reminded that over 96% of budget spending is currently covered with internal audit, strongly indicating that public administration seriously understood the need and importance of quality training of internal auditors. Commending the Government of Montenegro's efforts to also comply with these EU standards, H.E. Ambassador Steinacker indicated that, as it has been the case so far, the Embassy's assistance would not fail, and assured that the new generation of attendees will give stronger contribution to the work of public administration institutions. Mrs. Dobovšek particularly emphasised the success of Montenegrin auditors who, owing to achieved results, have become the best and the most professional in the region, as well as pointing out that internal audit's quality needs continuous improving, since it is the most efficient instrument in combating corruption and inefficient managing of public funds. Continuous improving of internal audit competences and skills in public finance management is the backbone to high quality service providing in public finance management, said Mr. Gary Gilbert, emphasising that improving professional capacities is a must in the upcoming period.



11 May 2015 – Ministry of Finance publishes Bulletin XXXIV

15 May 2015 - Standard and Poor's confirms last year's rating for Montenegro

Reputable rating agency Standard and Poor's published new Report On Montenegro, whereby confirming the earlier outlook of Montenegro's economic growth potential, and assessed it as B + / B. Moreover, Montenegro's stable outlook has been confirmed, which indicates that further rating trend is based on stable positions. Experts of the Standard and Poor's forecasted that Montenegro's economy will grow 3.4% in average until 2018, owing to increase in investment activity dominantly in tourism, energy and transport infrastructure. In addition to positive implications to be generated by the construction of the Bar-Boljare highway, recognised as an economic growth generator, experts warned to the public debt and deficit growing trends which may pose significant risks to stability and sustainability of public finance in the upcoming period, particularly bearing in mind the absence of possibility to issue currency and Montenegro's monetary passiveness. The Report commends fiscal consolidation measures performed continuously by the Government of Montenegro.

3 June 2015 – Information on recorded fiscal revenues

During this year, the Ministry of Finance continued the measures on stabilisation of fiscal revenues, so the data on recorded collection point to the established significant level of fiscal revenues sustainability. As the Ministry of Finance data shows, revenues of the Budget of Montenegro amounted to 258.3 million in the period January-march 2015, being 6.0 million euros or 2.4% higher than planned. Compared to the same period of 2014 (when they amounted to 253.6 million euros), they grew by 4.7 million or 1.8%. Similar trend continued in April this year, when the recorded bud-

get revenues amounted to 111.5 million euros, or 0.6 million euros, or 0.6% more than planned, as well as 2.4 million or 2.2% more than in April 2014. In the upcoming period, the Ministry of Finance will continue to implement similar measures in cooperation with relevant authorities, as well as continue in pursuing an accountable fiscal policy, primarily reflected through expanding taxation base, thus enabling higher degree in collection of public revenues. Data that the plan was accomplished in the period prior to tourist season is encouraging, and good results may be expected during the tourist season being the period when the largest revenues are being recorded.



4 June 2015 Statement Miodrag Radonjić, Director of the Directorate for State Treasury in the Ministry of Finance, after the session of the Government of Montenegro when discussing the proposal of the Law on the Final Account of the Budget of Montenegro for 2014

"On its today's session, the Government of Montenegro adopted the proposal of the Law on the Final Account of the Budget of Montenegro for 2014, whereby the last year's budget was executed with 1,457 million of consolidated fiscal expenditures. The dominant share in the structure of these expenditures includes current expenditures and social transfers, while the share of capital budget was 134 million. The revenues side recorded 1,354 million revenues, primarily from taxes and contributions, which clearly indicates that the deficit amounting to 103 million euros was recorded. Such deficit was almost a half of the one recorded one year earlier, which is definitely a positive trend indicating that our policy and the policy pursued by the Government are good, although we may not be satisfied with the deficit amount, which indicates that we spent more than we collected. However, the good side of this generally negative indicator is that capital budget amounted to 134 million euros, which means that this segment, where spending was higher than collection, was invested in permanent goods and goods that generally generate higher value. The deficit of 103

million, which equals to 3% of the GDP, is on the threshold level, and warns us to sustain from unnecessary consumption and to bring deficit to balance, i.e. lead our budget to balance to spend the same as we collect."

9 June 2015 - Info session on publishing the Call for proposals for the grant scheme "Transfer of knowledge between sectors of Higher Education, Research and Industry", financed from Instrument for Pre-Accession (IPA) – I conducted

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) of the Ministry of Finance of Montenegro organized the first Info session on publishing the Call for proposals for the grant scheme "Transfer of knowledge between sectors of Higher Education, Research and Industry". During the Info session, attended by representatives of the Ministry, municipalities, companies and NGOs, the Guidelines for grant applicants and the Application package were presented, with the instruction on filling in the Application Form and accompanying documents.

22 June 2015 – AFCOS seminar held

Representatives of the Department for suppressing irregularities and frauds (AFCOS office) under the Ministry of Finance, and members of AFCOS network, attended the AFCOS seminar held in Belgrade on 17-19 June 2015. During the seminar, organised annually by the European Anti-Fraud Office (OLAF), participants had an opportunity to introduce with the organisational structure and the manner of functioning of AFCOS of EU Member States and candidate countries. The two-day seminar included group discussions for exchange of experience, which provided good opportunity to improve cooperation between countries with regards to protection of common financial interests of the EU, being the primary objective of this event. Some discussed topics included cooperation between OLAF and relevant authorities, effects of applicable legislative initiative to the protection of the financial interests of the EU, current challenges regarding the report in irregularities, and particularly the Strategy for combating frauds with a view to protecting financial interests of the EU, adopted by Montenegro this April, which was highly commended.

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Department for Public Relations and Free Access to
Information



Jelena Janković

Establishing Financial Management and Control System in Public Sector and its importance

Financial management and control (FMC) is one of three pillars in public sector's financial control and it is based on modern public administration and managers' accountability principles. This means that each authority has to take full accountability for spending and managing its own budget, as well as to provide existence of appropriate controls and safeguard measures. The practice shows the presence of traditional centralised control systems based on physical control by checking and approving each transaction. On the other hand, decentralised management is a new system to many administrations, which requires time and support for its development.

Pursuant to the law, one of conditions for establishing FMC is appointing person responsible for establishing and development of FMC by the responsible authority's manager. During the first phase of implementation, the Ministry of Finance focused on central level, and plans to include representatives of all legal persons with majority state ownership into training in the area of FMC in the upcoming

period. Pursuant to the public sector internal financial controls concept, and coordinated by the Central Harmonisation Directorate (CHU) under the Ministry of Finance, the process of establishing the FMC system based on the principle of management accountability has initiated. So far, 90 public sector entities have appointed person for establishing and development of FMC, of which 76 are central and 14 local authorities; 30 authorities have created action plans for the implementation of activities on establishing, implementing and development of FMC, of which 28 are central and 2 local authorities, while 73 authorities adopted internal rules and procedures, of which 59 are central and 14 local authorities.

The CHU made the analysis on implementing the activity of establishing and developing the FMC system in Montenegro's public sector on the basis of Annual reports on implementing planned activities in establishing and developing the FMC system (AR-FMC), and additional questions to public sector authorities. The purpose of additional questions was to get comprehensive information on the im-

plementation of management accountability and financial management in Montenegro's public sector. The fact that only 69% of budget's beneficiaries submitted the AR-FMC, confirms that not all authorities have yet mastered the concept.

The CHU noticed that a minor progress was made in 2014 in formalising internal rules and procedures for operations at the central level. Moreover, the aforementioned results show that some authorities assessed that they successfully established and continued to improve the FMC system, so that the CHU, in its analysis of FMC's quality, continued to assess the management quality and to give recommendations for further improving of the system.

On the basis of the self-assessment data for FMC, the analysis of FMC's quality and of internal audit, internal audit operations' reports, recommendation from the EU's Directorate for Budget, European Commission's Report on Montenegro for 2014 and SIGMA's report on public finance management (which assessed the CHU with score 4, with 5 being the best score), the Ministry of Finance made the general assessment of internal financial controls system, as follows:

FMC in public sector is not a new concept and all institutions have already established management and control systems. Harmonisation of FMC system is a continuous and long-lasting process which requires changes in legislative framework (ended in 2014 with the enacting of new Law on Budget and Fiscal Accountability and amendments to the Law on Public Internal Financial Control System), change in management and reporting model, adoption of internal acts in writing, focus on manager's accountability for assigned tasks and performance measuring.

Many public sector authorities have initiated activities on improving the FMC system, although there is a plenty of work on raising awareness on the good management concept, as well as on the need to monitor the activities' affects on both the budget and accomplishing the authority's objectives, and consequently the Government's strategic priorities.

Annual progress report points to the need of building a comprehensive risk management system, and fully integrating the management accountability principle into the management culture, including the delegation of accountability.

Commitment to improving FMC foresees delegation of accountability and authorisations. However, delegation is in practice usually done from Minister to Secretary of Ministry. There is a gap in public sector between the accountability for policies and finance, where operational managers (general directors) are responsible for policies, but they are not delegated the authority to financially manage the funds.

The connection between the fiscal and management structure is limited. Ministries often have one programming budget for administrative activities and one or many for operational activities which include several organisational units. This implies that the budgets of organisational units with responsibilities of these managers cannot be connected.

Despite establishing the budget inspection as a central place for reporting and determining irregularities and frauds, it would be necessary that all public sector authorities organise the system for reporting and reporting and determining irregularities and frauds in their internal rules and procedures

It is important to note that Montenegro's legal framework already largely regulates FMC mechanisms in public sector, as assessments of international institutions (the IMF, the World Bank, and the OECD) show. Similarly, harmonisation within negotiation Chapter 32 and introduction of the internal financial control system means fine tuning and harmonisation of the system with the best European practice and promotes efficient, effective and cost-friendly spending of funds.

It is necessary to constantly develop and improve the FMC system through appropriate planned activities, to develop the system in the view of fiscal sustainability and adequate public finance management based on key principles – cost-effectiveness, efficiency, effectiveness and accountability. Budget funds' beneficiaries should improve the management accountability system by defining objectives, success indicators, monitoring and evaluation of the implementation of determined objectives, since the abovementioned may contribute to the change in management model and strengthening accountability of managers' and all employees in public administration.

Jelena Janković, Independent Advisor
In the Central Harmonisation Directorate



mr. Sladana Pavlović

Leasing market in Montenegro - Briefing 1 January - 31 March 2015 -

Market Participants

There were no changes in regulatory framework in the period 1 January – 31 March 2015. , Leasing services in Montenegro in the previous year have been provided by six leasing services providers, these being four companies having legal entity status, and by two banks: S-Leasing, Porsche Leasing, NLB Leasing, Hypo Alpe Adria Bank, and kao i Hypo Alpe Adria banka i Prva banka Crne Gore osnovana 1901. godine¹. Also, Hypo Alpe Adria Leasing and Prva banka Crne Gore osnovana 1901. godine were not active at the market and did not approve new placements in 2015.

Structure of placements

During Q1 2015, the leasing market saw a conclusion of a total of 204 new contracts with the value of 2,991,306.35 euros, with an average value of a contract of 14,663.27 euros. The reported number of new contracts refers to 3 leasing companies, since one leasing company did not extend new placements in Q1 2015.

The decrease in the number of new leasing operations contracts in Q1 2015 was against the backdrop of condition in Montenegro's economy and decreased demand during the winter season which is present in Q1.

Compared quarter-on quarter, the number of new contracts decreased by 35%. On the other hand compared year-on-year, the decline in new loans was mild, since 211 new loans were concluded as at Q1 2014-end, with the value of 2.970.224,83 euros, and an average value of a contract of 14,076.89 euros.

¹ - During 2011 and Q1 2012, Prva banka Crne Gore osnovana 1901. godine was working only on collecting receivables from previously concluded contracts.

As at 31 March 2015, the total number of active contracts was 4,039 amounting to 52,143,623.12 euros. Consequently, 1,739 contracts ceased during the one year period.

Table 1: Number of active and new contracts as at Q1 2014 and Q1 2015

New contracts 1 January- 31 March				Active contracts as at 31 March			
2015		2014		2015		2014	
Number	Value	Number	Value	Number	Value	Number	Value
204	2.991.306,3	211	2.970.224,8	4.039	52.143.623,1	5.778	136.298.630,2

Lessees

The structure of lessees shows the continued trend in larger share of legal entities in total number of contracts compared to natural persons. It should be noted that there were new contracts with entrepreneurs in Q1 2015.

Table 2: New contracts per lessees Q4 2014 – Q1 2015

Lessees	New contracts in Q4 2014		New contracts in Q1 2015		Growth rate in number of contracts
	Number of contracts	%	Number of contracts	%	
Legal persons	172	54.09%	146	71.57%	-15.1%
Natural persons	143	44.97%	58	28.43%	-59.4%
Entrepreneurs	3	0.94%	0	0.00%	-100.0%
Total	318	100.00%	204	100.00%	-35.8%

Table 3: Active contracts per lessees

Lessees	Active contracts as at 31 December 2014		Active contracts as at 31 March 2015		Growth rate in number of contracts
	Broj ugovora	%	Broj ugovora	%	
Legal persons	2.570	50.43%	2.092	51.79%	-18.60%
Natural persons	2.506	49.18%	1.928	47.73%	-23.06%
Entrepreneurs	20	0.39%	19	0.47%	-5.00%
Total	5.096	100.00%	4.039	100.00%	-20.74%

In terms of active contracts, a slightly increased share in contracts with legal persons was recorded, pointing to the continuing leasing companies' policy on focusing their business strategy almost equally to both natural and legal persons with a view to risk diversification and ensuring the optimum client structure. Compared quarter-on-quarter, the number of active contracts decreased by some 21%, and their value decreased by 55%.

Value and number of leasing contracts by type of lease

The financial leasing operations contracts still have a significant share in the total number and value of concluded contracts. Financial leasing contracts totaled to 88.7% of the total number of concluded contracts, with the remaining amount being operational leasing. During the reporting period, only two leasing companies concluded operational leasing contracts.

Compared to Q4 2014, share of financial leasing contracts decreased, since their share was some 97% in last three months of 2014.

Leasing subject

The structure of the total number of concluded contracts based on the lease, it is obvious that passenger cars have the biggest share of 89% in the total amount of leasing placements, although the number of contracts regarding passenger cars decreased by some 38%.

Table 4: Structure of the number of new contracts according to the leasing subject

Leasing subject	Number of new contracts				
	Q4 2014 (1)	%	Q1 2015 (2)	%	Growth rate (2)/(1)
Passenger cars	290	91.2%	181	88.73%	-37.59%
Commercial vehicles	23	7.2%	19	9.31%	-17.39%
Construction machines and equipment	5	1.6%	4	1.96%	-20.00%
Ships					
Property					
Other					
Total	318		204		-35.85%

The share of commercial vehicles and construction machines and equipment in the total number of concluded contracts amounts to some 10%.

Table 5: Structure of the value of concluded contracts by type of lease

Leasing subject	Value of new contracts				
	Q4 2014 (1)	%	Q1 2015 (2)	%	Growth rate (2)/(1)
Passenger cars	3,390,229.67	87.62%	2,076,676.19	69.42%	-38.75%
Commercial vehicles	289,254.37	7.48%	776,268.23	25.95%	168.37%
Construction machines and equipment	189,786.06	4.90%	138,361.93	4.63%	-27.10%
Ships					
Property					
Other					
Total	3,869,270.10	100%	2,991,306.35	100%	-22.69%

The value and the number of contracts regarding passenger cars each decreased by some 39%. Contracts regarding passenger cars accounted for some 70% of total value of all contracts concluded in Q1 2015. It should be noted that the value of contracts regarding commercial vehicles significantly increased, although the number of concluded contracts and average interest rate decreased.

Structure by activity

The structure of contracts concluded in Q1 2015 by activity shows the dominant share of contracts referring to trade, other services, and transport with the respective shares of 31.5%, 28.1% and 22.6%. The comparison of last two quarters shows significant share of contracts referring to transport, with 3 contracts concluded in Q4 2014 compared to 33 in Q1 2015. The number of contracts referring to other services area also increased (128%).

Table 6: Structure of new contracts by activity

Activity	Number of new contracts				
	Q4 2014 (1)	%	Q1 2015 (2)	%	Growth rate (2)/(1)
Agriculture, forestry and fishing	1	0.72%	0	0.0%	-100.0%
Construction	14	10.14%	5	3.4%	-64.3%
Trade	34	24.64%	46	31.5%	35.3%
Accommodation and food service activities	2	1.45%	2	1.4%	0.0%
Other services	18	13.04%	41	28.1%	127.8%
Transportation	3	2.17%	33	22.6%	1000.0%
Financial activities	3	2.17%	1	0.7%	-66.7%
Manufacturing	12	8.70%	1	0.7%	-91.7%
Health, education and social welfare	1	0.72%	2	1.4%	100.0%
Public administration	6	4.35%	0	0.0%	-100.0%
Other sectors	-	0.00%	15	10.3%	
Total	138		146	100.0%	5.8%

The structure of new contracts concluded by industries showed dominant share of contracts regarding trade, other services and manufacturing of 32%, 19%, and 13.5%, respectively.

Table 7: Structure of active contracts by activity

Activity	Active contracts as at				
	31 Dec 2014 (1)	%	31 March 2015 (2)	%	Growth rate (2)/(1)
Agriculture, forestry and fishing	44	1.7%	41	2.0%	-6.82%
Construction	318	12.4%	151	7.2%	-52.52%
Trade	771	30.0%	676	32.3%	-12.32%
Accommodation and food service activities	98	3.8%	70	3.3%	-28.57%
Other services	463	18.0%	397	19.0%	-14.25%
Transportation	212	8.2%	228	10.9%	7.55%
Financial activities	33	1.3%	21	1.0%	-36.36%
Manufacturing	409	15.9%	283	13.5%	-30.81%
Health, education and social welfare	21	0.8%	15	0.7%	-28.57%
Public administration	46	1.8%	33	1.6%	-28.26%
Other sectors	155	6.0%	177	8.5%	14.19%
Total	2,570	1	2,092	100.0%	-18.60%

Figure 1 indicates the overall structure of the sector, in terms of the value of new contracts in Q1 2015.

The largest share in total value of placements was recorded in transport, trade and other services, with the respective shares of 37%, 33% and 20%.

Figure 1: Structure in values of new loans in Q1 2015

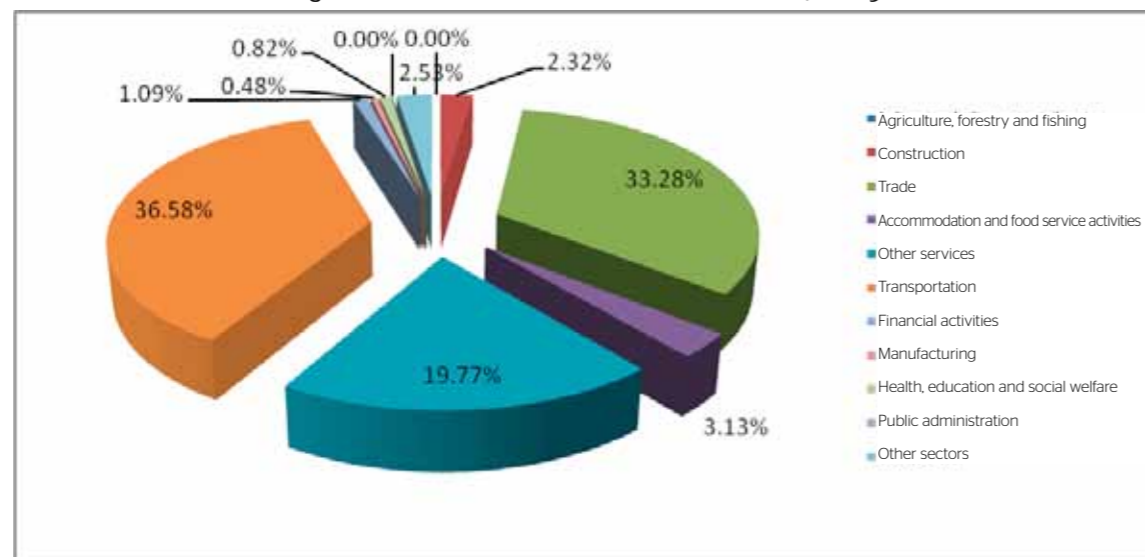
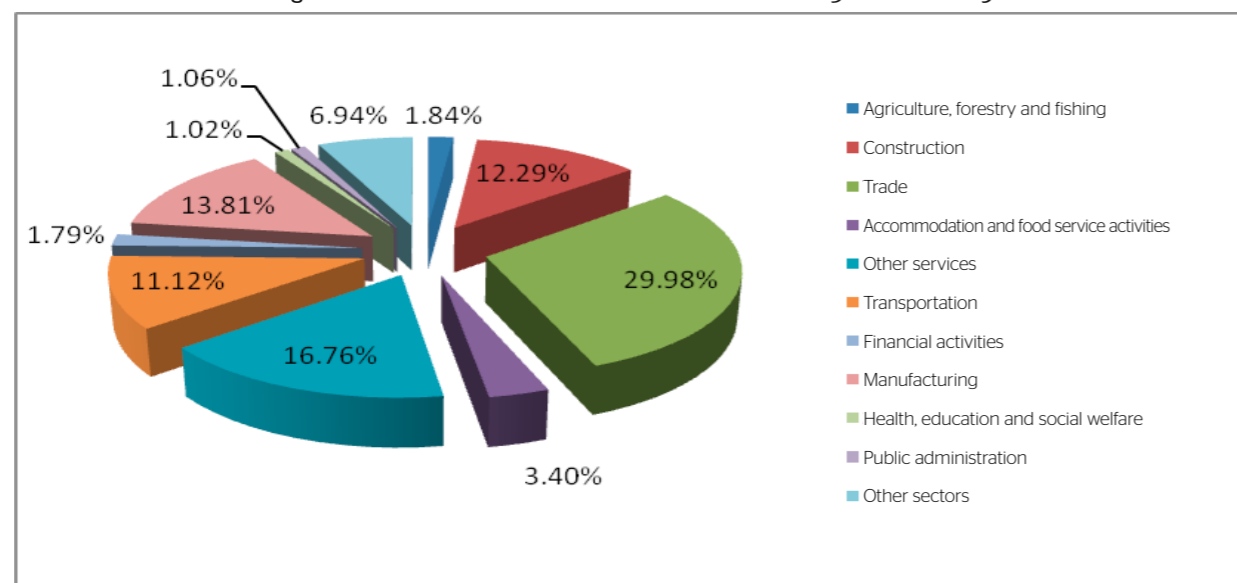


Figure 2 indicates the overall structure of the sector, in terms of the value of active contracts as at 31 March 2015, with the largest share of trade, other services and manufacturing.

Figure 2: Structure in values of active loans as at 31 March 2015



Balance Sheet

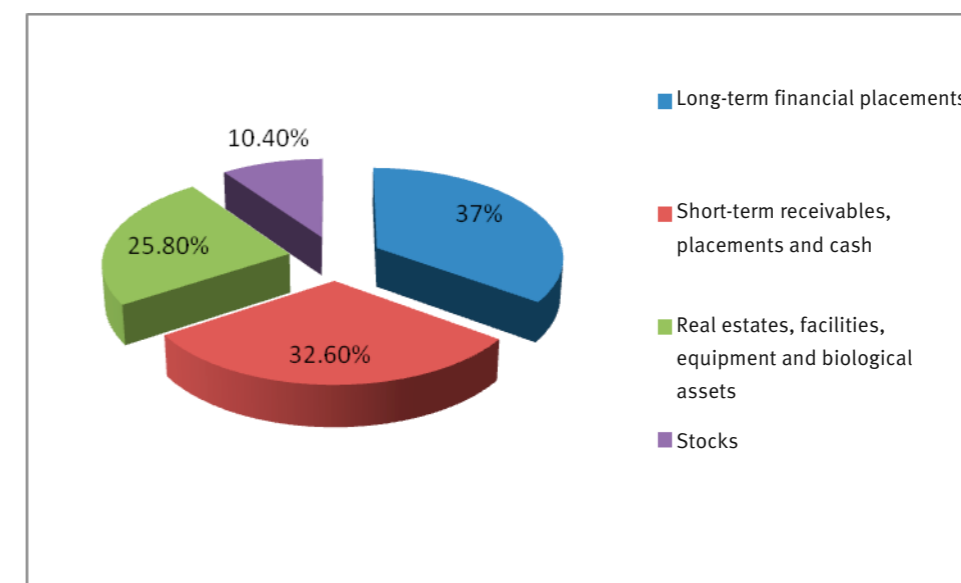
Total assets of four leasing companies as at 31 March 2015 amounted to 64,186,849 euros, or 3.6% less compared to 31 December 2014. However, comparative data of assets from the leasing market are not relevant, given that a significant portion of the balance sheet sum of aggregate balance of the market (some 40%) is recorded within the financial statements of leasing service provider with the largest market share, Hypo Alpe Adria Bank.

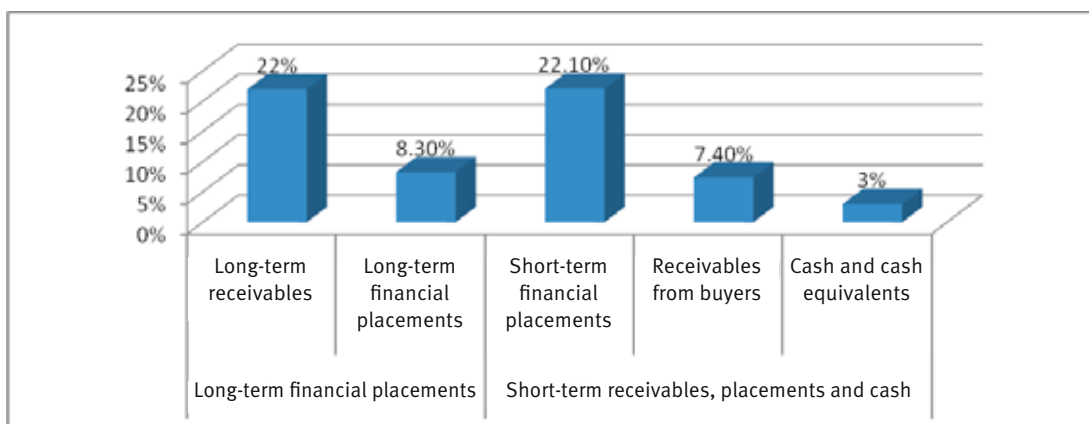
In total assets structure, the largest share referred to fixed assets (48.2%), whereas working assets accounted for some 37%. Compared to 31 December 2014 data, fixed assets decreased 9%, yet working assets increased 1.1%.

Graph 3 shows that the most important assets items were:

- Long-term financial placements, with 23,736,565.6 euros (37%)
- Long-term receivables (22%)
- Long-term financial placements (8.3%)
- Short-term receivables, placements and cash, with 20,956,307.4 euros (32.6%)
- Short-term financial placements, (22.1%)
- Receivables from buyers (7.4%)
- Cash and cash equivalents (3%)
- Real estates, facilities, equipment and biological assets, with 16,563,007.7 euros (25.8%)
- Stocks, with 6,697,774.7 euros (10.4%).

Graph 3: Structure of total assets of leasing companies as at 31 March 2015





In the structure of liabilities of four leasing companies as at 31 March 2014, the largest share referred to short-term provisions and short-term liabilities with 63,722,066.8 euros, long-term provisions and long-term liabilities with 51,225,693.2 euros, while total capital of 4 leasing companies was negative, amounting to -51,014,870.6 euros. Compared to 31 December 2014 data, capital recorded insignificant decline of 0.03%, as well as long-term provisions and long-term liabilities by 5.7%, while short-term provisions and short-term liabilities increased by 0.75%.

Income statement

As at 31 March 2015, four leasing companies recorded the following result:

		TOTAL Q1 2015
1	BUSINESS REVENUES	1,961,640.75
2	BUSINESS EXPENDITURES	1,949,502.80
3	BUSINESS RESULT (1-2)	456,257.83
4	FINANCIAL REVENUES	478,620.16
5	FINANCIAL EXPENDITURES	502,391.46
6	FINANCIAL RESULT (4-5)	(23,771.30)
7	OTHER REVENUES	226,001.82
8	OTHER EXPENDITURES	121,446.09
9	RESULT FROM OTHER ACTIVITIES (7-8)	104,555.73
10	RESULT FROM REGULAR OPERATIONS BEFORE TAXATION (3+6+9)	537,042.26
11	TAXATION EXPENDITURES DURING THE REPORTING PERIOD	-
12	NET RESULT (10-11)	537,042.26

As at 31 March 2015, leasing companies reported profit amounting to 537,042.3 euros.

Three out of four leasing companies recorded profit at the end of reporting period. Still, it should be noted that the total result of the income statement, which shows revenues and expenditures of leasing companies, lacks the portion of data calculated through balance sheets of banks performing leasing operations, bearing in mind that Hypo Alpe Adria bank has leasing services in its portfolio.

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