FINANCING AGREEMENT
SPECIAL CONDITIONS

The European Commission, hereinafter referred to as "**the Commission**", acting on behalf of the European Union, hereinafter referred to as "**the Union**",

of the one part, and

Montenegro represented by the Government of Montenegro, hereinafter referred to as "**the IPA III beneficiary**" or "the party",

of the other part,

have agreed as follows:

Article 1 - The Programme

(1) The Union agrees to finance and the IPA III beneficiary agrees to accept the financing of the following Programme:

Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Montenegro for 2023

comprising the following actions:
Action 1: State and Resilience Building Contract for Montenegro

Global commitment number: JAD.1103605

This Programme is financed from the Union Budget under the following basic act: Instrument for Pre-Accession Assistance (IPA III)[1].

(2) The total estimated cost of this Programme is EUR 30 000 000 and the maximum Union contribution to this Programme is set at EUR 30 000 000.

No financial contribution is required from the IPA III beneficiary.

(3) The Programme shall be implemented in accordance with the Action documents provided in Annex I.

Article 2 – Execution period and operational implementation period

(1) The execution period of this Financing Agreement, as defined in Article 12 of Annex II (General Conditions), is set at 8 years from the conclusion of this Financing Agreement.

(2) The duration of the operational implementation period, as defined in Article 12 of Annex II (General Conditions), is set at 2 years, from the conclusion of this Financing Agreement.

[1] Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021establishing an Instrument for Pre-accession Assistance (IPA III), OJ L 330, 20.9.2021, p. 1.

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Article 3 – Addresses and Communication

All communication concerning the implementation of this Financing Agreement shall be in writing, shall refer expressly to the Action Programme as identified in Article 1(1) and shall be sent to the following addresses:

a) **for the Commission**

Ms Michela Matuella
Acting Director D, Western Balkans
Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR)
Rue de la Loi 15
European Commission
B-1049 Brussels, Belgium
e-mail: NEAR-D@ec.europa.eu

b) **for the IPA III beneficiary**

for Montenegro

Ministry of European Affairs
Bulevar Revolucije 15
81000 Podgorica, Montenegro
e-mail: kabinet@mep.gov.me

Article 4 – OLAF contact point

The contact point of the IPA III beneficiary having the appropriate powers to cooperate directly with the European Anti-Fraud Office (OLAF) in order to facilitate OLAF's operational activities shall be:

Ms Nataša Kovačevič
AFCOS contact point/AFCOS office
Ministry of Finance of Montenegro
Stanka Dragoj evića 2
81000 Podgorica, Montenegro
e-mail: natasa.kovacevic@mif.gov.me

Article 5 – Financial Framework Partnership Agreement

The Programme shall be implemented in accordance with the provisions of the Financial Framework Partnership Agreement (FFPA) between the European Commission and Montenegro on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-Accession Assistance (IPA III) which entered into force on 2 November 2022 (hereafter referred to as "the FFPA"). This Financing Agreement supplements the provisions of the FFPA. In case of conflict between, on the one hand, the provisions of this Financing Agreement and, on the other hand, the provisions of the FFPA, the latter shall take precedence.

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Article 6 - Annexes

(1) This Financing Agreement is composed of:

(a) these Special Conditions;

(b) Annex I: Action documents, detailing the objectives, expected results, activities, methods of implementation and budget;

- Annex I.1 Action 1: State and Resilience Building Contract for Montenegro
  Appendix to Annex I.1: Disbursement arrangements, conditions and performance indicators

(c) Annex II: General Conditions;

(2) In the event of a conflict between the provisions of the Annexes and the provisions of these Special Conditions, the latter shall take precedence. In the event of a conflict between the provisions of Annex I and the provisions of Annex II, the latter shall take precedence.

Article 7 – Conclusion and entry into force

This Financing Agreement shall be considered concluded on the date on which it is signed by the last party, and at the latest by 31 December 2023.

This Financing Agreement shall enter into force on the date on which it is signed by the last party.

This Financing Agreement is drawn up in duplicate in the English language, one being handed to the Commission and one to the IPA III beneficiary.

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For the IPA III beneficiary

For Montenegro:

Government of Montenegro

Ms Milena Milena Žižić, PhD
State Secretary, National IPA Coordinator
Ministry of European Affairs

Date: 27/02/2023

Signature:

Crna Gora
MINISTARSTVO EVROPSKIH POSLOVA
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For the Commission

For the Commission:

Ms Michela Matuella
Acting Director D, Western Balkans
Directorate-General for Neighbourhood Policy
and Enlargement Negotiations,
European Commission

Date: 02/02/2023

Signature:

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THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX

of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Montenegro for 2023

Action Document for State and Resilience Building Contract for Montenegro

ANNUAL ACTION PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	State and Resilience Building Contract for Montenegro Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Montenegro for 2023
OPSYS	ACT-61597
ABAC	ABAC Commitment level 1 number: JAD.1103605
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe	No
Beneficiar(y)/(ies) of the action	Montenegro
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3: - Green agenda and sustainable connectivity and Thematic Priority: 2: Transport, digital economy and society, and energy (60%) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (20%) Thematic Priority 2: Private sector development, trade, research and innovation (20 %)
Sustainable Development Goals (SDGs)	Main SDG: SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all Other significant SDGs: *- SDG 5 Achieve gender equality and empower all women and girls* *- SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*

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	- SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation *- SDG 10 Reduce inequalities within and among countries* *- SDG 13: Take urgent action to combat climate change and its impacts* *- SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development*			
DAC code(s)	15110 - Public sector policy and administrative management 15142 - Macroeconomic policy 16010 - Social protection 23110 –Energy policy and administrative management 32130 - Small and medium-sized enterprises (SME) development			
Main Delivery Channel @	Central government – *11001*			
Targets	☒ Climate ☐ Gender ☐ Biodiversity			
Markers (from DAC form)	**General policy objective @**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☒	☐
	Aid to environment	☐	☒	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction	☒	☐	☐
	Inclusion of persons with Disabilities	☐	☒	☐
	Nutrition	☒	☐	☐
	RIO Convention markers @	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☐	☒	☐
	Climate change adaptation	☒	☐	☐
Internal markers and Tags	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @	☒	☐	☐

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	Tags digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES ☐ ☐ ☐ ☐ ☐		NO ☒ ☒ ☒ ☒ ☒
	Connectivity @	☐	☐	☒
	Tags digital connectivity energy transport health education and research	YES ☐ ☒ ☐ ☐ ☐		NO ☒ ☐ ☒ ☒ ☒
	Migration @	☒	☐	☐
	Reduction of Inequalities @	☐	☐	☒
	COVID-19	☒	☐	☐
BUDGET INFORMATION				
Amounts concerned	Budget line: 15 02 02 01 Total estimated cost: EUR 30 000 000 Total amount of EU budget contribution EUR 30 000 000 The contribution is for an amount of EUR 30 000 000 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support **Direct management** through: Budget Support: State and Resilience Building Contract			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Contributing to the Economic and Investment Plan (EIP):	☒ Yes ☐ No		
	Priorities: "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development"			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023			
Final date for concluding contribution / delegation agreements,	Not applicable			

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procurement and grant contracts	
Indicative implementation period	24 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	8 years following the conclusion of the financing agreement

1.2. Summary of the Action

The overall objective of this Action is to assist Montenegro in reducing the socio-economic impact of the rising energy prices, in particular on small and medium sized enterprises and households, and to strengthen the Government's overall capacity to deliver tailor-made services to vulnerable households and support the socioeconomic situation, energy security, and green energy transition of Montenegro.

This action will contribute directly to SDG 7 'Ensure access to affordable, reliable, sustainable and modern energy for all', and also to other SDGs, among them SDG 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all', SDG 9 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation', SDG 10 'Reduce inequalities within and among countries', SDG 13 'Take urgent action to combat climate change and its impacts'. The Action directly contributes to the priorities of the Economic and Investment Plan for the Western Balkans related to "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development" and to the IPA III Programming Framework[1] Window 3 "Green agenda and sustainable connectivity" (Thematic Priority 2: Transport, digital economy and society, and energy) and Window 4 "Competitiveness and inclusive growth" (Thematic Priority 1: "Education, employment, social protection and inclusion policies, and health" and Thematic Priority 2: "Private sector development, trade, research and innovation").

2. RATIONALE

2.1. Context

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns, followed by Russia's war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general.

This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan[2] and its EU external energy strategy and as reiterated by the President in the State of the European Union address.

The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase energy security in the EU and in the Western Balkans as a matter of urgency.

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[1] C(2021) 8914 final
[2] SWD(2022) 230 final

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The Energy Support Package for Montenegro is in line with the national strategic framework in the sector and it comes in the moment where Montenegro is designing its new price and subsidies policy for small consumers (households and SMEs mainly). The current action will be therefore be key in building up leverage for ensuring the better protection of vulnerable groups, SMEs and the promotion of measures that would help Montenegro to increase the resilience of their energy sector.

Against this background, the privileged relationship of the Western Balkans has allowed to extend to the Region several initiatives that were taken in the EU in the last months.

For instance, as immediate response to the energy crisis at EU level there are several objectives that focus on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States work together on establishing joint purchases of gas. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III beneficiaries in the Western Balkans were invited). It should be noted that currently only three of the Western Balkans have gas markets (Serbia, North Macedonia and Bosnia and Herzegovina). The EU Gas Storage regulation was incorporated in the Energy Community law on 30 September, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan countries.

While supporting citizens and businesses to face energy and electricity price increase is the urgency, the short and medium term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) stay unchanged to achieve the targets set under the Green Agenda for the Western Balkans[3]. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. They will also develop National Energy and Climate Plans that will provide the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates.

In addition, in order to provide additional direct support to the Western Balkans region, at the Berlin Summit of 3 November 2022, the European Commission announced a pledge for the Energy Support Package of EUR 1 billion in EU grants, with expectations to leverage investments of up to EUR 2.5 billion.[4] The Energy Support package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to the price increases in energy and specifically the electricity, which require the provision of budget support under this Action.
- The short- and medium-term needs relate to the energy transition, namely energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the Western Balkans Investment Framework (WBIF).

The new Energy Support Package is expected to provide to the Western Balkans approximately EUR 500 million budget support in the form of State Building Resilience Contracts as immediate assistance under IPA III. The present Action address the immediate term with a budget support to mitigate the impact of rising

[3] SWD(2020) 223, 6.10.2020.
[4] Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market (europa.eu)

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energy prices and to support the energy sector and businesses in coping with the rapid increase of prices of energy.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the **Economic and Investment Plan for the Western Balkans**[5] (EIP) adopted by the European Commission on 6 October 2020.

Through the EIP and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition new funding has been approved to replenish the Regional Energy Efficiency Programme in support energy efficiency projects for public and private buildings.

The **Green Agenda for the Western Balkans**[6] is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

The **IPA III Programming Framework** sets out the overall objectives of the EU's assistance under Window 3. The overall objectives of the EU's assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crises. The action is also relevant for Window 4, particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted the **2022 Enlargement Package**[7], providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

2.2. Problem Analysis

Short problem analysis

According to the Energy Community Secretariat the security of supply risk profile for the season 2022/23 in the Western Balkans is considered "low" for Bosnia and Herzegovina and Serbia and "medium" for the remaining four partners (compared to "high" in Ukraine and Moldova). The specific risk profile for Montenegro is as follows:

Energy Community risk assessment 2022/23 LEVEL OF RISK (high, moderate, low): *Moderate* Sources of risk:, hydrological conditions; European and regional market disturbances; affordability issues

[5] COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans
[6] SWD(2020) 223 final
[7] COM(2022) 528 final

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Total final energy supply by source (approx. 44 000 TJ in total): 36% oil, 14% biofuels and waste, 35% coal, 13% hydro, 2% wind/solar.
- imports: 55 TJ coal, 209 TJ natural gas liquids, 4 304 TJ electricity, 17 605 TJ oil products
- exports: 1 143 TJ coal, 3 394 TJ electricity, 1 302 TJ oil products

Gas: no gas market in the country, but some ambitions for installing up to 400MW gas-fired power plants; independent of Russian gas

Electricity:
electricity production mix: 56% hydropower, 41% coal, 3% wind
- Net importer, so will be affected by regional market disturbances and affordability

EIP priority projects: Ionian-Adriatic Pipeline

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkans partners except Bosnia and Herzegovina are systematically net importers of electricity. The import needs in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in all countries of the region – particularly for domestic users – are centrally regulated and have remained below the production / import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on the budgets of partners to cater for the financial losses of the Utility providers.

An increase of electricity prices to market level is perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

Montenegro has had in place a policy of price caps which is applicable to ordinary consumers. According to that policy (into force until 31 December 2022), the maximum price was established at EUR 45 MWh. A revision of the price cap is however now underway and shall enter into force after January 2023. Ministry of Capital Investment and the public utility company (Elektroprivreda Crne Gore) are in the lead of this revision.

Montenegro is currently importing electricity from abroad due to the inability of their hydropower sector to produce enough electricity to satisfy the demand. This will have an impact on the move to revise the price caps. To illustrate in October 2022, Montenegro was importing electricity worth of EUR 2 million per day. The current drought in 2022 and higher temperatures than usual, are also contributing factors to the diminished current hydropower generation. This issue is part of the wider discussion on the question of the energy mix and links to the question of how to bring about higher shares from other renewal sources of energies. The Ministry of Capital Investment is in the lead regarding this issue.

Montenegro does not have current reserve of oil stocks that could mitigate shocks in the international markets of oil stocks should be implemented. The Ministry of Capital Investment is in the lead of the preparation of a new draft Law on the Supply of Petroleum Products in the Event of Supply Disruption (industry-related model), which is currently in public discussion.

The establishment of the day-ahead market for electricity should also support the capacity of Montenegro to trade better for immediate energy needs.

Fuel prices in Montenegro have benefited from lower taxes. The Ministry of Finance approved on 10th May 2022 a reduction of the excise tax for the sale of unleaded gasoline and gas oils by 40% and on 7th June it approved a further reduction to in total 50%. Price per litre for gasoline, as of end of October 2022, is EUR 1,34 that compares with Serbia, EUR 1,517, Albania, EUR 1,762, or Croatia, EUR 1,547 . Therefore, a reform in the taxation applied to fossil fuel costs may also be implemented in order to reduce the public contribution

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and thus aligning it better to closer market prices in the region. The Ministry of Finance and Ministry of Capital Investment are in the lead of the energy taxation.

Although wholesale prices have decreased since the peak of summer 2022, they remain unsustainably high for a growing number of citizens. Corroborated with the lingering effects of the COVID-19 pandemic, more and more households are subject to, or at risk of energy poverty. Vulnerable consumers are the most impacted, however both businesses and households, including middle-income households, are also increasingly burdened by rising and costly gas and electricity bills.

At present there is an unclear definition of what is energy poverty in Montenegro. However vulnerable communities such as women, people with disabilities and Roma are expected to be more at risk. Reports and studies clearly show that gender inequalities are prevalent in almost all areas of social life and also in the economic sphere, the labour market. This makes women more susceptible to energy poverty. As women and men have sometimes different energy needs, priorities and consumption patterns, it is also critical to explore the position of women in this domain and to better understand intra-household dynamics in order to create policies which will reach to women and allow them to obtain the benefits of measures aimed at tackling energy poverty. In Montenegro, Roma communities are also particularly at risk and it is also necessary that their perspective is understood when policies and measures are formulated. The 2021-2025 strategy for the social inclusion of Roma and Egyptians and its 2021 action plan were adopted in September 2021. At the beginning of November 2022, the Government of Montenegro nominated the Head of the Department for Inclusion of Roma and Egyptians, in the Directorate for Human Rights in the Ministry of Human and Minority Rights as the National Roma Contact Person (NRCP). Compared with the previous years, there is a trend towards increasing the budget allocated to actions supporting Roma inclusion, but appropriate planning and monitoring are lacking.

2.3. Lessons Learned

In the aftermath of the COVID-19 pandemic, the European Commission adopted several crisis-response programmes as State and Resilience Building Contracts (SRBC) (in addition to a significant refocus of ongoing budget support programmes to meet the arising socio-economic needs) to support the partner Governments in their efforts to mitigate the socio-economic impact of the pandemic specifically on vulnerable households and Small and Medium Enterprises and implement their Crisis Response Action Plans. This approach was assessed in a fast-track evaluation of the COVID-19 response in 2020-2021[8]. The evaluation found that the crisis response (including the SRBC approach) has been effective in granting the beneficiary economies the fiscal space enabling budgetary rearrangements to respond to the social needs of the vulnerable actors (households and economic stakeholders).

Several recommendations are relevant for the current crisis response action:

- To maximise the use of policy dialogue as a leverage to inform and monitor the implementation of the crisis response plans of partner countries.
- To pursue support to medium- to longer-term fiscal and public expenditure reforms aimed at increasing domestic revenue mobilisation and at promoting debt sustainability during both crisis and post-crisis responses.

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[88] Fast-track assessment of the EU initial response to the COVID-19 crisis in partner countries and regions (2022), available at https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020_en,

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- To support partner countries in developing their capacities for the vertical and horizontal expansion of social protection systems in EU partner countries to increase crisis preparedness and resilience.
- To further cooperate with partner governments to be more open and accountable in their present and future crisis policy response and crisis spending.

The COVID-19 Resilience Contract for Montenegro has been effective in the implementation of the Crisis Action Plan as it benefitted from good inter-stakeholders coordination in the implementation but also in the reporting phase. The leading role of the Ministry of Finance, in collaboration with the line ministry, should be continued.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

In the area of **security of supply**, Montenegro has an energy development strategy up to 2030. The government adopted the energy balance for 2022. Activities continued in the context of the development of the **National Energy and Climate Plan**. No progress was made on the revision of the action plan on compulsory strategic reserves of oil and petroleum products, the adoption of the law on security of supply of oil products and the setup of a central body for strategic oil reserves. Oil stocks still remain low. However, Montenegro plans to ensure the existence of strategic oil stock reserves by 1 January 2023 thanks to introduction of stock keeping obligations on importers of petroleum products. Montenegro does not import oil from Russia and does not have any gas infrastructure, so the impact of the Russian war on Ukraine on the country's energy security remains limited.

Work on **electricity transmission interconnections between Montenegro and Serbia** is in slow progress. Internal 400 kV line in Montenegro which is a prerequisite for this new interconnection, faces problems with environmental concerns and transmission-right-of-way. The ecological reconstruction of the thermal power plant Plevlja started at the end of April 2022, with a three-year delay. The completion of this project is expected in October 2024. Montenegro's government maintains that following the reconstruction, the plant will be operating within the emission limits set by the large combustion plants directive.

The administrative capacity of the national authorities in the energy sector needs to be strengthened.

Concerning the **internal energy market**, the first steps towards achieving a competitive day-ahead electricity market have been implemented. A consortium between the European Power Exchange (EPEX SPOT) and the Slovenian BSP South Pool won the tender and signed a service agreement for the implementation of the day-ahead market. Work progresses, including negotiations on coupling the market with neighbouring economies. In November 2021, the Energy and Water Regulatory Agency of Montenegro approved new rules on long-term, daily and intraday capacity allocation for the border between Serbia and Montenegro. The law on surveillance of wholesale electricity and gas market, aligned with the REMIT Regulation, entered into force in January 2022.

On **hydrocarbons**, national legislation is aligned with the hydrocarbons licensing directive. The law on safety measures in offshore exploration and production of hydrocarbons is pending adoption by the parliament. Montenegro has so far awarded two concession contracts for offshore hydrocarbon exploration and production in 2016 and 2017. The exploration period for one concessionaire was extended to September 2022. In accordance with the concession agreement, the second concessionaire is obliged to find a new partner, to be approved by the government to receive a further extension of the exploration rights. It remains under Montenegro's remit to ensure compliance of the concession holders with environmental liability rules and rule of law standards through contractual obligations. The construction of Montenegro's section of the Ionian-Adriatic Gas Pipeline (IAP) has cumulated a serious delay. Work on the preliminary design of this section was completed in October 2021, while a public consultation on the environmental and social impact

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assessment documentation is yet to be implemented. The advancement of the project depends on the ability of the government to conclude appropriate public consultations and reach an agreement with concerned municipalities on the preferred alignment.

In the area of **renewable energy**, 43.8 % of gross final consumption of energy came from renewable sources in 2020, which exceeded the 33% target to be achieved by 2020 under Montenegro's national action plan. In July 2021, the government decided to stop previous schemes providing price subsidies for electricity produced from renewable sources and highly efficient cogeneration. In March 2022, the government granted a concession for the construction, maintenance and use of the Komarnica hydropower plant to the national energy company, EPCG. The government also adopted decisions on terminating concession agreements for constructing several small hydropower plants. Progress has been made in the development of spatial plans and environmental impact assessments for the implementation of wind farms and solar power plants. It remains essential that the development of new renewable energy projects, particularly on hydropower, are carried out in conformity with the EU *acquis* on concessions, State aid and the environment.

In the area of **energy efficiency**, some progress was made in alignment with the EU *acquis*, with the adoption of implementing legislation on requirements for eco-design and energy efficiency labelling of energy-related products. Montenegro has met the national 2020 energy efficiency target, as reported in the sixth Annual Progress Report submitted to the Secretariat in June 2022. The National Energy and Climate Plan (NECP), once adopted, will replace the existing energy efficiency action plan as the key planning document in the area of energy efficiency. Relevant amendments to the Law on Efficient Use of Energy were finalised in 2022 and are currently in parliamentary adoption procedure. The Ministry of Capital Investments continued coordinating several programmes on energy efficiency improvement for public and private households. In October 2021, the "Energy Efficient Home" pilot programme opened to citizens the opportunity of interest-free loans for implementing energy efficiency measures in households. The energy efficiency fund has not been established yet. There have been no developments in improving statistical data collection and monitoring the implementation of the energy efficiency action plan, including the system for monitoring and reporting on implementation of targets under Article 7 of Energy Efficiency Directive (energy efficiency obligation) scheme.

Among the main challenges ahead, Montenegro, according to the Commission 2022 Report[9], and very much in line with the conclusions from the latest Annual Implementation Report by the Energy Community Secretariat[10], Montenegro should, in the short-term:

- start operating a functioning day- ahead electricity market and couple with neighbouring markets, including Italy;
- accelerate the move to market -based support schemes for renewable energy, and introduce the national electronic registry for guarantees of origin in Montenegro;
- production based on streamlined permitting and connection procedures;
- adopt the law on security of supply of oil products and set up the stockholding body for the mandatory oil reserves.

The Government is currently preparing the update of its strategic framework that should take into consideration the current situation around energy sector. An Action Plan will be developed with the support of the EU services. It will focus on the immediate needs to avoid energy poverty among vulnerable households, support MSMEs to foster the 2022-2023 winter and continue along its path on energy sustainability, namely by building its resilience through diversified sources of energy.

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[9] Montenegro 2022 Report. SWD(2022) 335 final
[10] Published on 1 November 2021.

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In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy

Montenegro's economy recorded very strong growth in 2021, though it did not fully recover to its pre-pandemic level. The strong rebound of the economy, recording a revised growth rate of 13% (up from the previous estimate of 12.4%). Economic growth accelerated in Q2-2022 driven by private consumption and exports of services, the former supported by a minimum wage hike and further employment growth boosted by the good performance of tourism. Tourism revenues reached 70 % of their 2019 level, surging from just 13% in 2020. Exports then added another 25.5 percentage points to growth. The increase in the number of visitors boosted private consumption that added 4.2 percentage points to growth. Contribution of the government consumption to growth was 0.3 percentage points. Investment activity remained weak due to the delays in public investments, higher costs of materials, and continued supply-chain disruptions. Consequently, this slowed gross fixed capital investments, which dragged growth by 4.8 percentage points, also adversely affecting the pace of imports. Industrial production strengthened by 4.9 %, driven by increases in both manufacturing and energy production, despite decline in the mining sector. Meanwhile, construction declined by 5%, as did number of issued construction permits, signalling a continued decline in the construction sector. The strong rebound of the economy in 2021 was reflected in a robust increase in retail and wholesale trade, that expanded by 16.6% and 24% year on year, respectively. Montenegro's industrial production remains highly volatile. After falling 13.4% year over year in Q1 2022, output grew 1.2% year over year in Q2, to fall again in July (by 3.6% year over year) and bounce back in August (3.9% year over year). On average, industrial production contracted 6.4% year over year in the first eight months of 2022, led by the fall in electricity production (-16.6% year over year).

Montenegro's economy was projected to fully recover to its pre-COVID-19 crisis level in 2022, after strong rebound of economic activity in 2021. The fallout of the Russian aggression against Ukraine, will most likely disrupt projected growth in 2023. The Commission's DG Economic and Financial Affairs published an autumn forecast on 4 November where the country's GDP growth projections for 2022 have revised upwards to 7% from an estimated 3.8% before the start of the war. The main negative impact of the war in Ukraine to Montenegro's economy is on tourism and the strong increase of inflation.

The economic rebound led to a partial recovery on the labour market, albeit structural deficiencies persist. The COVID-19 pandemic exacerbated the structural deficiencies in the labour market, including high and increasing long-term unemployment and continued regional disparities. After expiry of favourable effects from the seasonal employment associated with the tourism industry, the unemployment rate (15-64) started to increase again reaching 15.7% at the end of 2021. It was still significantly lower than a year before, when the unemployment rate reached 21.5%. Benefiting from low base effects in 2020, employment rate recorded robust growth of 15.2% in the last quarter of 2021 and it declined to 14.9% in Q2 2022. However, the survey confirmed that youth unemployment remains a serious problem in the country, with 37.4% of the population aged 15-24 being jobless. Long-term unemployment is yet another lingering problem, given that 53% of all jobless have been looking for a job for more than two years. There are huge labour market differences across regions, with the unemployment rate being at low 6.1% in the tourism-heavy coastal region, 12.2% in the central region and 31.2% in the poor northern region.

Financial sector remained robust with quite dynamic credit activity during 2021. At the end of 2021, banks' lending and deposits were 9.8% and 20.9% higher, respectively, as compared to December 2019. Banks` lending and deposits continued to grow in the first months of 2022. Average capital adequacy ratio in December 2021 was at 18.5%, well above the regulatory minimum. Montenegro's NLB Banka Podgorica, the local unit of Slovenia's largest bank Nova Ljubljanska Bank (NLB), completed the merger with Komercijalna Banka Podgorica in November 2021. After finalisation of the second merger within a year, the new bank became the second largest out of a local banking market of 11 banks. Although trending down, lending interest rates are still high presenting one of the major obstacles for the small businesses in the

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country. In order to provide easier and increased access to finance for businesses that have limited access to finances, the Government earmarked funds for the establishment of the Credit Guarantee Fund and proposed relevant legislation that awaits Parliament approval. In February 2022, NPLs rose to 6.7% of total loans, compared to 5.9% a year before.

Global inflationary pressures are accelerating domestic inflation. After falling by 0.8% in 2020, consumer prices have accelerated since April 2021, to reach an average of 2.5% in 2021. Consumer prices kept rising fast in July and August 2022, driven by food and electricity prices, while oil prices showed some signs of moderation. After averaging 10.9% in Q2, inflation (HICP index) increased to 13.7% in July and further to 13.9% in August. Prices increased notably for food and non-alcoholic beverages (by 25.5% in August) as well as for housing and utilities (comprising electricity) up by 14.1%. Real disposable income was, nevertheless, largely preserved through the increase in disposable incomes due to the 'Europe Now' reform, which resulted in the 80% increase in the minimum wage and 21.1% increase of the average monthly wage from August 2022 in real terms discounting the inflation. On the other hand, wage increase also risks nourishing inflationary pressures as well as increasing external and fiscal imbalances.

Strong recovery of the tourism sector resulted in a significant reduction of external imbalances. The current account deficit widened to 11.0% of GDP in the four quarters to June 2022, up from 9.3% of GDP in the previous quarter but it was substantially lower compared to the 19.6% gap recorded in the same period a year earlier. The deficit improvement was driven by surging tourist receipts boosting the services surplus, which rose to 20.3% of GDP compared to 7.2% a year earlier.

Net FDI inflows accelerated in the four quarters to June 2022, totalling 13.8% of GDP compared to 9.5% a year before. The stock of international foreign exchange reserves stood at the equivalent of 6 months of imports in August.

The improvement of the economic and sanitary situation reinforced significantly Montenegro's fiscal performance. The rebound in economic activity combined with a significant underspending of the capital budget resulted in a sharp reduction of the budget deficit in 2021. The central government deficit totalled 1.1% of GDP in the first seven months of 2022, down from 2.4% of GDP in the same period of 2021 and 69.9% below the plan.

The public debt ratio declined to 76.6% of GDP at the end of March 2022, down from 83.4% of GDP recorded a year earlier. On 29 September 2022, the parliament adopted amendments to the 2022 Budget Law increasing budget expenditure by 7.7% to cope with additional mandatory spending, and revising revenue expectations upwards by 1.6%. Amendments to the borrowing threshold were also adopted after increasing the financing needs for this year to 8.2% of GDP after rising the deficit target up from the original plan of 5.1% of GDP, owing to the introduction of a series of new social expenditure from September.

In conclusion and overall, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

The **Public Finance Management (PFM) Reform Programme 2016-2020 (and its Transitional Action Plan for 2021)** has addressed some of the key weaknesses of the PFM system and has been therefore highly relevant, as confirmed by the results of the 2019 PEFA exercise. Additionally, it has addressed issues outside the PEFA assessment but equally important, like the update of the legal and regulatory framework in accordance with the EU legislation and the upgrade of the existing IT system for the management of the whole budget cycle. Certain reform areas remained excluded: the alignment with European system of Account (ESA) 2010 and Government Finance Statistics (GFS) system, more transparent reporting on budget execution and commitment management, as well as cash flow planning and arrears management. Weaknesses in the payroll system and in local government finance management have been addressed both in the Public Administration Reform and in the Public Finance Management Programmes.

Compared to PEFA 2013, the PEFA 2019 results showed an overall tendency of improvement. Main performance progress is observed in (i) budget reliability (ii) extent of unreported government operations (iii)

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taxpayer registration and tax assessment (iv) procedures for contracting and reporting debt and issuing guarantees (v) improved procurement management (vi) effective internal controls (vii) strengthened internal audit, external audit and parliamentary scrutiny. Monitoring of fiscal risks arising from local governments by the central government has deteriorated.

Since then, the pace of implementation of the reform has been uneven, benefitting on one hand from the support provided by several IPA technical assistance project and suffering on the other from the effect of the COVID-19 pandemic, the unstable political situation and the high staff turnover in the Ministry of Finance. In July 2021, the PFM Reform Programme was extended for one year (until end-2021) through a Transitional 2021 Action Plan, containing the activities that could not be completed by end-2020. In the meantime, a new PFM Reform Programme 2022-2026 has been drafted and due to be adopted by the third quarter of 2022.

All in all, good progress can be reported in the area of annual budgeting, reform of salary system in the public sector, public procurement and customs administration. **Some progress** is reported in medium-term budget framework, capital budgeting, tax administration and state aid. **Limited progress** is shown in debt management and transition from the cash-based to the accrual accounting. Implementation of the following subsystems is **largely completed:** update of the macro-economic projections model, public procurement, public internal financial control, external audit and audit authority

However, despite efforts, some weaknesses remain, especially for capital budgeting, state aid reform, commitment, cash and assets management, as well as in terms of interoperability of the different IT systems in place.

The **key challenges** relate to the following:

- The continued delay of concrete steps for upgrading the SAP Treasury system with regard to accrual accounting
- Delays in the implementation of medium term budgetary framework and budget preparation, in particular with regard to the amendment of the Law on Budget and Fiscal Responsibility, capital budgeting as a whole and live operation of the IT tool for calculation and control of salaries (including its connection with the Human Resources Management System)
- The serious delays in implementing the World Bank funded Revenue Administration Reform Project in the Tax Administration
- The unmotivated suspension of the operationalization the Asset Management IT System, coupled with the lack of communication on this matter between the Accounting Department in the Treasury and the Cadastre and State Property Administration.

In terms of **domestic revenue mobilisation**, the overall trend of improvement showed by the 2019 PEFA assessment continues, in particular in the field of budget reliability, registration and tax assessment and effective internal controls. After a decline during the COVID-19 crises, the collection of public revenues is expected to recover in the coming medium-term period, as a result of projected growth in economic activity and several actions undertaken by the Government (suppression of informal economy, taxation of undeclared property, increasing excise taxes, among others).

A new PFM Reform Programme 2022-2026 is close to be adopted, after the conclusion of the public consultation launched in April 2022. The Reform Programme is highly relevant in addressing all identified weaknesses in a comprehensive and structured way. It is based on an extensive consultation process, it is supported by strong ownership and commitment of government stakeholders and accompanied by a costed Action Plan for 2022-2023. While in the previous cycle the focus was on budget planning and on procurement, priorities of the new reform programme will be public investment management, accounting and reporting. At the same time, efforts will be directed to the conclusion of previous (partially pending) reforms, like programme/performance budgeting and mid-term budgetary framework, including interconnected IT systems.

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A clear set of **objectives, activities and indicators have been identified** at output, outcome and impact level. A robust monitoring framework, however, despite significant improvements over the years, remains to be established. An indicators passport would be also necessary to clarify the scope and measurement of the indicators.

Differently from the previous one, **the new Reform Programme 2022-2026 is costed** and should be reflected in the annual and multiannual state budget. The Action Plan 2022-2023 has prioritised certain actions, by ensuring an appropriate sequencing of reforms. However, the way to address some critical horizontal issues, like the interconnection of IT systems, local governments and human resources for public finance management, still needs to be clearly defined.

The Government approach seems to take into consideration structural shortcomings and looks for **continuity with the previous reform programme**, by confirming the credibility of the reform process. Considering that reforms in the PFM area usually need a long time to materialise, this will ensure the necessary stability and coherence to maximise the reform impact in the next few years. For this to happen, the process will have to be supported by significant strengthening of the PFM capacities in terms of human resources and coordination within the Ministry of Finance and with other stakeholders involved in the reform actions, and the Revenue and Customs Administration.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4. Transparency and Oversight of the Budget

The Government of Montenegro continues to publish systematically the budget proposal, the adopted budget and budget execution reports. The following budgetary documents were published in 2021:

1. The annual budget Law for 2022 was adopted on 29.12.2021[11]. This is organised by economic, organisational, functional and programme classification.
2. The annual budget execution report for 2021 was published on the Ministry of Finance website on 02.02.2022[12]. The report contains a narrative part providing main fiscal aggregates and a table with budgetary data broken down by economic classifications. The year-end accounts are submitted to external audit within six months after the end of the fiscal year.
3. In-year budget execution reports are made available to the public with nearly one month delay and prepared by budget spending units, state funds, local Self-Government units and other legal entities. This includes a brief narrative on current revenues and expenditures and detailed table with budget execution breakdown organised by economic classifications. A budget execution report for January- and February 2022 was published on 01.04.2022[13].
4. The audit report for the final accounts for the 2020 budget was published on State Audit Institution website on 13.10.2021.

The **entry point for Budget Transparency continues, therefore, to be met**.

The PEFA 2019 show an overall tendency of improvement compared to PEFA 2013. According to the results of the PEFA exercise, Montenegro has scored the following:

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[11] https://www.gov.me/clanak/zakon-o-budzetu-crne-gore-za-2021-godinu
[12] https://www.gov.me/clanak/ostvareni-rekordni-prihodi-deficit-za-421-manji-od-plana
[13] https://www.gov.me/clanak/prihodi-veci-za-194-nego-u-istom-periodu-2021-godine

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PEFA Assessment (2016 indicators)	Match with PEFA 2011	Year 2013	Year 2019	Monitoring of Progress
PI-5 Budget documentation	PI-6	A	B	↓
PI-6 Central government operations outside financial reports	PI-7 & some new subsections	D+	A	↑
PI-9 Public access to fiscal information	PI-10	A	A	≈
PI-28 In-year budget reports	PI-24	D+	D+	≈
PI-29 Annual financial reports	PI-25	D+	D+	≈
PI-30 External audit	PI-26	C+	B+	↑
PI-31 Legislative scrutiny of audit reports	PI-28	C+	B+	↑
	Year	Year	Year	Year
Open Budget Index[14]	N/A	N/A	N/A	N/A

Overall, PEFA 2019 assessed that fundamentals of the PFM system are in place with the performance of main functions measured with high-ranking scores. Nevertheless, more advanced components of PFM demonstrate needs for further improvement and constant reinforcement. Mitigating measures should be proposed to address the weaknesses in PFM reporting.

In terms of budget transparency, the worst performance is related to **PI-28 Indicator** and to **PI-29 Indicator.**

Main deficiencies of the in-**year budget reports** lay in the lack of comparison with the original budget (but only with the latest revised budget), in the aggregates presentation of data and in a structure organised only by economic classification, with significant gaps in reporting for public enterprises and financing of municipalities. Variations between original profile of revenue and expenditure and actual revenue and expenditure are not explained. Completeness of financial reports is an issue, since they are prepared on cash basis and do not present information on assets and liabilities. More structured information on commitments and liabilities/arrears, on capital expenditures and on internally generated funds would increase comprehensiveness and transparency.[15]

As to the **Annual Financial Reports**, the information about the financial and non-financial assets and liabilities is not complete and there is no reference to the accounting standards. All budget documents are accessible by citizens (at government's website) but reports are not published together at one single web link.

More recently, improvements in budget transparency are materialising with the implementation of a new programme budget classification, with programme goals and performance indicators, and gradual introduction of a mid-term budgetary framework.

In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The Action consists of a State and Resilience Building Contract to support societal and state resilience in Montenegro. The budget support contract contributes to the government's policy to reduce the negative impact

[14] Montenegro is still not part of Open Budget Index

[15] SIGMA Monitoring Report, November 2017

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of the energy crisis on citizens, to ensure the delivery of essential services, particularly to the most vulnerable segments of the population, residential sector, and Micro Small and Medium Enterprises (MSMEs), at the same time ensuring that support measures do not lead to increase in energy consumption but are coupled with energy efficiency measures, and to support the long-term socio-economic recovery, energy security and energy transition of the country, building on and in line with commitments Montenegro has under the Energy Community law and in line with the Energy Community Decarbonisation roadmap. The EU's approach will be accompanied by a robust policy dialogue.

The Overall Objective(s)/(Impact(s)) of this action is to:

1 build State and societal resilience

2 set the basis for a sustainable economy based on climate resilient low-carbon principles

The Specific(s) Objective(s) (Outcomes) of this action are to

1 To mitigate the immediate socio-economic impact of the energy crisis on vulnerable households and vulnerable economic stakeholders; and

2 Reforms that address sources of vulnerability in the energy sector are promoted

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are

1.1 contributing to Specific Objective 1: Vulnerable social groups received subsidised electricity bill to mitigate the negative effects of the energy crisis.
1.2 contribution to Specific Objective 1: SMEs benefit from electricity bill subsidies/price cap to mitigate the negative effects of the energy crisis.

2.1 contributing to Specific Objective 2: Increased possibilities for enabling access to renewable sources of energy and energy efficiency.
2.2 contributing to Specific Objective 2: Obligations derived from Directive 2009/119 (on imposing an obligation on EU Member States to maintain minimum stocks of crude oil and/or petroleum products) are implemented.
2.3 contributing to Specific Objective 2: Strategic framework for NECP is adopted.
2.4 contributing to Specific Objective 2: Preparation for implementation of day-ahead market in electricity.
2.5 contributing to Specific Objective 2: Energy transition in the country is defined.

3.2. Indicative Activities

Activities related to Output 1.1

1.1.1 Vulnerable social groups identified
1.1.2 Client-oriented approach is defined for vulnerable social groups identified for applying for subsidies.
1.1.3 Funds are made available for electricity bill subsidised.

Activities related to Output 1.2:

1.2.1 SMEs are identified.
1.2.2 Funds are made available for electricity subsidy.

Activities related to Output 2.1:

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2.1.1 Funds are used for the installation of solar panels: the budget initially foreseen for the solar panel facility is used.

Activities related to Output 2.2:

2.2.1 Implementation of new law on strategic oil reserves is in progress
Activities related to Output 2.3:

2.3.1 Preparatory works are in place for the National Energy and Climate Plan

Activities related to Output 2.4:

2.4.1 Preparatory works for regulation of day-ahead market in electricity

Activities related to Output 2.5:

2.5.1 Terms of References (ToRs) for Study on energy transition are approved.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

As SRBC contract, the current action is mainly targeting the fragility of the state in the energy sector and to increase the resilience of its society and economy in a crisis in the energy sector and accordingly this has a strong green environmental, climate change and biodiversity focus.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that the action has a focus on promoting gender equality and empowering women and girls by ensuring that measures will be put in place to mitigate the negative effects of the energy situation.

In July 2021, the government adopted the 2021-2025 national strategy for gender equality, its action plan for 2021-2022 and the final report on the implementation of the 2017-2021action plan for achieving gender equality. The strategy introduced some important novelties that could contribute towards improving women's rights and gender equality in Montenegro. These include suggestions from specialised NGOs for better gender mainstreaming of public policies, an increase in the election quota for the less represented gender, and the establishment of an alimony fund. However, Montenegro must address the issue of gender-based violence and domestic violence in the strategy. The legislative framework on gender equality still has a limited impact due to insufficient political will to prioritise this issue in the overall governmental accountability mechanisms.
Difficulties remain, notably in relation to female labour market participation and vocational training. Women also remain under-represented in political and economic decision-making. Women make up only a quarter of the total management in the public administration, often due to explicit or implicit bias in hiring, training and promotion practices. There has been an increase in smear campaigns, hate speech and use of gender-based violence against women in politics and public life.

Gender-based violence, in particular domestic violence, remains a serious and persistent criminal, societal and public health issue. Although some training and awareness-raising campaigns were organised during the reporting period, issues such as deeply rooted patriarchal norms and stereotypes, limited awareness on the part of both individuals and institutions, and to the lack of efficient systemic response and commitment to protection of victims, all contribute to further exacerbating the consequences of gender-based violence.

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Montenegro has yet to adopt a new strategy on protection from violence. Cases of violence against women through digital means are also increasing, including cyber stalking and distribution of intimate photo or video materials, often followed by threats and psychological violence.

The Government of Montenegro, in line with their commitments in the context of the 2021-2025 strategy for the social inclusion of Roma and Egyptians, takes special care about their situation and the 2022-2023 action plan shows a trend towards increasing the budget allocated to actions supporting Roma inclusion.

Human Rights

The current action is supporting human rights based approach in two aspects. First, affordable access to energy is considered as one of the Sustainable Development Goals and a human right. Second, the energy transition measures incorporated in the SRBC will enable greener energy, and, hence, a more healthy environment.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the Action will take into consideration the needs of the persons with disabilities when identifying the vulnerable social groups that could benefit from support for facing electricity costs.

Democracy

The SRBC contract will help to strengthen social and economic resilience of Montenegro and, therefore by extension, it will work to contribute to enable positive conditions for the further development of democracy in the country.

Disaster Risk Reduction

The measures foreseen for diversification of energy sources (the boosting of solar energies and for the enabling of mechanisms for day-ahead electricity trading and oil stocks reserve) should increase the energy security of the country and, hence, better preparedness for disaster risk reduction.

Conflict sensitivity, peace and resilience

As SRBC contract, the current action is mainly targeting the fragility of the state in the energy sector and to increase the resilience of its society and economy in a crisis in the energy sector.

3.4. Risks and Assumptions

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Political	Risk 1: Lack of stable government that makes difficult the establishment of priorities in the medium to long term.	Medium	High	Political dialogue and specific policy on improving resilience of energy sector. The complementary assistance to this action could facilitate the continuity of the policies.
Economic	Risk 2:	Medium	High	Small and Medium sized Enterprises in danger as a result of the increased in energy prices,

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	Raising energy prices is stretching public finances and having negative impact in economic operators and citizens.			should receive additional subsidies within their electricity bill.
Social	Risk 3: the negative effects of the energy crisis have impact in vulnerable groups of the society and the economy.	Medium	High	Families and individuals in vulnerable situation and additional impacted as a result of the increased in energy prices, should receive additional subsidies within their electricity bill.

External Assumptions

Montenegrin authorities will use the funds provided through this budget support programme to increase the country's resilience to external shocks and to preserve the access of population to basic services.

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3.5. Indicative Logical Framework Matrix

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Results	Results chain	Indicators	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data
Indicative Impact of the policy	1. State and societal resilience is built 2 To set the basis for a sustainable economy based on climate resilient low-carbon principles	1.1 GDP Growth 1.2 % Citizens below poverty line 2. % of Renewable Energies in the energy grid	2022 2022 2022	>0 2022<2023 X% - 2030	Montstat
Expected Outcomes of the policy	1. To mitigate the immediate socio-economic impact of the energy crisis on vulnerable households and vulnerable economic stakeholders; and 2. Reforms that address sources of vulnerability in the energy sector are promoted	1.1 Persons from vulnerable groups benefited from electricity bill subsidy 1.2 SMEs benefitting from electricity bill subsidy/price cap 2. The strategic framework for NECP addresses the vulnerability of the sector	1.1 All persons eligible as per applicable regulation are receiving 30-40-50% subsidies on electricity bill (2022) 1.2 X SMES[16] (2022) 2 No (2022)	1.1 All persons eligible as per applicable regulation are receiving 30-40-50% subsidies on electricity bill [17] (2023) 1.2 All SMEs eligible as per applicable regulation (2023) 2 Yes (2023)	1.1 Ministry of Capital Investment / Elektroprivreda Crne Gore 1.2 Ministry of Capital Investment / Elektroprivreda Crne Gore 2. Government of Montenegro

[16] Baseline information is in the process of being gathered
[17] Persons with the lowest incomes whose standard is threatened as a result of the rise in electricity and energy prices as well as to ensure that all persons eligible as per applicable regulation for electricity subsidy bill are receiving either 30-40-50% or higher subsidies in the electricity bill.

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Induced Outputs	1.1 Vulnerable social groups received subsidised electricity bill to mitigate the negative effects of the energy crisis.	1.1 Scheme for enabling subsidy of the electricity for vulnerable groups (e.g. via price caps)	1.1 Yes (2022)	1.1 Yes (2023)	1.1 Ministry of Capital Investment / Elektroprivreda Crne Gore
	1.2 SMEs benefit from electricity bill subsidies/price cap to mitigate the negative effects of the energy crisis.	1.2 Scheme for enabling support to SMEs (e.g. via price caps).	1.2 Yes (2022)	1.2 Yes[18] (2023)	1.2 Ministry of Capital Investment / Elektroprivreda Crne Gore / Chamber of Commerce
	2.1 Increased possibilities for enabling access to renewable energy and energy efficiency	2.1 Scheme for facilitating the installation, renovation and application of energy efficiency technologies in buildings and SMEs, as well as installation of solar panels in buildings in place including SMEs	2.1 Yes (2022)	2.1 Yes (2023)	2.1 Elektroprivreda Crne Gore / Ministry of Capital Investment
	2.2 Obligations derived from Directive 2009/119 (on imposing an obligation on EU Member States to maintain minimum stocks of crude oil and/or petroleum products) are implemented.	2.2 Total oil stocks maintained at all times in number of days (either average daily net imports or average of daily inland consumption, whichever of the two quantities is greater (Directive 2009/119).	2.2 10% (2021)	2.2 Satisfactory progress	2.2 Ministry of Capital Investment
	2.3 Strategic framework for National Energy and Climate Plan is adopted		2.3 NCEP in draft (2022)	2.3 Yes (2023)	2.3 Government of Montenegro

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[18] Budget will be ensured to keep a price cap for the SMEs notwithstanding the underlying energy price.

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	2.4 Preparation for implementation of day-ahead market in electricity 2.5 Energy transition in the country is defined	2.3 NECP is adopted, and ambition aligned with climate and energy targets as part of the 2030 decarbonisation roadmap, and as proposed by the European Commission. 2.4 Regulation for day-ahead market in electricity 2.5 Study on energy transition is commissioned	2.4 No. (2022) 2.5 No (2022)	2.4 Yes (2023) 2.5 Yes (2023)	2.4 Government of Montenegro 2.5 Ministry of Capital Investment

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Direct Outputs	1.1.1 Vulnerable social groups identified	1.1.1 Projection of number of persons in vulnerable groups that could benefit from assistance.	1.1.1 Yes	1.1.1 Yes	1.1 Ministry of Capital Investment / Elektroprivreda Crne Gore
	1.1.2 Client-oriented approach is defined for vulnerable social groups identified for applying for subsidies.	1.1.2 Procedure for applying for electricity subsidy	1.1.2 Yes	1.1.2 Yes	
	1.1.3 Funds are made available for electricity bill subsidies	1.1.3 Funds available for subsidies.	1.1.3 Yes	1.1.3 Yes	

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	1.2.1 SMES are identified. 1.2.2 Funds are made available for electricity subsidy. 2.1.1 Funds are made available for the installation of solar panels 2.2.1 Implementation of new law on strategic oil reserves is in place 2.3.1 Preparatory works are in place for the National Energy and Climate Plan 2.4.1 Preparatory works for regulation of day-ahead market in electricity 2.5.1 ToRs for Study on energy transition	1.2.1 Projection of number of SMEs that could benefit from assistance 1.2.2 Funds available for subsidies 2.1.1 Funds are made available 2.2.1 Progress in Oil stocks in reserve achieved 2.3.1 The draft of the NECPS is improved until it is ready for approval, including compliance date for TPP Pljevlja with the obligations under the Large Combustion Plants Directive 2.4.1 Draft regulation is produced. 2.5.1 ToRs	1.2.1 No 1.2.2 No 2.1.1 No 2.2.1 No 2.3.1 No 2.4.1 No 2.5.1 No	1.2.1 Yes 1.2.2 Yes 2.1.1 Yes 2.2.1 Satisfactory level of progress 2.3.1 Yes 2.4.1 Yes 2.5.1 Approved.	1.2 Ministry of Capital Investment / Elektroprivreda Crne Gore / Chamber of Commerce 2.1.1 Elektroprivreda Crne Gore 2.2.1 Ministry of Capital Investment 2.3.1 Ministry of Capital Investment 2.4.1 Ministry of Capital Investment 2.5.1 Ministry of Capital Investment

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4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Montenegro.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Union Delegation to Montenegro.

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support is EUR 30 000 000. No complementary support is foreseen.

This amount is based on the commitment of Montenegro to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. This amount is informed by a comprehensive discussion with the stakeholders and by the preparation of a National Action Plan to address the consequences of the energy crisis, particularly with regards to vulnerable households and small and medium enterprises.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.
The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Action Plan to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

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4.3.3. Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted financial support to the national treasury.

4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 0	30 000 000
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	will be covered by another Decision
Communication and visibility – cf. section 6	will be covered by another Decision
Contingencies	N.A.
Total	30 000 000

4.5. Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in a (yet to be defined) governance structure set up for the implementation of the action. The authorities of Montenegro involved in the implementation of the Action will include a mix of relevant Ministries and state entities.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this end, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the logframe matrix and the partner's strategy, policy or reform action plan list.

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The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).
Roles and responsibilities for data collection, analysis and monitoring:

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed.

5.2. Evaluation

Having regard to the nature of the action, a(n) ex-post evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Action has been designed to provide support in order to alleviate the impact of the energy crisis.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the beneficiary country at least three months in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with Serbia and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions* (or any successor document).

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This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

Given that a similar action is financed simultaneously in each beneficiary in the Western Balkans, joint visibility and communication activities may be undertaken. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be coordinated with the EU Delegation, to ensure coherence of the narrative and message, as well as horizontal strategic communications.

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification, energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level.

7. SUSTAINABILITY

This action responds to immediate crisis needs – outlined above – and aimed at supporting vulnerable stakeholders throughout the winter of 2022-2023 in Montenegro. In addition and beyond this objective, this action also seeks to support long term energy resilience through the preparation of a National Energy and Climate Plans and adherence to the targets therein beyond 2023 as part of the wider efforts to achieve energy resilience and green clean energy transition.

Coordinated efforts coming from other programmes, will be put in place to contribute to the sustainability of this action as well as to the implementation of the NECP and the Action Plan for effectively contributing to addressing the vulnerabilities identified as causes of the crisis.

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APPENDIX FOR BUDGET SUPPORT: DISBURSEMENT ARRANGEMENTS, CONDITIONS AND PERFORMANCE INDICATORS

1. Responsibilities

In accordance with the provisions of the Financing Agreement, the authorities of the partner country send a formal request to the Commission for the disbursement of each tranche in accordance with the timetable below. The request must include: (i) a full analysis and justification for payment of the funds, with the required supporting documents; (ii) a financial information form, duly signed, to facilitate the payment.

2. Indicative disbursement timetable

Indicative disbursement timetable

Country fiscal year and quarterly breakdown	Year 1 (2023)				Year 2 (2024)				Total in MEUR
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fixed tranche in MEUR	27				3				30
Variable tranche in MEUR									
Total in MEUR	27				3				30

3. General conditions for the disbursement of all tranches

The general conditions set out in the table below apply to the disbursement of all tranches and all tranche release requests must be supported by all appropriate and up-to-date information and documents on the general conditions.

General conditions for the release of all tranches

Area	General conditions	Verification source
Public policy	Satisfactory progress in the implementation of the National Action Plan to address the consequences of the socio-economic impact of the energy crisis.	Government report on the implementation of Action Plan.

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Macroeconomic stability	Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.	IMF Article IV report, ECFIN assessments
Public financial management	Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.	Reports on the implementation of PFM strategy.
Budget transparency and oversight	Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information	Annual progress reports on implementation of PFM strategy, If/when available, reports of the Supreme Audit Institution, diagnostic assessments (Open Budget Index, IMF, PEFA)

4. Specific conditions for the disbursement of individual tranches

Not applicable

5. Modalities for variable tranche calculation and disbursement

Not applicable

6. Description of the performance indicators and targets used for the disbursement of variable tranches

Not applicable

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ANNEX II - GENERAL CONDITIONS

Contents

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Part One: Provisions applicable to activities for which the IPA III beneficiary is the contracting authority under IMBC

Article 1 - General principles

(1) The purpose of Part One is to lay out the rules for implementing the entrusted budget-implementation tasks as described in Annex I and to define rights and obligations of the IPA III beneficiary and the Commission respectively in carrying out these tasks.

Part One shall apply to the budget-implementation tasks entrusted to the IPA III beneficiary related to the Union contribution alone, or combined with funds of the IPA III beneficiary or funds of a third party, in case such funds are implemented in joint co-financing.

(2) The IPA III beneficiary shall remain responsible for the fulfilment of the obligations stipulated in this Financing Agreement and in the Financial Framework Partnership Agreement (FFPA). In accordance with Article 6, Article 18, Article 19 and Article 21, the Commission reserves the right to interrupt payments, and to suspend and/or terminate this Financing Agreement.

(3) The IPA III beneficiary shall respect the minimum rate of its contribution specified in Annex I. In case of contributions from both the IPA III beneficiary and the Union, the IPA III beneficiary contribution shall be made available at the same time as the corresponding contribution from the Union.

(4) For the purpose of the application of Article 25 of the FFPA on data protection, personal data shall be:

- processed lawfully, fairly and in a transparent manner in relation to the data subject;
- collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes;
- adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
- accurate and, where necessary, kept up to date;
- processed in a manner that ensures appropriate security of the personal data and
- kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed.

Personal data included in documents to be kept by the IPA III beneficiary in accordance with paragraph 2 of Article 1a has to be deleted once the deadlines set out in that paragraph have expired.

Article 1a – Procurement and grant award

(1) Without prejudice to Article 18(5) of the FFPA, the tasks referred to in paragraph 1 of Article 1 shall be carried out by the IPA III beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts in external actions, in particular, the practical guide on contract procedures for European Union external action (PRAG), in force at the time of the launch of the procedure in question, as well as in accordance with the required visibility and communication standards referred to in Article 2(2).

The IPA III beneficiary shall conduct the procurement and grant award procedures, conclude the resulting contracts, and ensure that all relevant documents for audit trail are in the language of this Financing Agreement.

(2) Without prejudice to Article 49 of the FFPA, the IPA III beneficiary shall keep all relevant financial and contractual supporting documents from the date of the entry into force of this Financing Agreement, or as from an earlier date in case the procurement procedure, call for proposals or direct

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grant award procedure was launched prior to the entry into force of this Financing Agreement, for five years as from the date of closure of a programme. The IPA III beneficiary shall keep in particular the following:

(a) Procurement procedures:

i) Forecast notice with proof of publication of the procurement notice and any corrigenda;

ii) Appointment of shortlist panel;

iii) Shortlist report (incl. annexes) and applications;

iv) Proof of publication of the shortlist notice;

v) Letters to non-shortlisted candidates;

vi) Invitation to tender or equivalent;

vii) Tender dossier including annexes, clarifications, minutes of the meetings, proof of publication;

viii) Appointment of the evaluation committee;

ix) Tender opening report, including annexes;

x) Evaluation / negotiation report, including annexes and bids received;[1]

xi) Notification letter;

xii) Cover letter for submission of contract;

xiii) Letters to unsuccessful candidates;

xiv) Award / cancellation notice, including proof of publication;

xv) Signed contracts, amendments, riders, implementation reports, and relevant correspondence.

(b) Calls for proposals and direct award of grants:

i) Appointment of the evaluation committee;

ii) Opening and administrative report including annexes and applications received;[2]

iii) Letters to successful and unsuccessful applicants following concept note evaluation;

iv) Concept note evaluation report;

v) Evaluation report of the full application or negotiation report with relevant annexes;

vi) Eligibility check and supporting documents;

vii) Letters to successful and unsuccessful applicants with approved reserve list following full application evaluation;

viii) Cover letter for submission of grant contract;

ix) Award/cancellation notice with proof of publication;

x) Signed contracts, amendments, riders and relevant correspondence.

In addition, financial and contractual documents referred to in paragraph 2(a) and 2(b) shall be complemented by all relevant supporting documents as required by the procedures referred to in paragraph 1, as well as all relevant documentation relating to payments, recoveries and operating costs, for example project and on the spot check reports, acceptance of supplies and works, guarantees, warranties, reports of supervising engineers.

(3) Operations co-financed by the Union under the Programme may also receive financing from an

[1] Elimination of unsuccessful bids five years after the closure of the procurement procedure.

[2] Elimination of unsuccessful applications three years after the closure of the grant procedure.

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international organisation, a Member State, a third country or a regional organisation.

Article 1b – Exclusion and administrative sanctions

(1) When applying the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts, the IPA III beneficiary shall accordingly ensure that no EU financed procurement or grant contract is awarded to an economic operator or grant applicant if the economic operator or grant applicant, who either itself, or a person having powers of representation, decision making or control over it, is in one of the exclusion situations provided for in the relevant procedures and standard documents of the Commission.

(2) The IPA III beneficiary shall inform the Commission immediately when a candidate, tenderer or applicant is in an exclusion situation referred to in paragraph (1), or has committed irregularities and fraud as defined in Article 51(5) of the FFPA, or has shown significant deficiencies in complying with main obligation in the implementation of a legal commitment financed by the Union budget.

(3) The IPA III beneficiary shall take into account the information contained in the Commission's Early Detection and Exclusion System (EDES) when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation using the following means: (European Commission, Directorate-General for Budget, Accounting Officer of the Commission, MO15, B-1049 Brussels, Belgium and by email to BUDG-C01-EXCL-DB@ec.europa.eu with copy to the Commission address identified in Article 3 of the Special Conditions). Any contract or grant concluded with a contractor or grant beneficiary that is in an exclusion situation at the time of conclusion of the contract shall be excluded from Union financing and the financial corrections mechanism in accordance with Article 7a may be applied.

(4) Where the IPA III beneficiary becomes aware of an exclusion situation referred to in paragraph (1) in the implementation of the tasks described in Annex I, the IPA III beneficiary shall, under the conditions of its national legislation, impose upon the economic operator or grant applicant, a rejection from the given procedure and an exclusion from its future procurement or grant award procedures. The IPA III beneficiary may also impose a financial penalty proportional to the value of the contract concerned. Rejections, exclusions and/or financial penalties shall be imposed following an adversarial procedure ensuring the right of defence of the person concerned. The IPA III beneficiary shall notify the Commission in accordance with paragraph (2) of this Article.

Article 2 - Communication and Visibility

(1) In accordance with Article 24 of the FFPA, the IPA III beneficiary shall take the necessary measures to ensure the visibility of EU funding for the activities entrusted to it, and prepare a coherent plan of communication and visibility activities, which should be submitted to the Commission for an agreement within 2 months after the entry into force of this Financing Agreement.

(2) These communication and visibility activities shall comply with the Communications and Visibility Manual for EU External Actions laid down and published by the Commission in force at the time of the activities.

Article 3 - *Ex-ante* and *ex-post* controls on grant and procurement procedures and *ex-post* controls on contracts and grants to be performed by the Commission

(1) The Commission may exercise *ex-ante* controls on award procedures for procurement and grants for the following stages:

(a) approval of contract notices for procurement and any corrigenda thereof;

(b) approval of tender dossiers and guidelines for applicants for grants;

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(c) approval of the composition of Evaluation Committees;

(d) approval of evaluation reports, rejection and award decisions[3];

(e) approval of contract dossiers and contract addenda.

(2) With regard to *ex-ante* controls the Commission shall decide:

(a) to perform *ex-ante* controls on all files, or

(b) to perform *ex-ante* controls on a selection of such files, or

(c) to completely dispense with *ex-ante* controls.

(3) If the Commission decides to perform *ex-ante* controls in accordance with paragraph 2(a) or (b) it shall inform the IPA III beneficiary of the files selected for *ex-ante* controls. The IPA III beneficiary shall provide all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex-ante* control, at the latest at the time of submission of the contract notice or the guidelines for applicants for publication.

(4) The Commission may decide to perform *ex-post* controls on the award procedures that have not been subjected to ex-ante control (within 6 months of the signature of the contract).

(5) The Commission may decide to perform *ex-post* controls, including audits and on-the-spot controls, at any time on any contracts or grants awarded by the IPA III beneficiary arising out this Financing Agreement. The IPA III beneficiary shall make available all the documentation and information necessary to the Commission upon being informed that a file has been selected for *ex-post* control. The Commission may authorise a person or an entity to perform *ex-post* controls on its behalf.

Article 4 - Bank accounts, accounting systems, and costs recognised

(1) After the entry into force of this Financing Agreement, the Accounting Body and the Intermediate Body for Financial Management (IBFM) of the IPA III beneficiary that is the Contracting Authority for the Programme shall open at least one bank account denominated in euro. The total bank balance for the Programme shall be the sum of the balances on all the Programme bank accounts held by the Accounting Body and all participating IBFMs in the IPA III beneficiary. Reporting on all bank accounts linked to each programme shall be recorded via IPA-APP[4].

(2) The IPA III beneficiary shall prepare and submit to the Commission disbursement forecast plans for the duration of the implementation period of the Programme following the template in point (d) of Annex III. These forecasts shall be updated and submitted with each request for funds referred to in Article 5(1) and 5(3), with the annual financial report referred to in Article 14(2) and with the forecast of likely payment requests referred to in Article 33(3) FFPA. The disbursement forecasts plans shall be based on real and actual needs and supported by a documented detailed analysis (including the planned contracting and payment schedule per contract) which shall be available to the Commission upon request.

(3) The initial disbursement forecast plan shall contain summary annual disbursement forecasts for the whole implementation period and monthly disbursement forecasts for the first twelve months of the Programme. Subsequent plans shall contain summary annual disbursement forecasts for the balance of the implementation period of the Programme and monthly disbursement forecasts for the following fourteen months.

(4) The IPA III beneficiary is required to establish and maintain an accounting system in accordance with Clause 4(3)(a) of Annex A to the FFPA which will hold at least the information for the contracts managed under the Programme indicated in Annex IV.

[3] For service contracts this steps includes ex-ante controls concerning approval of the shortlist.

[4] IPA-APP is a dedicated IT application developed by DG NEAR to replace iPerseus that was the tool used for monitoring the implementation of pre-accession funds under indirect management by beneficiary countries (IMBC).

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(5) Pursuant to Article 57(2) of the FFPA, costs recognised in the accounting system maintained under the section 4 of this Article must have been incurred, accepted and paid and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA III beneficiary under local contracts.

Article 5 - Provisions on payments made by the Commission to the IPA III beneficiary

(1) Each request for pre-financing shall comprise a declaration of expenditure for the Programme, including the amounts contracted, disbursed and costs recognised.

(2) The first pre-financing payment shall be for 100% of the forecast disbursements for the first year of the disbursement forecast plan pursuant to Article 4(2). This request for pre-financing shall be supported by the bank mandates for all the bank accounts of the Programme, if applicable.

(3) The IPA III beneficiary shall submit subsequent pre-financing payment requests when the total bank balance for the Programme falls below the disbursements forecast for the following five months of the Programme.

(4) Each request for additional pre-financing shall include:

a) The bank balances for the Programme at the cut-off date of the request;

b) The updated bank mandates for all the bank accounts of the Programme, if applicable;

c) A forecast of disbursement for the Programme for the following fourteen months at the cut-off date of the request as referred to in Article 4(2);

d) Reporting in IPA-APP.

(5) The IPA III beneficiary may request for each subsequent pre-financing the amount of total disbursements forecast for the fourteen months following the cut-off date of the request, less the balances referred to in paragraph 4(a) at the cut-off date of the request for funds, increased by any amount funded by the IPA III beneficiary under paragraph 6 and not yet reimbursed.

The Commission reserves the right to reduce each subsequent pre-financing payment if the total bank balances held by the IPA III beneficiary under this Programme exceeds the disbursement forecast for the next fourteen months.

(6) Where the payment is reduced under paragraph 5, the IPA III beneficiary must fund the Programme from its own resources up to the amount of the reduction. The IPA III beneficiary may then request the reimbursement of that funding as part of the next request for funds as specified in paragraph 5.

(7) Pursuant to Article 33(1) of FFPA, the Commission reserves the right to process partial payments within the limits of the funds available. Once funds are made available again, the Commission shall process immediately the payment of the remaining amount.

(8) The Commission shall have the right to recover excessive bank balances which have remained unused for more than twelve months. Before exercising this right, the Commission shall invite the IPA III beneficiary to give reasons for the delay in disbursing the funds and to demonstrate a continuing need for them within the next following two months.

(9) Interest generated by the bank accounts used for this Programme shall not be due to the Commission.

(10)Following Article 33(4) of the FFPA, when the time limit for payment request is interrupted by the Commission for more than two months, the IPA III beneficiary may request a decision by the Commission on whether the interruption is to be continued.

(11)The certified final statement of expenditure referred to in Article 36(1)(a) of the FFPA shall be submitted by the NAO no later than 16 months after the end of operational implementation period.

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Article 6 - Interruption of payments

(1) Without prejudice to the suspension or termination of this Financing Agreement according to Articles 18 and 19 respectively, as well as without prejudice to Articles 38 and 39 of the FFPA, the Commission may interrupt payments partially or fully, if:

(a) the Commission has established, or has serious concerns that the IPA III beneficiary has committed substantial errors, irregularities or fraud questioning the legality or regularity of the underlying particular transactions in the implementation of the Programme, or has failed to comply with its obligations under this Financing Agreement, including obligations regarding the implementation of the Visibility and Communication plan;

(b) the Commission has established, or has serious concerns, that the IPA III beneficiary has committed systemic or recurrent errors, irregularities, fraud or breach of obligations under this or other Financing Agreements, provided that those errors, irregularities, fraud or breach of obligations have a material impact on the implementation of this Financing Agreement or call into question the reliability of the IPA III beneficiary's internal control system or the legality and regularity of the underlying expenditure.

Article 7 - Recovery of funds

(1) In addition to cases referred to in Article 40 of the FFPA, the Commission may recover the funds from the IPA III beneficiary as provided in the Financial Regulation, in particular in case of:

(a) failure to ensure achievement of outcomes and use of outputs for the intended purpose as set out in Annex I

(b) non eligible expenditure;

(c) non respect of the co-financing rate, as provided in Annex I;

(d) expenditure incurred as a result of errors, irregularities, fraud or breach of obligations in the implementation of the Programme, in particular in the procurement and grant award procedures.

(e) weakness or deficiency in the management and control systems of the IPA III beneficiary which leads to application of financial correction.

(2) In accordance with national law, the NAO shall recover the Union contribution paid to the IPA III beneficiary from recipients who were in any situation defined in paragraph 1 points (b) or (d) of this Article or referred to in Article 40 of the FFPA. The fact that the NAO does not succeed in recovering all or part of the funds shall not prevent the Commission from recovering the funds from the IPA III beneficiary.

(3) Amounts unduly paid or recovered by the IPA III beneficiary, amounts from financial, performance and pre-financing guarantees lodged on the basis of procurement and grant award procedures, amounts from financial penalties imposed by the IPA III beneficiary on candidates, tenderers, applicants, contractors or grant beneficiaries, to the IPA III beneficiary shall be either re-used for the Programme or returned to the Commission.

Article 7a – Financial corrections and closure

Further to Articles 42, 43 and 47 of the FFPA, supplementary guidance on the examination and acceptance of accounts procedure, including financial corrections, and closure shall be provided by the Commission.

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Part Two: Provisions applicable to budget support

Article 8 - Policy dialogue

The IPA III beneficiary and the Commission commit to engage in a regular constructive dialogue at the appropriate level on the implementation of this Financing Agreement.

Article 9 - Verification of conditions and disbursement

(1) The Commission shall verify the conditions for the payment of the tranches of the budget support component, as identified in the relevant Appendix to Annex I.

(2) Where the Commission concludes that the conditions for payment are not fulfilled, it shall inform the IPA III beneficiary thereof without undue delay.

(3) Disbursement requests submitted by the IPA III beneficiary shall be eligible for EU financing provided that they are in accordance with the provisions set out in Annex I and the relevant Appendix and that they are submitted during the operational implementation phase.

(4) The IPA III beneficiary shall apply its national foreign exchange regulations in a non-discriminatory manner to all disbursements of the budget support component.

Article 10 - Transparency of budget support

The IPA III beneficiary hereby agrees to the publication by the Commission, of this Financing Agreement and any amendment thereof, including by electronic means, and of such basic information on the budget support which the Commission deems appropriate. The content of such publication shall be in accordance with the EU laws applicable to the protection of personal data.

Article 11 - Recovery of budget support

All or part of the budget support disbursements may be recovered by the Commission, with due respect to the principle of proportionality, if the Commission establishes that payment has been vitiated by a serious irregularity attributable to the IPA III beneficiary, in particular if the IPA III beneficiary provided unreliable or incorrect information, or if corruption or fraud was involved.

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Part Three: Provisions applicable to this Financing Agreement as a whole, irrespective of the implementation method

Article 12 - Execution period, operational implementation period and contracting deadline

(1) The execution period of the Financing Agreement is the period during which the Financing Agreement is implemented and includes the operational implementation period as well as a closure phase. The duration of the execution period is stipulated in Article 2(1) of the Special Conditions, and it shall start on the conclusion of this Financing Agreement and it shall end on the final date for implementing the Financing Agreement.

(2) The operational implementation period is the period in which all operational activities covered by procurement contracts, grant contracts and contribution agreements are completed. The duration of this period is stipulated in Article 2(2) of the Special Conditions, and it shall start on the conclusion of this Financing Agreement.

(3) The operational implementation period shall be respected by the Contracting Authority when concluding and implementing procurement contracts, grant contracts and contribution agreements within this Financing Agreement.

(4) Without prejudice to Article 29(2) of the FFPA, costs related to the activities shall be eligible for EU financing only if they have been incurred during the operational implementation period. The costs incurred before the entry into force of this Financing Agreement shall not be eligible for EU financing unless provided otherwise in Article 7 of the Special Conditions.

(5) Pursuant to Article 29(3)(b) of the FFPA, and without prejudice to Article 28 thereof and Article 7 of the Special Conditions, the following expenditure incurred by the IPA III beneficiary shall not be eligible for funding under this financing agreement:

a) bank charges, costs of guarantees and similar charges;
b) fines and financial penalties;
c) expenses of litigation;
d) currency exchange losses;
e) debts and debt service charges (interest);
f) provisions for losses, debts or potential future liabilities;
g) credits to third parties, unless otherwise specified in the special conditions;
h) negative interest charged by banks or other financial institutions.

(6) The procurement contracts, grant contracts and contribution agreements shall be concluded at the latest within three years of the conclusion of the Financing Agreement, except for:

(a) amendments to legal commitments already concluded, which do not result in an increase of the EU contribution;
(b) legal commitments to be concluded after early termination of an existing procurement contract;
(c) legal commitments relating to audit and evaluation, which can be signed after the operational implementation period;
(d) change of the implementing entity.

(7) A procurement contract, grant contract or contribution agreement which has not given rise to any payment within two years of its signature shall be automatically terminated and its funding shall be

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de-committed, except in case of litigation before judicial courts or arbitral bodies.

Article 13 - Permits and authorisation

Without prejudice to Article 27 of the FFPA, any type of permit and/or authorisation required for the implementation of the Programme shall be provided in due time by the competent authorities of the IPA III beneficiary, in accordance with national law.

Article 14 - Reporting requirements

(1) For the purpose of the general reporting requirements to the Commission set out in Article 59 of the FFPA on the annual report on the implementation of IPA III assistance, the NIPAC shall use the template provided by the Commission.

(2) For the purpose of Article 60 of the FFPA, the NIPAC shall submit a final report to the Commission on the implementation of the activities implemented under indirect management by the IPA III beneficiary of this Programme at the latest sixteen months after the end of operational implementation period. The NIPAC shall use the template provided by the Commission.

(3) For the purpose of Article 61(1) of the FFPA the NAO shall provide by 15 January of the following financial year in electronic format a copy of the data held in the accounting system established under Article 4(4). This should be supported by a signed un-audited summary financial report in accordance with point (c) of Annex III.

(4) For the purpose of the specific reporting requirements under indirect management set out in Article 61(2)(a) and 61(3) of the FFPA, the NAO in the IPA III beneficiary shall use the templates provided for in points (a) and (b) of Annex III.

Article 15 - Intellectual property rights

(1) Contracts financed under this Financing Agreement shall ensure that the IPA III beneficiary acquires all necessary intellectual property rights with regard to information technology, studies, drawings, plans, publicity and any other material made for planning, implementation, monitoring and evaluation purposes.

(2) The IPA III beneficiary shall guarantee that the Commission, or any body or person authorised by the Commission, shall have access and the right to use such a material. The Commission will only use such material for its own purposes.

Article 16 - Consultation between the IPA III beneficiary and the Commission

(1) The IPA III beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this Financing Agreement further pursuant to Article 20.

(2) Where the Commission becomes aware of problems in carrying out procedures relating to the implementation of this Financing Agreement, it shall establish all necessary contacts with the IPA III beneficiary to remedy the situation and take any steps that are necessary.

(3) The consultation may lead to an amendment, suspension or termination of this Financing Agreement.

(4) The Commission shall regularly inform the IPA III beneficiary of the implementation of activities described in Annex I, which do not fall under Part One of these General Conditions.

Article 17 - Amendment of this Financing Agreement

(1) Any amendment of this Financing Agreement shall be made in writing, including by an exchange of letters.

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(2) If the IPA III beneficiary requests an amendment, the request shall be submitted to the Commission at least three months before the amendment is intended to enter into force except in duly justified cases.

(3) The Commission can amend the documents in Annexes III and IV without this necessitating an amendment to this Financing Agreement. The IPA III beneficiaries shall be informed in writing about any such amendment and its entry into force.

Article 18 - Suspension of this Financing Agreement

(1) The Financing Agreement may be suspended in the following cases:

(a) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary breaches an obligation under this Financing Agreement;

(b) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary breaches any obligation set under the procedures and standard documents referred to in Article 18(2) of the FFPA;

(c) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary does not meet requirements for entrusting budget implementation tasks;

(d) The Commission may suspend the implementation of this Financing Agreement if the IPA III beneficiary decides to suspend or cease the EU membership accession process;

(e) The Commission may suspend this Financing Agreement if the IPA III beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption or if the IPA III beneficiary is guilty of grave professional misconduct proven by any justified means. Grave professional misconduct is to be understood as any of the following:

- a violation of applicable laws or regulations or ethical standards of the profession to which a person or entity belongs, or
- any wrongful conduct of a person or entity which has an impact on its professional credibility where such conduct denotes wrongful intent or gross negligence.

(f) This Financing Agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the parties' control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by a case of force majeure of which the other party is duly informed. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage. If force majeure impacts only part of the Programme, the suspension of the Financing Agreement can be partial. Neither of the Parties shall be held liable for breach of its obligations under this Financing Agreement if it is prevented from fulfilling them by force majeure, provided it takes measures to minimise any possible damage.

(2) The Commission may suspend this Financing Agreement without prior notice.

(3) The Commission may take any appropriate precautionary measure before suspension takes place.

(4) When the suspension is notified, the consequences for the on-going or to be signed procurement contracts, grant contracts, and contribution agreements shall be indicated.

(5) A suspension of this Financing Agreement is without prejudice to the interruption of payments and termination of this Financing Agreement by the Commission in accordance with Article 6 and Article

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(6) The parties shall resume the implementation of the Financing Agreement once the conditions allow, with the prior written approval of the Commission. This is without prejudice to any amendments of this Financing Agreement which may be necessary to adapt the Programme to the new implementing conditions, including, if possible, the extension of the operational implementation and execution periods, or the termination of this Financing Agreement in accordance with Article 19.

Article 19 - Termination of this Financing Agreement

(1) If the issues which led to the suspension of this Financing Agreement have not been resolved within a maximum period of 180 days, either party may terminate the Financing Agreement at 30 days' notice.

(2) When the termination is notified, the consequences for the on-going procurement and grant contracts, contribution agreements and such contracts or grants, and contribution agreements to be signed shall be indicated.

(3) The termination of this Financing Agreement shall not preclude the possibility of the Commission to make financial corrections in accordance with Articles 43 and 44 of the FFPA.

Article 20 – Applicable law, settlement of disputes

(1) This Agreement is governed by EU law.

(2) If a dispute concerning the interpretation, application or validity of the Agreement cannot be settled amicably, it shall be settled by arbitration in accordance with the 2012 PCA Arbitration Rules, subject to the following:

(a) Panel composition

For claims of EUR 500 000 or above: the panel shall be composed of three arbitrators. Each party shall appoint one arbitrator within 40 calendar days after the notice of arbitration has been sent. The two arbitrators appointed by the parties shall in turn appoint a third arbitrator to act as presiding arbitrator.

For claims below EUR 500 000: the panel shall be composed of one arbitrator, unless the parties agree otherwise.

If the panel is not composed within 80 calendar days after the notice of arbitration is sent, either party may request the PCA Secretariat or other mutually acceptable other neutral authority to appoint the necessary arbitrator(s).

(b) Seat

The seat of the arbitration panel shall be The Hague, Netherlands.

(c) Language

The language of the proceedings shall be English or another mutually acceptable official language of the European Union. Evidence may be produced in other languages, if agreed by the parties.

(d) Procedure

Recourse to interim measures, third party interventions and amicus curiae interventions is excluded.

If the panel is requested by a party to treat information or material confidentially, the decision shall be made in form of a reasoned order and after hearing the other party (10 calendar days to submit observations). The panel shall weigh the reasons for the request, the nature of the information and the right to effective judicial protection. The panel may in particular:

- make disclosure subject to specific undertakings or

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- decide against disclosure, but order the production of a non-confidential version or summary of the information or material, containing sufficient information to enable the other party to express its views in a meaningful way.

If the panel is requested to hear the case in camera, the decision shall be made after hearing the other party (10 calendar days to submit observations). The panel shall take into account the reasons for the request and the objections of the other party (if any).

If the panel is requested to interpret or apply European Union law, it shall stay the proceedings and request the 'President of the High Court of Paris' (Président du Tribunal de grande instance de Paris, 'juge d'appui'), in accordance with Articles 1460 and 1505 of the French Civil Procedural Code to request a preliminary ruling from the Court of Justice of the European Union in accordance with Article 267 TFEU. The proceedings before the arbitral tribunal shall resume once the decision by the juge d'appui is taken. The decision of the Court of Justice and of the juge d'appui shall be binding on the panel.

The arbitral award shall be final and binding on the parties and be carried out by them without delay.

Either party may however request that the award is reviewed by the The Hague Court of Appeal (Gerechtshof Den Haag) on the basis of the applicable national law. In this case, the award shall not be considered final until the end of this procedure. The decision by the reviewing court shall be binding on the panel.

(e) Costs

The costs of arbitration shall consist of:

- the fees and reasonable expenses of the arbitrators
- reasonable costs of experts and witnesses as approved by the panel and
- the fees and expenses of the PCA Secretariat for the arbitration proceedings (e.g. catering, providing for clerks, room, interpretation).

The arbitrators' fees shall not exceed:

- EUR 30 000 per arbitrator if the contested amount is below EUR 1 000 000
- 15% of the contested amount if that amount is above EUR 1 000 000. In any case the arbitrators' fees shall not exceed EUR 300 000.

The costs of arbitration shall be borne by the parties in equal share, unless otherwise agreed.

The parties shall bear their own costs of legal representation and other costs incurred by them in relation to the arbitration.

(f) Privileges and immunities

The agreement to pursue arbitration under the 2012 PCA Arbitration Rules does not constitute and cannot be interpreted as a waiver of privileges or immunities of any of the parties, to which they are entitled.

Article 21 – EU restrictive measures

(1) Definitions

(a) "EU Restrictive Measures" means restrictive measures adopted pursuant to the Treaty on European Union (TEU) or to the Treaty on the Functioning of the European Union (TFEU).

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(b) "Restricted Person" means any entities, individuals or groups of individuals designated by the EU as subject to the EU Restrictive Measures[5].

(2) In all their relations, the Parties recognise that under EU law no EU funds or economic resources are to be made available directly or indirectly to, or for the benefit of, Restricted Persons.

(3) The IPA III Beneficiary shall ensure that no transaction subject to a verified hit against the EU sanctions list shall benefit directly or indirectly from EU funding. The IPA III Beneficiary commits to ensure this obligation:

(a) by screening for hits against the EU sanctions list, before entering into, and before making payments under, the relevant agreements, each Contractor, Grant Beneficiary, and Final Recipient with whom the IPA III Beneficiary has or is expected to have a direct contractual relationship (direct recipient), so as to assess whether such recipient is a Restricted Person.

(b) by screening or through other appropriate means (that may include an ex-post verification) on a risk based approach basis, that no entity that would indirectly receive EU funding is a Restricted Person.

(4) In the event that IPA III Beneficiary assesses that any of the recipients (direct or indirect) of the EU funding is a Restricted Person, IPA III Beneficiary shall promptly inform the Commission.

(5) Without prejudice to the obligation in point 3 above, should the Commission assess that the use of Union financial assistance under IPA III results or has resulted in a breach of EU restrictive measures, the corresponding amounts shall not be eligible for the Union financial assistance under IPA III. This is without prejudice to any rights that the Commission may have to suspend or terminate the action affected by such breach, to recover any EU funding contributed by the Commission, or to suspend or terminate this financing agreement.

(6) The determination of remedial measures will be made in accordance with the principle of proportionality. Remedial measures shall apply only to the EU funding made available to, or for the benefit of, a recipient for the period during which it remained a Restricted Person.

(7) This clause is without prejudice to the exceptions contained in the EU Restrictive Measures.

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[5] www.sanctionsmap.eu. The sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal of the European Union (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

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