

FINANCING AGREEMENT SPECIAL CONDITIONS

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

on the one part, and

Bosnia and Herzegovina represented by the Directorate for European Integration of the Council of Ministers of Bosnia and Herzegovina and the Government of Montenegro represented by the Ministry of Foreign Affairs and European Integration, hereinafter jointly referred to as "the IPA II beneficiaries", or separately referred to as "**the IPA II beneficiary**" or "the party",

on the other part,

and together, jointly referred to as "the parties"

HAVE AGREED AS FOLLOWS:

Article 1 - The Action Programme

- (1) The Union agrees to finance and the IPA II beneficiaries agree to accept the financing of the 2015 allocation of the following Action Programme as described in Annex I:

Cross-border cooperation action programme Bosnia and Herzegovina - Montenegro for the years 2015 - 2017

Global commitment number (CRIS): 2015/038-211

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

- (2) The total estimated cost of the 2015 allocation of this Action Programme is EUR 1 411 765 and the maximum Union contribution to this Action Programme is set at EUR 1 200 000.

No financial contribution is required from the IPA II beneficiaries.

Article 2 – Execution period and operational implementation period

- (1) The execution period of this Financing Agreement as defined in Article 1(1) of Annex II is fixed at 12 years, from the entry into force of this Financing Agreement.

¹Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II), OJ L 77, 15.03.2014, p. 11.

- (2) The operational implementation period of this Financing Agreement as defined in Article 1(2) of Annex II is fixed at 6 years, from the entry into force of this Financing Agreement.

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**

Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR)
Directorate D
Rue de la Loi 15
B-1049 Brussels
Belgium
Phone: +32 (0)229-57198
Functional e-mail address: NEAR-D4@ec.europa.eu

b) **for the IPA II beneficiaries**

For Bosnia and Herzegovina:
Directorate for European Integration of the Council of Ministers of Bosnia and Herzegovina
Trg Bosne i Hercegovine 3/XVIII
71000 Sarajevo, Bosna i Hercegovina
E-mail: kabinet.dei@dei.gov.ba

For Montenegro:
Ambassador Aleksandar Andrija Pejović
State Secretary for European Integration and National IPA Coordinator
Ministry of Foreign Affairs and European Integration
Stanka Dragojevića 2, 81000, Podgorica, Montenegro
Fax: +382 20 225 591
E-mail: aleksandar.pejovic@mfa.gov.me

Article 4 – OLAF contact point

The contact point of the IPA II 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: the Ministry of Finance and Treasury of Bosnia and Herzegovina E-mail: cfcu@mft.gov.ba and Ms Anja Pavličić, AFCOS contact point/AFCOS office from the Ministry of Finance of Montenegro (Tel: + 382 20 224 480).

Article 5 – Framework Agreements

The Action Programme shall be implemented in accordance with the provisions of the Framework Agreement between the European Commission and Bosnia and Herzegovina on the arrangements for implementation of Union financial assistance to Bosnia and Herzegovina under the Instrument for Pre-

Accession Assistance (IPA II), which entered into force on 24 August 2015, and in accordance with the provisions of the Framework Agreement 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 II), which entered into force on 04 June 2015, respectively (hereafter referred to as “the Framework Agreement(s)”).

This Financing Agreement supplements the provisions of the abovementioned Framework Agreements. In case of conflict between, on the one hand, the provisions of this Financing Agreement and, on the other hand, the provisions of the respective Framework Agreement, the latter shall take precedence.

Article 6 - Annexes

(1) This Financing Agreement is composed of:

- a) these Special Conditions;
- b) Annex I: CBC Action Programme Bosnia and Herzegovina – Montenegro (C(2015) 5241/22.07.2015);
- c) Annex IA: IPA II CBC 2014-2020 programme between Bosnia and Herzegovina and Montenegro;
- d) Annex II: General Conditions;
- e) Annex III: Model Annual Report CBC on the implementation of IPA II assistance in accordance with Article 80 of the Framework Agreement;
- f) Annex IIIA: Model annual report on the implementation of IPA II assistance in accordance with Article 58 of the Framework Agreement.

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

Article 7 – Entry into force

This Financing Agreement shall enter into force on the date on which it is signed by the last party, at the latest by 31 December 2016.

This agreement is drawn up in triplicate in the English language, one being handed to the Commission and one to each of the IPA II beneficiaries.

For the IPA II beneficiaries:



For Bosnia and Herzegovina:
Mr Edin Dilberović
Director
Directorate for European Integration
of the Council of Ministers of
Bosnia and Herzegovina



For the Commission:



Ms Catherine Wendt
Acting Director
European Commission
DG NEAR / D
Rue de la Loi 15
B-1049 Brussels, Belgium

Sarajevo, on

7.7.2016

For Montenegro:

Ambassador Aleksandar Andrija Pejović
National IPA Coordinator (NIPAC)
Ministry of Foreign Affairs and European
Integration

Podgorica, on

15.09.2016



Brussels, on 26.4.2016



ANNEX I

Cross-border Cooperation Action Programme Bosnia and Herzegovina – Montenegro for the years 2015-2017

1 IDENTIFICATION

Beneficiaries	<i>Bosnia and Herzegovina, Montenegro</i>
CRIS/ABAC Commitment references	2015/038-211 EUR 1,200,000 22.020401
Union Contribution	2016/038-213 EUR 1,200,000 22.020401
Budget line	2017/038-214 EUR 840,000 22.020401
Management mode	Direct management by the European Commission
Responsible Structures	Bosnia and Herzegovina: Directorate for European Integration Montenegro: Ministry of Foreign Affairs and European Integration
Final date for concluding <u>Financing Agreement(s) with the IPA II beneficiary countries (tripartite)</u>	For the budgetary commitment of year 2015 at the latest by 31 December 2016 For the budgetary commitment of year 2016 at the latest by 31 December 2017 For the budgetary commitment of year 2017 at the latest by 31 December 2018
Final date for concluding <u>procurement and grant contracts</u>	3 years following the date of conclusion of the Financing Agreement (signature of the last party) with the exception of the cases listed under Article 189(2) Financial Regulation
Final date for operational implementation	6 years following the date of conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed) after the acceptance of the accounts	12 years following the conclusion of the Financing Agreement
Programming Unit	DG NEAR, Unit Bosnia and Herzegovina (D4)
Implementing Unit/ EU Delegation	EU Delegation to Bosnia and Herzegovina

2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 OVERVIEW OF THE 2014-2020 CROSS-BORDER COOPERATION PROGRAMME AND THE 2015-2017 CBC ACTION PROGRAMME

The 2014-2020 CBC programme Bosnia and Herzegovina - Montenegro was approved by Commission Implementing Decision C(2014)9351 of 10 December 2014. The adopted 2014-2020 programme constitutes the CBC cooperation strategy for the border region, setting out among others the list of geographical eligible areas, the area context, the programme thematic priorities and the indicative budget allocations for the 7 years period.

The 2014-2020 CBC programme also serves as a reference for the adoption of the CBC action programmes. The 2015-2017 CBC action programme aims at providing assistance for cross-border cooperation in the thematic areas spelled out in the 2014-2020 programme (as indicated in section 2.2).

- List of geographical eligible areas

The following 56 municipalities in Bosnia and Herzegovina and 14 municipalities in Montenegro are eligible under this programme:

Bosnia and Herzegovina: Jablanica, Konjic, Trnovo, Trnovo RS, Pale, Pale Prača, Novo Goražde, Goražde, Čajniče, Foča Ustikolina, Kalinovik, Rudo, Višegrad, Rogatica, Foča, Gacko, Nevesinje, Mostar, Hadžici, Ist. Ilidža, Ilidža, Široki Brijeg, Ljubuški, Čapljina, Čitluk, Stolac, Berkovići, Bileća, Ljubinje, Neum, Ravno, Istočni Mostar, Trebinje, Prozor/Rama, Kupres, Kupres (RS), Tomislavgrad, Posušje, Grude, Livno, Sokolac, Istočno Novo Sarajevo, Sarajevo Novi Grad, Vogošća, Sarajevo Stari Grad, Sarajevo Istočni Stari Grad, Ilijaš, Vareš, Breza, Visoko, Kiseljak, Fojnica, Kreševo, Centar Sarajevo, Novo Sarajevo, Olovo.

Montenegro: Pljevlja, Plužine, Žabljak, Šavnik, Nikšić, Herceg Novi, Kotor, Tivat, Bijelo Polje, Mojkovac, Kolašin, Berane, Petnjica, Danilovgrad.

- Cross-border cooperation (CBC) eligible area context

The situation analysis of this area conducted for the preparation of this programme pointed out the following key challenges and opportunities to be addressed and supported through cross-border cooperation:

Lack of employment opportunities:

Lack of employment opportunities is one of the major threats in the programme area. It does affect the standard of living of the majority of the population and is a crucial cause of migration flows. Short-term improvement of this situation is unlikely and negative impacts might even worsen especially for vulnerable groups and rural population.

Rich natural resources threatened by pollution and natural disasters

While rich in natural resources, the programme area is also considered vulnerable and exposed to several risks ranging from pollution to natural disasters. Due to the region's high vulnerability to climate change, risk of flooding and forest fires have increased in the last decade. The climate change will also put an additional stress on hydropower production, and adaptation measures will have to take this into consideration. The programme territory's

potential for renewable energy sources, especially in sustainable biomass, has not been tapped in.

Tourism can contribute to economic development

Adequate use and promotion of natural resources and cultural heritage can contribute to opening the area to sustainable tourism as a way for economic growth.

- Overview of past and on-going CBC experience including lessons learned

Key recommendations from interim evaluations and audits on the 2007-2013 CBC programmes have been taken on board in the development of this programme. Thus, the 2014-2020 CBC programmes are more focused as regards the number of thematic priorities addressed, which will help to achieve better results and increased impact. Additionally the implementation of the CBC programmes has been simplified mainly by having a single contracting authority and a single financial envelope per programme. Close cooperation between the two countries during every step of the implementation of the programme has been essential and will need to be ensured also for this CBC programme with one single contracting authority. Furthermore, experience has shown that potential applicants need support to identify possible project partners on the other side of the border and in the development of high-quality proposals. This support will be continued to be provided.

Moreover the Programme should build on the precise features and actions defined by both countries, Bosnia and Herzegovina and Montenegro, in the framework of the EU Adriatic and Ionian macro-regional Strategy (COM(2014) 357 on the EU Strategy for the Adriatic and Ionian Region), as well as, the EU Danube macro-regional Strategy (COM(2010) 715 on the EU Strategy for the Danube Region)

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

Action 1	Cross-Border Cooperation Operations	EUR 3,240,000
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(1) Description of the action, objective, expected results

Description of the action: Cross- Border cooperation operations in the border region in the fields of employment, labour mobility and social and cultural inclusion; environment, climate change adaptation and mitigation, risk prevention and management; tourism and cultural and natural heritage.

Objective: Socioeconomic development and strengthening of the neighbourly relations in the cross border area through the implementation of cross-border cooperation operations aiming at

(a) promoting employment, labour mobility and social and cultural inclusion across borders through, inter alia: integrating cross-border labour markets, including cross-border mobility; joint local employment initiatives; information and advisory services and joint training; gender equality; equal opportunities; integration of immigrants' communities and vulnerable groups; investment in public employment services; and supporting investment in public health and social services;

- (b) protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management through, inter alia: joint actions for environmental protection; promoting sustainable use of natural resources, resource efficiency, renewable energy sources and the shift towards a safe and sustainable low-carbon economy; promoting investment to address specific risks, ensuring disaster resilience and developing disaster management systems and emergency preparedness;
- (c) encouraging tourism and cultural and natural heritage;

Where applicable, the actions related to the aforementioned objectives as developed in the Action Plan of the Adriatic and Ionian macro-regional strategy and the EU Strategy for the Danube Region where both countries participate shall be taken into account.

Expected results:

Related to objective a):

- Advisory support to and skills of the employment seeking population in the cross border area are advanced.
- Opportunities for creation of new jobs for vulnerable groups and their employability are increased.

Related to objective b):

- The capacity to enforce environmental and energy efficiency standards at local level for water supply, solid waste and wastewater management is strengthened.
- Public awareness of the merits of complying with EU water supply, solid waste and wastewater management, and environment protection practices is increased.
- The capacity of environmental emergency prevention and mitigation services to deal with natural disasters is strengthened.

Related to objective c):

- The number of tourists in rural and natural protected areas is increased.
- The image and tourist attractiveness of the cross-border region as a multi-ethnic and culturally diverse European destination is improved.

The 2015-2017 CBC Action Programme will contribute to the achievement of the overall objectives and expected results as defined in the 2014-2020 CBC programme. For further details see section 3.2 of the 2014-2020 CBC programme (Annex 2 of the Commission Implementing Decision C(2014)9351 of 10 December 2014).

(2) Assumptions and conditions

As a necessary condition for the effective management of the programme, the participating countries shall establish a Joint Monitoring Committee and provide proper and functioning offices and staff for the Joint Technical Secretariat (to be set up under a separate Financing Decision) and the antenna, in case the latter will be set up.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Essential elements of the action

Grant – Call for proposal: EUR 3,240,000

a) The essential eligibility criteria:

The eligible activities are set out in section 3.2 of the Annex 2 of Commission implementing Decision C(2014)9351 of 10.12.2014. They comprise among others:

- training and capacity building,
- exchange of experiences and best practices among stakeholders,
- information exchange,
- organisation of promotional events and communication and publicity campaigns,
- organisation of joint events, symposiums and workshops,
- procurement of equipment,
- small infrastructure works,
- restoration and preservation of historical and cultural sites.

In the context of the implementation of the programme preference may be given to the actions related to the macro-regional strategies where both countries participate.

The beneficiaries shall be legal entities and be established in an IPA II beneficiary participating in the CBC programme.

Potential beneficiaries could be: local authorities, legal entities managed by local authorities, associations of municipalities, development agencies, local business support organisations, economic factors such as SMEs, tourism and cultural organisations, NGOs, public and private bodies supporting the workforce, vocational and technical training institutions, bodies and organisation for nature protection, public bodies responsible for water management, fire/emergency services, schools, colleges, universities and research centers including vocations and technical training institutions.

- b) The essential selection criteria are financial and operational capacity of the applicant.
- c) The essential award criteria are relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.
- d) Maximum rate of EU co-financing for grants under the calls is 85% of the eligible cost of the action.

Indicative amount of the call(s): EUR 3,240,000

The responsible structures may decide to publish more than one call for proposals. Every call for proposals will have the same objectives, results, and essential eligibility, selection and award criteria as described above. Each grant contract will be funded from one budgetary commitment.

- e) Indicative date for launch of the call(s) for proposals: Q2 of 2016 for the budgetary commitment of years 2015-2016 and Q2 of 2018 for the budgetary commitment of year 2017.

3. BUDGET

2015				2016				2017				
	Union contribution*	Grant beneficiary/ies Co-financing**	Total expenditure		Union contribution	Grant beneficiary/ies Co-financing	Total expenditure		Union contribution	Grant beneficiary Co-financing	Total expenditure	Total Financing Decision
CBC operations	1,200,00	211,765	1,411,765	CBC operations	1,200,000	211,765	1,411,765	CBC operations	840,000	148,235	988,235	3,240,000
in %	85	15	100		85	15	100		85	15	100	
TOTALS 2015	1,200,000	211,765	1,411,765	TOTALS 2016	1,200,000	211,765	1,411,765	TOTALS 2017	840,000	148,235	988,235	3,240,000

*The Union co-financing has been calculated in relation to the eligible expenditure, which is based on the total eligible expenditure including public and private expenditure. The Union co-financing rate at the level of each thematic priority shall not be less than 20% and not higher than 85% of the eligible expenditure.

**The co-financing of the thematic priorities will be provided by the grant beneficiaries. Grant beneficiaries should contribute with a minimum of 15% of the total eligible cost of the project

4 IMPLEMENTATION

4.1 IMPLEMENTATION MODALITIES AND GENERAL RULES FOR PROCUREMENT AND GRANT AWARD PROCEDURES

DIRECT MANAGEMENT:

This programme shall be implemented by direct management by the Commission / by the Union Delegations in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part Two Title II Chapter 4 of its Rules of Application.

Under the Financial Regulation Parts One and Three of the Financial Regulation apply to external actions except as otherwise provided in Part Two, Title IV.

The Commission may also use services and supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

5 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

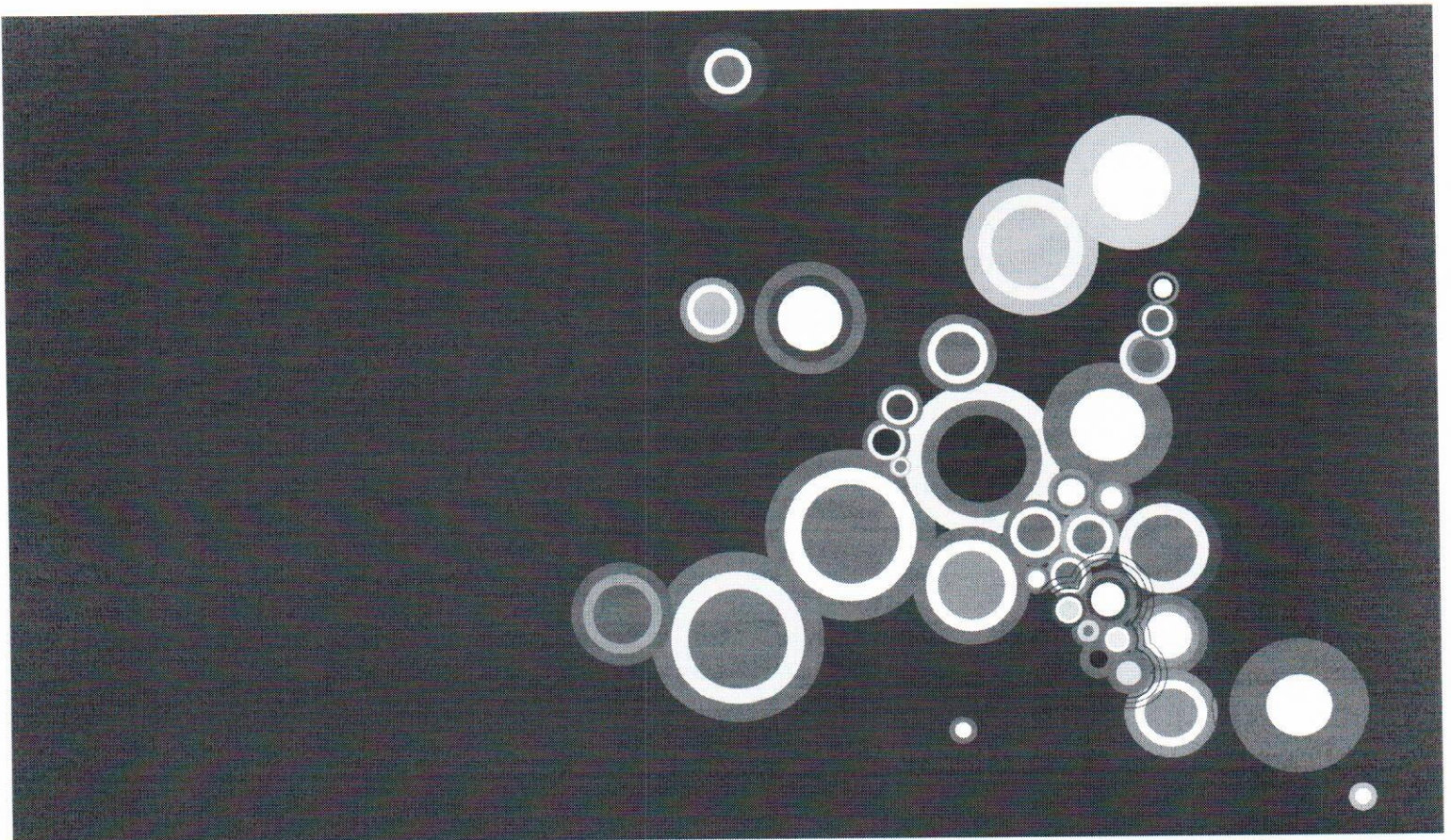
The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

The National IPA Co-ordinators (NIPACs) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by DG Neighbourhood and Enlargement Negotiations (NEAR) and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by the Joint Monitoring Committee, which will ensure a monitoring process at programme level.



**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE
2014-2020**

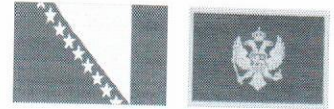


**IPA CBC PROGRAMME
BOSNIA AND HERZEGOVINA – MONTENEGRO**

ADOPTED ON 10/12/2014

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List of acronyms

BiH	Bosnia and Herzegovina
CA	Contracting Authority
CBC	Cross-border Cooperation
CBIB+	Regional EU project for the technical assistance Cross-border Institution Building project (CBIB+)
CEFTA	Central European Free Trade Agreement
CfP	Call for Proposals
CSO	Civil Society Organization
DEI	Directorate for European Integration
DEU	Delegation of the European Union
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
IPA	Instrument for Pre-Accession Assistance
JMC	Joint Monitoring Committee
JTF	Joint Task Force
JTS	Joint Technical Secretariat
MFAEI	Ministry of Foreign Affairs and European Integration
MNE	Montenegro
NGO	Non Governmental Organization
OS	Operating Structure
SME	Small and Medium Enterprise
SO	Specific Objective
SWOT	Strength, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TP	Thematic Priority

Programme synopsis

Programme title	CBC Programme "Bosnia and Herzegovina – Montenegro"
Programme area	<p>Bosnia and Herzegovina: Jablanica, Konjic, Trnovo, Trnovo RS, Pale, Pale Prača, Novo Goražde, Goražde, Čajniče, Foča Ustikolina, Kalinovik, Rudo, Višegrad, Rogatica, Foča, Gacko, Nevesinje, Mostar, Hadžici, Ist. Ilidža, Ilidža, Široki Brijeg, Ljubuški, Čapljina, Čitluk, Stolac, Berkovići, Bileća, Ljubinje, Neum, Ravno, Istočni Mostar, Trebinje, Prozor/Rama, Kupres, Kupres (RS), Tomislavgrad, Posušje, Grude, Livno, Sokolac, Istočno Novo Sarajevo, Sarajevo Novi Grad, Vogošća, Sarajevo Stari Grad, Sarajevo Istočni Stari Grad, Ilijaš, Vareš, Breza, Visoko, Kiseljak, Fojnica, Kreševo, Centar Sarajevo, Novo Sarajevo, Olovo</p> <p>Montenegro: Pljevlja, Plužine, Žabljak, Šavnik, Nikšić, Herceg Novi, Kotor, Tivat, Bijelo Polje, Mojkovac, Kolašin, Berane, Petnjica, Danilovgrad</p>
Programme general objective	The sustainable development in the cross-border area between Bosnia and Herzegovina and Montenegro is promoted by the implementation of common actions based on an efficient use of the comparative advantages of the programme area
Programme thematic priorities	<p>TP1: Promoting employment, labour mobility and social and cultural inclusion across the border</p> <p>TP2: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management</p> <p>TP3: Encouraging tourism and cultural and natural heritage;</p> <p>P4: Technical Assistance</p>
Programme specific objectives	<p>TP 1: Promoting employment, labour mobility and social and cultural inclusion across the border</p> <p>SO1: The access to the labour market and the environment for new employment generation are enhanced</p> <p>SO2: Employment opportunities and social inclusion of vulnerable groups are enhanced</p> <p>TP2: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management</p> <p>SO1: Cross border coordination and joint actions improve the management and energy efficiency of local water supply, wastewater and solid waste systems, and the protection of environment</p> <p>SO2: Climate change adaptation and mitigation measures and risk prevention and management measures are improved</p> <p>TP3: Encouraging tourism and cultural and natural heritage</p> <p>SO1: The quality and diversification of the tourism offer building on natural and cultural heritage is improved</p> <p>Technical Assistance</p> <p>SO: The effective, efficient, transparent and timely implementation of the programme and awareness raising</p>
Financial allocation 2014-2020	EUR 8 400 000.00
Implementation method	Direct management
Contracting Authority	Delegation of the European Union to Bosnia and Herzegovina Address: Skenderija 3a, 71000 Sarajevo, phone: 00 387 33 254 700

<p>Relevant authorities in the participating IPA II beneficiaries (Operating Structures)</p>	<p>Bosnia and Herzegovina: Directorate for European Integration of Bosnia and Herzegovina - Sector for Coordination of EU Assistance Programmes Address: Trg BiH 1, 71000 Sarajevo; phone: 00 387 33 708 154</p> <p>Montenegro: Ministry of Foreign Affairs and European Integration Government of Montenegro, Directorate for Cross-border cooperation programmes. Address: Stanka Dragojevića 2; 81000 Podgorica; phone: 00 382 20 244 824</p>
<p>JTS/Antenna</p>	<p>JTS Office: Sarajevo, Bosnia and Herzegovina JTS Antenna: Nikšić, Montenegro</p>

SECTION 1: SUMMARY OF PROGRAMME

The programme for cross-border cooperation between Bosnia and Herzegovina (BiH) and Montenegro (MNE) will be implemented under the framework of the Instrument for Pre-accession Assistance (IPA II). IPA II supports cross-border cooperation with a view to promoting good neighborly relations, fostering union integration and promoting socio-economic development. The legal provisions for its implementation are stipulated in the following pieces of legislation:

- Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II)
- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action
- Commission Implementing Regulation EU no 447/2014 of 2 May 2014 on the specific rules for implementing the IPA II regulation

1.1 SUMMARY OF THE PROGRAMME

The Programme IPA II CBC Bosnia and Herzegovina - Montenegro 2014 – 2020 is a territorial cooperation programme developed and implemented in the framework of the Enlargement Policy of the European Union. It stems from and continues a previous exercise carried out in the financial perspective 2007 – 2013.

The programme area covers 30,367.33 km². The programme area in Bosnia and Herzegovina consists of 56 municipalities while the programme area in Montenegro consists of 14 municipalities.

The overall programme objective is: **The sustainable development in the cross-border area between Bosnia and Herzegovina and Montenegro is promoted by the implementation of common actions based on an efficient use of the comparative advantages of the programme area**

This objective has been translated into the following thematic priorities:

- TP1: Promoting employment, labour mobility and social and cultural inclusion across the border
- TP2: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management
- TP3: Encouraging tourism and cultural and natural heritage
- Technical Assistance

The programme will thus contribute to achieving the goal of the South-East European 2020 (SEE 2020) and Europe 2020 strategy for “smart”, “sustainable”, “inclusive” and “integrated” growth and to the achievement of economic, social and territorial cohesion.

The total IPA funding for Bosnia and Herzegovina - Montenegro Programme 2014-2020 is EUR 8 400 000.00, at least EUR 7 560 000.00 of which will be allocated to CBC operations.

1.2 PREPARATION OF THE PROGRAMME AND INVOLVEMENT OF THE PARTNERS

The preparation of the Programme was carried out with a strong involvement of stakeholders of the area. Already in the phase of preparation of the situation analysis more than 800 representatives of national, regional and local authorities, civil society organisations (CSOs), universities, schools and other bodies were consulted by means of a written questionnaire which aimed at collecting their perception of the needs of the area as well as the potentials for development. The information collected by the questionnaire was complemented with specific ad hoc interviews.

A Joint Task Force composed by members of both sides of the border was established and convened several times. Its first meeting was organized in Trebinje on 18 October 2013 when the first outcomes of the S.W.O.T. analysis were presented and discussed. Additional comments were subsequently collected by a written procedure that was finalized on 5 November 2013. The complete Situation Analysis and programme strategy was then discussed at two consultative workshops held on

18 November 2013 in Mostar and Nikšić and in the framework of the 2nd JTF meeting that same day in Trebinje.

On 15 November 2013, first draft of the CBC Programme was submitted to the European Commission for consultation. Following the remarks of the Commission, a revised second version was re-submitted to the on 07 February 2014 and presented at the 3rd meeting of the JTF on 21 February 2014 for further improvement along the lines of the Commission's comments. The present draft represents an updated version in line with next round of Commission's comments received in April/May 2014. For the full chronological illustration of the events during the programming exercise please refer to the table below:

SECTION 2: PROGRAMME AREA

2.1 SITUATION ANALYSIS

Date	Place	Type of Event	Topic
20-21 June-13	Budva (MNE)	Regional programming meeting	Intra Western Balkan programming meeting for the 2014-20
9-July-13	Podgorica (MNE)	Meeting with OS	Programming Steps and requirements for the PESTLE and SWOT analysis
Aug-Sept 13	BiH and MNE	OSs and JTs/A	Distribution of the questionnaires for the collection of data
25-Sept-13	Podgorica (MNE)	Training	Strategy development and formulation targeting the OS, EUD, JTF and JTS/A
26-Sept-13	Podgorica (MNE)	Meeting with the OS	Kick off meeting with the OS and side meeting on the BiH-MNE programming border Preparation activities for the establishment of the JTF
18-Oct-13	Trebinje (BIH)	JTF meeting	1st JTF meeting: Establishment of TF, activities so far (CBIB+), findings, time plan, discussion on priorities
15-Nov-13			Submission of the 1 st draft version to the EC
18-Nov-13	Mostar (BiH)	Public consultation	Consultative workshop on the programme document
18-Nov-13	Nikšić (MNE)	Public consultation	Consultative workshop on the programme document
18-Nov-13	Trebinje (BIH)	JTF Meeting	2nd JTF meeting to approve draft programme document
21-22 Nov 13	Belgrade (RS)	CBC Regional Forum	The implementation of the programming exercise in all the borders
Dec 13 to Jan 14			Submission by the EC of the comments on the 1 st draft
Jan-Feb 14	Podgorica (MNE)		Consolidation of the EC comments, revision of the programming document
7-Feb-14			Submission of the 2 nd draft version to the EC
21-Feb-14	Podgorica (MNE)	JTF Meeting	3rd JTF meeting to discuss revision of the programme document after EC comments
Mar-14	Podgorica (MNE)		Adaptation of the comments to the programming document
21-Mar-14	Sarajevo (BiH)	Meeting with OS	Discussion on the progress of the programming document, next steps following the reception of the EC comments
30-Mar-14	Sarajevo (BiH)		Submission by the EC of the comments on the 2 nd draft
27-Mar to 4 April-14	Programming area	JTF consultation	Discussion of a tentative list of indicators by written procedure
05-May-14	Podgorica (MNE)		Submission by the EC of the comments on the 2 nd draft
29-May-14	Sarajevo (BiH)		Submission of the final draft to the EC



Map illustrating the eligible area

The programme area in Bosnia and Herzegovina covers 20,909.33 km² and encompasses 56 municipalities. This represents 38.51% of the territory of the country¹.

In Montenegro, the programme area covers 9,458 km² in 14 municipalities of which 3 are coastal and 11 belong to the North-west of the country, altogether they make up 67.2 % of the territory.

Montenegro (Municipalities)			Bosnia and Herzegovina (Municipalities)		
Programme area		km ²	Programme area		km ²
1. Pljevlja		1,346	1. Jablanica		301
2. Plužine		854	2. Konjic		1,101
3. Žabljak		445	3. Trnovo		338.4
4. Šavnik		553	4. Trnovo RS		138
5. Nikšić		2,065	5. Pale		492
6. Herceg Novi		235	6. Pale Prača		103
7. Kotor		335	7. Novo Gorazde		123
8. Tivat		46	8. Gorazde		248.8
9. Bijelo Polje		924	9. Čajniče		275
10. Mojkovac		367	10. Foča Ustikolina		188
11. Kolašin		717	11. Kalinovik		678.92
12. Berane		897	12. Rudo		344
13. Petnjica		173	13. Višegrad		448
14. Danilovgrad		501	14. Rogatica		640
			15. Foča		1,115
			16. Gacko		736
			17. Nevesinje		920

¹ Wherever the source of statistical data is not specified in the text, it is extracted from reports of official statistical institutions in BiH (Agency for statistics of BiH – BHAS, Federal office for statistics – FOS and Republican institute of statistics of Republika Srpska – RZSR) and the Montenegrin statistical office Monstat



			18. Mostar	1,175
			19. Hadžici	273
			20. Ist. Ilidža	28
			21. Ilidža	162
			22. Široki Brijeg	388
			23. Ljubuški	297.7
			24. Čapljina	356
			25. Čitluk	181
			26. Stolac	331
			27. Berkovići	256
			28. Bileća	633
			29. Ljubinje	326
			30. Neum	225
			31. Ravno	225
			32. Istočni Mostar	82
			33. Trebinje	904
			34. Prozor/Rama	477
			35. Kupres	569.80
			36. Kupres (RS)	45
			37. Tomislavgrad	967.40
			38. Posušje	461.10
			39. Grude	220.80
			40. Livno	994
			41. Sokolac	729
			42. Istočno Novo Sarajevo	45
			43. Sarajevo-N.G.	
			44. Vogošća	47.98
			45. Sarajevo -S.G.	72
			46. Sarajevo-I.S.G	55
			47. Ilijaš	105
			48. Vareš	320
			49. Breza	390
			50. Visoko	73
			51. Kiseljak	232
			52. Fojnica	164
			53. Kreševo	308
			54. Centar	148
			55. Novo Sarajevo	33
			56. Olovo	11.43
				40
Total		9,458	Total	20,909.33

History and Demography

Throughout history, the territories and people of the programme area periodically belonged to the same states, but were often separated by borders and wars. Therefore, the links between communities in the bordering area are strong and interdependent.

Both countries share strong commitment towards EU integration. Montenegro was granted the EU candidate status on 17 December 2010. BiH and the EC signed the Stabilization and Association Agreement on 16 June 2008. By signing the agreement the EU recognized the efforts of BiH in the path of EU integration. The SAA with BiH has been ratified by all EU Member States, but has not yet come into effect. Both countries have already put significant efforts into the adopting of a compatible legislation with the *acquis communautaire*.

As of June 2012, the European Union has opened accession negotiations with Montenegro. In turn, the EU relations with Bosnia and Herzegovina are still governed by the Interim Agreement (IA) of 2008.

The population of Montenegro has remained practically unchanged in terms of total numbers, from 615,035 in 1991 to 620,029 in 2011, as per the census of the same year². The population of the area

² Montenegro 2011 census figure

participating in the cross-border programme in Montenegro is 300,176. Bosnia and Herzegovina has conducted the first population census after 1991 in October 2013. The results of this census will be included in this programme once they are available.

Geographical Description

The programme area is located in the south-eastern part of Bosnia and Herzegovina and the north-western part of Montenegro. The terrain is mostly mountainous including some of the most rugged in Europe. The rivers in the area flow into either the Adriatic Sea or the Black Sea basin. In the mountains, the rivers flow along deep canyons such as the Tara River Canyon which is the deepest canyon in Montenegro and in Europe, at 78 km in length and 1,300 meters at its deepest point. There are around forty natural and seven artificial lakes. The region is rich with water and forests that cover 32 % of the territory.

The climate of the area varies, but in general, the northern part is characterized by a continental climate, with cold winters and hot, relatively humid summers with well distributed rainfall patterns and heavy inland snowfall, while the southern part enjoys a more Adriatic climate with hot, dry summers and autumns and mild winters.

Differences in elevation and proximity to the Adriatic Sea, as well as the exposure to winds, account for variations in climate.

The programme area in Bosnia and Herzegovina includes 20 km of coast which is the only access of Bosnia and Herzegovina to the Adriatic Sea and is characterized by well preserved beaches and the Neum tourist centre.

In Montenegro, 163.78 km of coast, out of a total of 288.21 km, are included in the programme area with a unique landscape characterized by beautiful bays and relevant tourist centres.

Infrastructure

On the whole, the infrastructure in the area is obsolete, having suffered greatly from lack of investments that were mostly confined to the more developed areas of the country.

Investments over the past years in the road sector of both states have improved the overall condition of roads in the area, but many of them are still in need of rehabilitation and modernization that require significant budgetary outlays.

The main road transport routes going through the programme area are the following:

1. Sarajevo - Foča – Nikšić - Podgorica
2. Mostar - Trebinje - Nikšić – Podgorica
3. Sarajevo – Trebinje - Herceg Novi

Railways make up a less significant part of the overall transport infrastructure of the area in which there are no rail border-crossings between the two countries.

Ports, airfields and dams are in a somewhat better condition. There are three international airports in the programme region – Tivat, Mostar and Sarajevo. One small airport is located in Nikšić. The Port of Kotor services large cruisers and other commercial boats, while the marina in Tivat has positioned itself as a major Adriatic gateway for yachts.

The telecommunication network in the area is composed of several systems offering both fixed and mobile telephony.

Water supply, wastewater, waste disposal

Environmental infrastructure is among the biggest weaknesses of the area, but its improvement is high on the list of development priorities in both Bosnia and Herzegovina and Montenegro.

The population living around the municipality centres and larger settlements is covered by the water supply network. However, the water supply capacity and hygiene quality is a main concern of many

rural areas. The alternative systems used in these areas, such as local springs, wells and cisterns, do not guarantee the adequate quality of water.

In the programme area, sewage networks are only available in the centres of larger municipalities. In many municipalities, the sewage system is not capable of processing the volume of wastewater generated, which overflows as untreated sewage. In parts of the area direct discharging of untreated sewage into streams, tanks, and septic dumps occurs. Only a few larger municipalities possess efficient wastewater processing facilities.

The treatment of solid waste is handled in a similar, unsatisfactory manner in the whole programme area. The system of solid waste management is based on collection, transportation and disposal of solid waste by public utility companies at municipal level. Dump sites are poorly maintained, with minimal sanitary and hygienic conditions. Effective separation of solid waste is minimal.

Electricity

Electricity supply and transmission systems are well developed on both sides of the border where they represent the largest and strongest enterprises. The rivers of the programme area carry 50% of the hydro-potential in both countries.

There is a potential for energy production by renewable energy sources, such as hydro, biomass and geothermal energy but the area also offers significant and still unexploited opportunities for use of solar and wind power energy.

Economy and SME sector

Bosnia and Herzegovina and Montenegro are members of the Central European Free Trade Agreement (CEFTA). CEFTA complements the EU Stabilization and Association Agreement for the countries of the Western Balkans, providing a good framework for economic development and regional co-operation.

Municipalities within the programme area still experience the consequences of the war in the nineties and of the more recent global economic crisis. The overall level of economic development of the area is lower than the respective national averages, but the precise GDP figure cannot be deduced from the available statistical data. The GDP per capita in Bosnia and Herzegovina in 2012 was EUR 3 419.00, while in Montenegro it amounted to EUR 5 063.00.

Montenegro had 23,741 companies in 2012, of which 8,713 were based in the programme area. Bosnia and Herzegovina, in turn, had 59,719 registered companies in 2012, of which 30,768 were based in the programme area. More than 90% of them are small and medium sized companies, but the precise percentages could not be deduced from the statistical reports.

Tourism

Tourism is in expansion in the region, particularly in Montenegro where it has become the country's key industry. In 2012, a total of 1,439,500 tourist arrivals were registered, of which 90% were foreign tourists. Of these, approximately 8% were tourists from Bosnia and Herzegovina.

The programme area in Montenegro accounts for 27.86% of all tourist arrivals in 2012, of which 22.9%, have been visits to the three coastal municipalities (Herceg Novi, Kotor and Tivat) and the remaining 4.96% visits to the 11 northern municipalities.

Bosnia and Herzegovina registered 745,537 tourist arrivals in 2012, of which some 58% were foreign tourists. The key tourist destinations are in the programme area's large cities of Sarajevo and Mostar and the coastal city of Neum. They attracted approximately 46% of all tourists visiting the country in 2012, or approximately 69% of tourists visiting the programme area that accounts for two thirds (66.7%) of all tourist arrivals in the country.

Education, Research, and Development

The education system in the programme area is well developed at all levels (from primary to tertiary). Less than 2% of the inhabitants are illiterate. Secondary schools are located in every city of this area.

There is a positive trend in the increase of the number of both public and private higher education institutions, as well as greater diversity of curricula they offer.

Links between educational institutions and the business sector, however, are still weak and result in low innovation, research and development activity.

Labour Market (employment and unemployment)

A comparison of labour market surveys, conducted by the state statistical offices³ in accordance with International Labour Organisation recommendations, indicates that the phenomena of low employment and high unemployment rates in Bosnia and Herzegovina and in Montenegro have either remained stagnant or have slightly deteriorated in the period 2007 – 2012.

In both states, the slow process of employment generation has also been accompanied by unfavourable migration trends.

Environment, Nature and Climate Change

The eligible area in Bosnia and Herzegovina and Montenegro is fairly homogeneous from a natural, geographic and environmental point of view and characterized by well-preserved natural environment and precious landscape resources with relatively low pollution levels. On the other hand, it also has some "pollution hot spots", which create serious problems.

There are three National Parks (Durmitor, Biogradska Gora and Sutjeska) and five protected areas in this territory. The natural resources are mostly preserved but some locations are exposed to heavier pollution. The biggest polluters in this region have been the coal power plant in Pljevlja and the foundry in Nikšić. The coal mine in Pljevlja and the red bauxite mine in Nikšić cause waste and groundwater problems.

The biggest air polluter in this region is the coal power plant in Pljevlja, air pollution levels are high and are not even being monitored. There is a need for development of strategies/projects to reduce local, regional and trans-boundary air pollution, to establish a framework for efficient, clean, sustainable and renewable production and consumption of energy, and to execute environmental impact assessments and strategic environmental assessments, bearing in mind the guidelines of Kyoto Protocol.

Both sides of the border face similar challenges to ensure a balanced path towards socio-economic development, while preserving the outstanding natural heritage and meeting the EU environmental and climate change requirements.

Due to the region's high vulnerability to climate change, risk of flooding and forest fires have increased in the last decade. The climate change will also put an additional stress on hydropower production, and adaptation measures will have to take this into consideration. The programme territory's potential for renewable energy sources, especially in sustainable biomass, has not been tapped in.

Culture

The protection of cultural heritage has been given a solid legal basis and is ensured by specialized institutions in both countries.

In Montenegro, the institution in charge of culture is the Ministry of Culture. Also there are two specialized institutions responsible for cultural heritage, formally organized under the Ministry of Culture. The Administration for Protection of Cultural Heritage is in charge of legal matters and protection of cultural heritage, while the other public institution Center for preservation and archeology is the leading institution in the field of archeology and preservation of cultural heritage in Montenegro.

³ Statistical institutions in BiH (Agency for statistics of BiH – BHAS, Federal office for statistics – FOS and Republican institute of statistics of Republika Srpska – RZSRS) http://www.bhas.ba/?option=com_content&view=article&id=113=ba and the Montenegrin statistical office Monstat <http://www.monstat.org/cg/page.php?id=22&pageid=22>



Unlike Montenegro, in Bosnia and Herzegovina institutions in charge of culture and cultural heritage are highly decentralized, i.e. the responsibility of culture is within the two entities' institutions: Ministry of Education and Culture of the Republic of Srpska, with its Republic Institute for the Protection of Cultural, Historical and Natural Heritage and Federal Ministry for Culture and Sport, with its Institute for the Protection of Cultural and Historical Heritage while the Ministry of Civil Affairs of Bosnia and Herzegovina is in charge of establishing basic principles of coordination and harmonization of entity plans as well as defining strategies at international level.

In both countries, municipalities in coordination with the relevant ministries and culture protection institutes have the primary responsibility to look after, maintain, use, and protect monuments from the damaging impact of nature and human activities, to make them publicly available, and support the costs of regular maintenance.

Cooperation among relevant institutions in the area of culture has been strengthened in recent years.

2.2 MAIN FINDINGS

The area is dominated by mountains and scarcely inhabited rural areas with aging population. The overall level of economic development of the programme area is lower than the respective national averages. The economy is characterized by the predominance of agriculture, primary production and low value added activities. Montenegro has created a solid basis for development of the tourism sector in the coastal municipalities. Bosnia and Herzegovina, in turn, has a relatively strong tourist infrastructure in its major cities, and in some protected mountain areas.

A major challenge of the whole area is the lack of employment opportunities, particularly in its rural parts, which has prompted many young people to move to major cities or to seek those opportunities abroad.

The mountains and forests remain an important environmental asset of the area, but are increasingly threatened by the over-stretched waste disposal services, whose modernization lags behind the pace of urbanization and industrial activity.

Transport infrastructure is in need of rehabilitation and upgrading. As the risks of the climate change are increasing, climate-resilience measures will have to be provided for in any of the rehabilitation and upgrading projects.

There are three international airports in the area: Tivat, Mostar and Sarajevo.

All educational levels are well represented in the area.

Cultural differences and language barriers are minimal due to the long history of good cooperation and mutual relations. Besides attractive coast and cities, the programme area of both countries offers unique landscape resources, mountains, forests, lakes, clean rivers, mineral and thermal springs, natural parks and protected areas and rich biodiversity.

These are all endogenous assets and potentials that can be further utilized to strengthen economic growth as well as social cohesion. Along with common heritage and the absence of language barriers, they provide a good basis for future economic and social co-operation between the communities of the region. Nonetheless, they should be approached and used in a sustainable way in order to avoid overexploitation and the consequent environmental trauma.

Elements of the S.W.O.T. Analysis in the eligible area	
Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Existence of complementarities of economies as well as similarities in the trade market ▪ Existence of employment policies and plans in support of private sector development ▪ Active employment policies implemented on the base of IPA cross-border cooperation in the previous period 	<ul style="list-style-type: none"> ▪ Negative population growth leading to unfavourable demographic trends ▪ Low living standards and aging of the rural population ▪ Limited market information flows ▪ Low income and standard of living among the majority of the population ▪ Low mobility of the labour force. ▪ Lack of joint cross-border facilities for

<ul style="list-style-type: none"> ▪ Strengthened legal and institutional framework for environment protection ▪ Sustainable development approach increasingly taken into consideration by some local plans ▪ Relatively large areas under nature protection ▪ Unique landscape resources (mountainous area with forests and water resources, lakes, clean rivers, mineral and thermal springs); ▪ Temperate continental climate with different influences and fertile soils; ▪ Diverse and well preserved nature with natural parks and protected areas; ▪ Rich biodiversity, including valuable medicinal plants and herbs; ▪ Rich cultural heritage (history, architecture, tradition and folklore); ▪ Well-developed energy production and supply network; ▪ Easily accessible coastal region with good quality beaches ▪ Cultural similarities, absence of language barriers and good neighbouring relations 	<p>monitoring the environment and prevention of natural disasters</p> <ul style="list-style-type: none"> ▪ Inadequate infrastructure and public utility management, especially in smaller settlements (water, sewage, solid waste) ▪ Lack of solid waste dumps and re-cycling plants ▪ Poor enforcement of the principle "Polluter pays" ▪ Slow implementation of energy efficiency and renewable energy strategies and action plans ▪ Increased risk to energy production, agriculture, transport and tourism due to climate change ▪ Low integration of cultural heritage with the development of the tourism offer and inefficient utilization of culture and leisure facilities ▪ Weak local institutional structures lacking capacity for stimulating tourism development ▪ Under-developed hospitality infrastructure and lack of differentiated and innovative tourism products and services ▪ Static and ineffective national tourism marketing promotion ▪ Lack of coordination and information centres apart from big urban centres ▪ Seasonally conditioned development of tourism ▪ Some areas remain closed due to presence of land mines ▪ Cultural heritage sites in poor condition
<p><u>Opportunities</u></p>	<p><u>Threats</u></p>
<ul style="list-style-type: none"> ▪ Enhanced tendency towards / potential for major cross-border cooperation activities; ▪ Greater awareness of and sensitivity for social inclusion of marginalized groups ▪ Policy orientation towards implementation of active labour measures in support of employment generation in less developed areas of the region (the special orientation should be directed toward youth educated for craft activities in undeveloped areas) ▪ Development of joint programmes for upgrading knowledge, skills and competences of the employed and unemployed ▪ Joint development of the support environment for promotion of entrepreneurial culture and employment especially for youth ▪ Unexploited opportunities for use of solar and wind power energy ▪ Potential for use of sustainable environmentally friendly and energy efficient services and technologies ▪ Raising awareness of the merits of environment protection and sustainable 	<ul style="list-style-type: none"> ▪ Increasing of depopulation trends ▪ Ageing of the population ▪ Total depopulation of some rural settlements ▪ Increased social exclusion for some groups (persons with disabilities, minorities, women and youth) ▪ Unemployment caused by collapse or restructuring of larger industries ▪ Insufficient investment into human capital and workforce mobility ▪ Poor wastewater, sewage and solid waste disposal facilities could endanger public health, and contribute to slowing economic development ▪ Infrastructure investments potentially adversely affecting the environment ▪ Unsustainable economic development and uncontrolled pollution may deteriorate air, water and soil quality ▪ Non-systematic exploitation of forests ▪ Business barriers, lack of knowledge, experience and skills in destination management and marketing ▪ Lack of sufficient resources for current maintenance and preservation of the natural, cultural and historical heritage

<p>development and increased public participation in the related decision making process</p> <ul style="list-style-type: none"> ▪ Promotion and establishment of the principle of socially responsible business conduct ▪ Partnership of public, private and civil sector in implementing environmental protection initiatives and promoting sustainable development programmes and projects ▪ Establishment of joint emergency centres ▪ Promotion of renewable resources production including demonstration projects ▪ Cultural/historic tourism and education activities promoting the region as a multi-ethnic and attractive European location; ▪ Expansion of alternative forms of rural tourism and organic farming with accommodation possibilities; ▪ Expansion of and international recognition of natural parks and protected areas; ▪ Improving the existing tourist offer by activating cultural/natural/historical resources and potentials ▪ Increasing the visibility of the cross-border tourism by linking individual offers around main tourist and cultural potentials ▪ Improving bilateral cooperation in marketing of the regional tourist destination ▪ Visible private initiative in the tourist sector responding to the increasing demand for wellness, health and eco-tourism; ▪ Development of specialized tourist programmes focused on new “active” type of holidays; ▪ Joint development of tourist products and their joint marketing; 	<ul style="list-style-type: none"> ▪ Overexposure / overexploitation of specific sites / resources ▪ Climate change might influence tourism, energy production, transport and agriculture
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SECTION 3: PROGRAMME STRATEGY

3.1 RATIONALE - JUSTIFICATION FOR THE SELECTED INTERVENTION STRATEGY

- ✓ The current IPA II CBC Programme is the continuation of a well-established cooperation framework.
- ✓ The IPA CBC Programme Bosnia and Herzegovina – Montenegro 2007 – 2013 has been implemented so far by two Calls for Proposals. The interest expressed toward the programme by the applicants shows a positive trend therefore a potential strengthening of the absorption capacity of the area.

- ✓ When it comes to themes tackled, an analysis carried out by the JTS on the applications received shows how the thematic interest is distributed in relation to the new thematic priorities⁴:

Priority	TP1	TP2	TP3	TP4	TP5	TP6	TP7	TP8	Total
ST 1 CfP	4	11	0	11	9	3	0	0	38
nd 2 CfP	8	14	0	22	17	1	5	0	67
Total	12	25	0	33	26	4	5	0	105

- ✓ A SWOT analysis was prepared between June and December 2013 to analyse the needs of the area. It was structured per thematic priority, aligned with the EU2020 Strategy and SEE2020 and its full outcomes are annexed to this programme document.
- ✓ Given the above, the global Programme objective shall be identified as suitable to tackle the challenges and respond to the needs of the area, taking into consideration the legal framework offered by the IPA II instrument and EU strategies as well as the experiences of the past, as depicted in the scheme below.
- ✓ The overall Programme objective is the promotion of **sustainable development in the cross-border area between Bosnia and Herzegovina and Montenegro by the implementation of common actions based on an efficient use of the comparative advantages of the programme area.**
- ✓ The overall objective shall be attained by actions framed under the following Thematic Priorities whose selection is justified in the table below:

Selected thematic priorities	Justification for selection
TP1: Promoting employment, labour mobility, social and cultural inclusion across the border	The general context, due to the financial crisis, calls for appropriate responses in employment policies. There is an ongoing cooperation process that needs to be continued and strengthened. Interest from potential beneficiaries has proved to be high. Past experiences demonstrated the added value of a CBC approach in this domain as well as a need for special attention to vulnerable groups, including young and women
TP2: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management	Local plans more and more are taking into consideration sustainable development and rising awareness on the importance of protecting nature and combating climate change which appears to be effective if promoted at cross border level. Risk management also calls for joint CBC actions as natural disasters do not stop at the border
TP3: Encouraging tourism and cultural and natural heritage	Tourism is the biggest potential for growth in the area thanks to the natural and cultural assets available. However, it should be managed in a sustainable way. Interest of potential beneficiaries on both sides of the border support the selection of this TP

⁴ The 8 Thematic Priorities proposed for IPA CBC Programmes are the following: TP1 Promoting employment, labour mobility, social and cultural inclusion across the border; TP2 Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management; TP3 Promoting sustainable transport and improving public infrastructures; TP4 Encouraging tourism and cultural and natural heritage; TP5 Investing in youth, education and skills; TP6 Promoting local and regional governance, planning and administrative capacity building; TP7 Enhancing competitiveness, business and SME development, trade and investment; TP8 Strengthening research, technological development, innovation and ICT



3.2 DESCRIPTION OF PROGRAMME PRIORITIES

3.2.1 Thematic Priorities

Thematic Priority 1: Promoting employment, labour mobility, social and cultural inclusion across the border

Lack of employment opportunities is one of the major threats in the programme area. It does affect the standard of living of the majority of the population and is a crucial cause of migration flows. Short term improvements are not likely and negative impacts might even worsen especially for vulnerable groups and rural population.

There is a need for financial resources to support potential for improving employability and access to labour markets.

An increase in use of renewable energy sources, such as solar, wind, geothermal and biomass, could create green jobs, particularly in smaller communities with few employment opportunities.

Specific objective 1.1: The access to the labour market and the environment for new employment generation are enhanced

The specific objective aims at strengthening the mutual accessibility to a labour market that is quite similar on both sides of the border. Recent achievements in the domain of employment policies promotion shall be further enhanced and capitalized hence improving the existing labour support services and tools. Harmonization and regular share of data between the two countries shall be promoted. This specific objective aims also to target challenges related to the sustainability of the businesses operating in sparsely populated, isolated areas.

Expected results 1.1.1: Advisory support to and skills of the employment seeking population in the cross border area are advanced

ID	Result indicator*	Measurement Unit	Baseline Value	Baseline Year	Target Value	Source of data	Frequency of reporting
1.1.1.1	Percentage of unemployed individuals benefiting from programme activities have found employment or have established a business initiative (disaggregated by gender and age)	Number of employed and self-employed people	0	2014	20%	Monitoring/Project Reports Employment office and chambers registers	2018, 2020, 2022

* Most indicators have as a baseline "0". Namely, the limited availability of statistical information and resources does not allow defining the indicators precisely at the baseline level. The approach used within the programme therefore measures the indicators resulting from the programme interventions for all three thematic priorities. As regards the practical application of the indicators, it is suggested that the indicators are presented within each call for proposals (guidelines for applicants) in order to possibly direct potential applicants towards implementation of the programme targets. The responsible authorities and the JMC will regularly review the delivery of indicators. When possible, the results of previous calls will be taken into account in planning of further targeted calls for proposals.

Indicative list of activities supported:

- Identifying labour and skills shortages and establishing efficient labour market information systems;
- Development of vocational training and non-formal and life-long learning programmes;
- Vocational training, non-formal and life-long education activities;
- Internships in existing companies, trades and crafts;
- Mentoring of unemployed persons within vulnerable groups at companies, trades and crafts;
- Introduction of practical curriculum into educational and adult-education institutions;
- Identifying and matching the skills training with real private sector needs;
- Provision of careers advice and guidance services;
- Public private consultations and dialogue aimed at detecting employment opportunities and reducing business barriers;
- Identifying and promoting viable public private partnerships and business linkage schemes with strong potential for generating new employment opportunities;
- Promoting and enhancing business innovation skills for creation of new employment opportunities;
- Organization of joint Job fairs / roundtables/ public education/ promotional events or campaigns;
- Promotion of self-employment activities;
- Small-scale demonstration projects on renewable energy use;
- Small infrastructure works and procurement of equipment.

Target groups: The foreseen target groups are unemployed individuals, would-be entrepreneurs considering establishing their first business in rural areas, experienced entrepreneurs willing to expand their businesses and generate new employment opportunities, and students in high education institutions and vocational schools.

Types of beneficiaries: business development organisations, business associations, employment offices and economic development departments in regional and local governments, high education institutions, vocational education and training institutions, social partners and civil society organisations.

Output indicators:

ID	Output indicator	Measurement Unit	Target Value	Source of data
1.1.1.1.1	Number of new business development and employment generation initiatives launched and supported	Number of initiatives	4	Monitoring/Project Reports
1.1.1.1.2	Number of trainings, internships and mentoring support services delivered	Number of trainings, internships and mentoring services	12	Monitoring/Project Reports
1.1.1.1.3	Number of participants in trainings, internship and mentoring services	Number of participants	300	Monitoring/Project Reports

Specific objective 1.2: Employment opportunities and social inclusion of vulnerable groups are enhanced

Besides improving access to the labour market, a more focused and pro-active support will be provided for improving labour market access and creating new job opportunities for vulnerable groups, including women, minorities, people with disabilities and long-term unemployed persons of over 50 years of age. Among others, this will be achieved through diverse forms of counselling and direct support for creating social enterprises and other employment generating initiatives.

Expected results 1.2.1: Opportunities for creation of new jobs for vulnerable groups and their employability are increased

ID	Result indicator*	Measurement Unit	Base-line Value	Base-line Year	Target Value	Source of data	Frequency of reporting
1.2.1.1	Percentage of unemployed individuals, belonging to vulnerable groups, benefiting from programme activities have found employment or have established a business initiative (disaggregated by specific group, gender and age)	Number of employed and self-employed people amongst vulnerable groups	0	2014	10%	Monitoring /Project Reports Employment office registers	2018, 2020, 2022

Types of beneficiaries: business development organisations, business associations, employment offices, social and economic development departments in regional and local governments, centres for social welfare, high education institutions, vocational education and training institutions, social partners and civil society organisations.

Output indicators:

ID	Output indicator	Measurement Unit	Target Value	Source of data
1.2.1.1.1	Number of new business development and employment generation initiatives supported	Number of initiatives	2	Monitoring/Project Reports
1.2.1.1.2	Number of trainings, internships and mentoring support services delivered	Number of trainings, internships and mentoring services	6	Monitoring/Project Reports
1.2.1.1.3	Number of participants in trainings, internship and mentoring services	Number of participants	100	Monitoring/Project Reports

Thematic Priority 2: Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management

While rich in natural resources, the programme area is also considered vulnerable and exposed to several risks of climate change. The pollution is also reason for serious concern. As these events do not stop at the border, CBC cooperation can make a difference especially in supporting regional and local administrations in improving their environmental, climate change and risk management planning and operational capacities. At the same time, promotional actions targeted to population at both sides of the border could enhance the efforts of the public institutions.

Specific objective 2.1: Cross-border coordination and joint actions improve the management and energy efficiency of local water supply, wastewater and solid waste systems, and the protection of environment

Water and waste management is a key factor in the framework of protection of environment. Although the scope of CBC does not allow major infrastructure interventions, soft joint actions at

regional and local level can pave the way for bigger investments. In particular, the specific objective aims at improving the environmental standards of the area by a two-fold approach toward institutions and the general public.

Expected results:

2.1.1a The capacity to enforce environmental and energy efficiency standards at local level for water supply, solid waste and wastewater management is strengthened and

2.1.1b Public awareness of the merits of complying with EU water supply, solid waste and wastewater management, and environment protection practices is increased

ID	Result indicator	Measurement Unit	Base-line Value	Base -line Year	Target Value	Source of data	Fre-quency of reporting
2.1.1a.1	Percentage of the programme area benefiting from better enforcement of water supply, wastewater, solid waste disposal and environmental protection standards	Quantity of water supplied to citizens across the programme area Quantity of wastewater treated and solid waste disposed across the programme area in accordance with law and good practice Number of violations of environmental and nature/biodiversity protection laws	0	2014	30%	Monitoring/Project reports Reports of municipal authorities Official statistics Media reports	2018, 2020, 2022
2.1.1b.1	Percentage of population covered and sensitized by the awareness raising campaign on the merits of complying with EU water supply, solid and wastewater management, and environment protection	Percentage of population supporting application of stricter standards in the area of wastewater and solid waste management and nature/biodiversity protection	0	2014	50%	Monitoring/Project Reports Reports of municipal authorities Official statistics Media reports	2018, 2020, 2022

Indicative list of activities supported:

- Preparation of pre-feasibility studies for developing new or upgrading the existing water supply, wastewater treatment and solid waste collection systems aimed at improving water supply and energy efficiency and reducing wastewater and solid waste pollution at both local and cross-border level;

- Upgrading of physical facilities and equipment of public utility companies involved in water supply, wastewater treatment and solid waste collection aimed at improving water supply and energy efficiency and reducing water losses and wastewater and solid waste pollution at both local and cross border level;
 - Upgrading of procedures and operations of public utility companies involved in water supply, waste water treatment and solid waste collection
 - Training and capacity building of local and regional administrations' and public services' and staff;
 - Conclusion and implementation of cross-border public private partnerships aimed at promoting and introducing higher environmental protection standards and socially responsible business conduct, including through environmentally friendly pilot projects contributing to the development of the region;
- Public education and information campaigns in cooperation with civil society and media, including but not limited to workshops, public debates, symposia, media campaigns, promotional events and pilot actions in support of applying higher standards in water supply, solid and wastewater management, and nature and biodiversity protection , as well as climate change.

Target groups: The foreseen target groups are all levels of administration in both countries in particular those sectors and departments bearing responsibility for environmental planning, social partners, civil society volunteer organisations/bodies and public utility companies involved in water supply, wastewater and solid waste disposal. Additionally, the general public should be targeted by the awareness campaigns.

Types of beneficiaries: Country authorities/institutions with competencies/responsibilities in the eligible area, local governments and their institutions; development agencies; organisations (including NGOs) for nature protection; public bodies responsible for water supply, wastewater and solid waste management.

Output indicators:

ID	Output indicator	Measurement Unit	Target Value	Source of data
2.1.1a.1.1	Number of prefeasibility, and feasibility studies and technical plans for development of new or upgrading the existing water supply, wastewater/solid waste treatment systems prepared	Developed technical, economic, financial, legal and environmental studies and plans	2	Monitoring/Project reports Reports of municipal authorities
2.1.1a.1.2	Number of facilities, equipment, procedures and operations of public utilities upgraded	Renovated facilities Newly acquired and/or repaired equipment	3	Monitoring/Project Reports Reports of municipal authorities Official statistics Media reports
2.1.1b.1.1	Number of public utilities' staff whose knowledge and skills have been enhanced	Trained staff	50	Monitoring/Project reports Public utility institutions reports
2.1.1b.1.2	Number of public education/information campaigns, public/private partnerships, and pilot demonstration projects promoting higher environmental protection	Conducted awareness raising actions	7	Monitoring/Project Reports Media coverage

ID	Output indicator	Measurement Unit	Target Value	Source of data
	standards organized and implemented			

Specific objective 2.2: Climate change adaptation and mitigation measures and risk prevention and management measures are improved Natural resources are subject to numerous pressures and usage conflicts (between environmental protection and industry, agriculture, urbanization and tourism). Further pressures arise from the increasing risk of natural hazards. Cross-border cooperation will improve the capacity for preventing and mitigating the impacts of natural disasters of the public administrations in the area by mutual learning, developing integrated tools and strategies as well as piloting common solutions.

Expected results 2.2.1: The capacity of emergency services for risk prevention and mitigation and adaptation measures to deal with consequences of climate change disasters is strengthened

ID	Result indicator	Measurement Unit	Baseline Value	Baseline Year	Target Value	Source of data	Frequency of reporting
2.2.1.1	At least two cross-border teams has been established and empowered to deal with emergency situations.	Departments and staff in the programme area benefiting from new knowledge, skills and experience Cooperation protocol signed	0	2014	2	Monitoring/ Project Reports	2018, 2020, 2022

Indicative list of activities supported:

- Training and capacity building of environmental emergency services, including for undertaking joint cross border emergency prevention, rescue and recovery actions;
- Upgrading / equipping and improving operational procedures of environmental emergency services;
- Exchange of experiences and best practices among stakeholders in improving risk prevention and managements and climate change mitigation and adaptation capabilities;
- Joint risk management activities (fire, flooding, pollution, etc.)
- Small infrastructure works, ensuring that climate-resilience measures are in place.

Target groups: The foreseen target groups are staff of all levels of administration in both countries and in particular those sectors and departments bearing responsibility for risk management, and climate change volunteer organisations/bodies, social partners and civil society.

Types of beneficiaries: Authorities/institutions with competencies/responsibilities in the eligible area, local governments and their institutions; development agencies; organisations (including NGOs) for nature protection and climate change; public bodies responsible for fire/flood/emergency services.

Output indicators:

ID	Output indicator	Measurement Unit	Target Value	Source of data
2.2.1.1.1	Number of trainings organized	Staff and departments benefiting from trainings	6	Monitoring/Project Reports
2.2.1.1.2	Number of departments within the public administration equipped for improved cross border management of disasters and dealing with climate change	Departments and staff in the programme area benefiting from new specialised equipment	4	Monitoring/Project Reports

Thematic Priority 3: Encouraging tourism, cultural and natural heritage

Correct use and promotion of landscape, natural resources and cultural heritage can contribute to opening the area to sustainable tourism as a way for economic growth.

Specific objective 3.1: The quality and diversification of the tourism offer building on natural and cultural heritage is improved

The intention is to find ways to develop cultural and natural assets into tourist resources and products in order to improve the attractiveness for visiting and living environment. This specific objective aims to find a balance between preserving and developing the natural and cultural resources, paying special attention to the rural areas still marginalised from the main flows of visitors.

Expected results:

3.1.1a **The number of tourists in rural and natural protected areas are increased and**

3.1.1b **The image and tourist attractiveness of the cross-border region as a multi-ethnic and culturally diverse European destination is improved**

ID	Result indicator	Measurement Unit	Baseline Value	Baseline Year	Target Value	Source of data	Frequency of reporting
3.1.1a.1	Number of and proceeds from visitors/users of joint rural and natural protected areas	Tourist visits/spending	0	2014	300	Monitoring/Project Reports	2018, 2020, 2022
3.1.1a.2	Number of thematic clusters and other long-term cross-border business linkages created	Established and operating clusters and long term business partnerships	0	2014	5	Monitoring/Project Reports	2018, 2020, 2022

ID	Result indicator	Measurement Unit	Baseline Value	Baseline Year	Target Value	Source of data	Frequency of reporting
3.1.1b.1	Number of cultural events organized	Number of cultural events	0	2014	5	Monitoring/Project Reports	2018, 2020, 2022
3.1.1b.2	Percentage of heritage sites which have improved their visibility	Number of heritage sites whose publicity have been upgraded	0	2014	50%	Monitoring/Project Reports Statistical data from Tourism Organisations	2018, 2020, 2022

Indicative list of activities supported:

- Joint development of new tourism products and services using ICT and other available technologies (e.g. GPS routes, booking system, etc.) – information exchange, networking, structuring, positioning and branding;
- Organization of promotional events and communication and publicity campaigns;
- Exchange and transfer of experiences;
- Training and capacity building in marketing skills of tourism operators;
- Development and implementation of targeted training schemes for existing and would-be tourism employees in less developed tourist areas;
- Small scale works in hospitality infrastructure and procurement of equipment;
- Organization of joint events, symposiums, workshops etc.;
- Specific professional interventions aimed at protection and promotion of cultural heritage and traditions;
- Arrangement of light infrastructure to support the development of key products (e.g. visitor centres, sign posting, and recreational facilities for tourism purposes);
- Restoration and preservation of historical and cultural sites, including access to them.

Target groups: Visitors and local people, sector related businesses and organisations, organisations developing attractions and organisations benefitting from developed attractions.

Types of beneficiaries: Main project partners foreseen to undertake projects within this specific objective are organisations responsible for maintenance and development of natural and cultural heritage, tourism development organisations, local and regional governments.

Output indicators:

ID	Output indicator	Measurement Unit	Target Value	Source of data
3.1.1a.1.1	Number of new joint tourist products	Developed joint tourist products	3	Monitoring/Project Reports
3.1.1b.1.1	Number of cultural monuments rehabilitated and made accessible to visitors	Rehabilitation/restoration works carried out on monuments and access roads to them	3	Monitoring/Project Reports

Summary table of result indicators:

Thematic Priority	Specific Objective	Expected results	Result indicator*
1. Promoting employment, labour mobility, social and cultural inclusion across the border	1.1 The access to the labour market and the environment for new employment generation are enhanced	1.1.1 Advisory support to and skills of the employment seeking population in the cross-border area are advanced	1.1.1.1 Percentage of unemployed individuals benefiting from programme activities have found employment or have established a business initiative (disaggregated by gender and age)
	1.2 Employment opportunities and social inclusion of vulnerable groups are enhanced	1.2.1. Opportunities for creation of new jobs for vulnerable groups and their employability are increased	1.2.1.1 Percentage of unemployed individuals, belonging to vulnerable groups, benefiting from programme activities have found employment or have established a business initiative (disaggregated by specific group, gender and age)
2. Protecting the environment, protecting climate change, adaption and mitigation, risk prevention and management	2.1 Cross-border coordination and joint actions improve the management and energy efficiency of local water supply, wastewater and solid waste systems, and the protection of the environment	2.1.1a The capacity to enforce environmental and energy efficiency standards at local level for water supply, solid waste and wastewater management is strengthened	2.1.1a.1 Percentage of the programme area benefiting from better enforcement of water supply, wastewater, solid waste disposal and environmental protection standards
		2.1.1b Public awareness of the merits of complying with EU water supply, solid waste and wastewater management, and the environment protection practices is increased	2.1.1b.1 Percentage of population covered and sensitized by the awareness raising campaign on the merits of complying with EU water supply, solid waste and wastewater management, and the environment protection
	2.2 Risk prevention and management and climate change mitigation and adaptation are improved	2.2.1 The capacity of emergency risk prevention and climate change mitigation and adaptation services is strengthened	2.2.1.1 At least two cross-border teams has been established and empowered to deal with emergency situations
3 Encouraging tourism, cultural and natural heritage	3.1 The quality and diversification of the tourism offer, building on natural and cultural heritage, is improved	3.1.1a The number of tourist in rural and natural protected areas are increased	3.1.1a.1 Number of and proceeds from visitors/users of joint rural and natural protected areas
			3.1.1a.2 Number of thematic clusters and other long-term cross-border business linkages created
		3.1.1b The image and tourist attractiveness of the cross-border region	3.1.1.b.1 Percentage of cultural events and heritage sites which

* Please note that the result indicators are further broken down to the level of output indicators, as described above.

Thematic Priority	Specific Objective	Expected results	Result indicator ^a
		as a multi-ethnic and culturally diverse European destination is improved	have improved their visibility

The promotion of local cross-border **people to people actions** is considered as a horizontal modality that may be applied, where relevant, in pursuing all the selected thematic objectives.

3.2.2 Technical Assistance

Specific objective:

The specific objective of the technical assistance is to ensure the efficient, effective, transparent and timely implementation of the cross-border cooperation programme as well as to raise awareness of the programme amongst national, regional and local communities and, in general, the population in the eligible programme area. It also supports awareness-raising activities at country level in order to inform citizens in both IPA II beneficiaries. Moreover, as experience has shown under the programming cycle 2007-2013, this priority will also reinforce the administrative capacity of the authorities and beneficiaries implementing the programme with a view to improve ownership and suitability of the programme and projects' results.

The technical assistance allocation will be used to support the work of the national Operating Structures (OS) and of the Joint Monitoring Committee (JMC) in ensuring the efficient set-up, implementation, monitoring and evaluation of the programmes as well as an optimal use of resources. This will be achieved through the establishment and operation of a Joint Technical Secretariat (JTS) based on the territory of Bosnia and Herzegovina and possibly an Antenna Office in Montenegro. The JTS will be in charge of the day-to-day management of the programme and will be reporting to the OS and JMC.

Intended results:

1. The administrative support to the Operating Structures (OS) and Joint Monitoring Committee (JMC) of the programme is enhanced

This priority will secure a smooth programme implementation during all its phases. It includes the availability of the financial means and the deployment of qualified staff in charge of assisting the Operating Structures and the Joint Monitoring Committee, as well as establishing and enforcing management, monitoring and control mechanisms and procedures. If required, it will also contribute to the preparation of the successive financial cycle (2021-2027).

Result indicators:

<i>Indicator</i>	<i>Unit</i>	<i>Baseline</i>	<i>Target 2022</i>
Average share of beneficiaries satisfied with the programme implementation support ^{5**}	Percentage	No data	90%

2. The technical and administrative capacity for programme management and implementation is increased

This priority will also provide opportunities for improving the competences and skills of the management structures of the programmes, as well as of the potential applicants and grant beneficiaries. Specific capacity building activities will be planned and executed on the basis of identified needs in the course of the implementation of the programme. As part of the lessons learned from the programme cycle 2007-2013, (i) an increased participation of the JMC members in the tasks stipulated under the IPA II legal framework will be expected; (ii) the capacity of potential applicants to develop sustainable cross-border partnerships will be enhanced; and (iii) the capacity of grant beneficiaries to satisfactorily meet the obligations of their contracts will be reinforced.

⁵ Requires a regular and simple survey using a standard questionnaire with closed types of questions.



Result indicators:

<i>Indicator</i>	<i>Unit</i>	<i>Baseline</i>	<i>Target 2022</i>
Average increase in the number of proposals received within each consecutive call		No data	No data ⁶
Average share of concept notes that would qualify for further assessment	Percentage	NA	65%

3. The visibility of the programme and its outcomes is guaranteed.

The CBC programmes have been very popular in the eligible areas thanks, amongst other things, to the visibility actions undertaken during the 2007-2013 programme cycle. Looking at the number of applicants in subsequent calls, it has been noted that there is an increasing interest for cooperation initiatives. These achievements should be maintained and even improved during the implementation of the financial perspective 2014-2020. A variety of communication channels and publicity tools should be developed to ensure regular information between programme stakeholders and a wider audience.

Result indicators:

<i>Indicator</i>	<i>Unit</i>	<i>Baseline</i>	<i>Target 2022</i>
People participating in promotional events	Number	1,150	1,500
Visits to the programme website	Number	280,000	490,000

Type of activities:

A non-exhaustive list of potential activities covered by the technical assistance allocation would include:

- Establishment and functioning of the Joint Technical Secretariat and its Antenna.
- Organisation of events, meetings, training sessions, study tours or exchange visits to learn from best practice of other territorial development initiatives
- Participation of staff of the management structures in Western Balkans or EU forums
- Preparation of internal and/or external manuals/handbooks
- Assistance to potential applicants in partnership and project development (partners search forums, etc.)
- Advice to grant beneficiaries on project implementation issues
- Monitoring of project and programme implementation, including the establishment of a monitoring system and related reporting
- Organisation of evaluation activities, analyses, surveys and/or background studies
- Information and publicity, including the preparation, adoption and regular revision of a visibility and communication plan, dissemination (info-days, lessons learnt, best case studies, press articles and releases), promotional events and printed items, development of communication tools, maintenance, updating and upgrading of the programme website, etc.
- Support to the work of the Joint Task Force in charge of preparing the programme cycle 2021-2026
- Other

Target groups and final beneficiaries (non-exhaustive list):

- Programme management structures, including the contracting authorities

⁶ Please note that in the financial perspective 2014-2020 possible tailored/strategic Calls for Proposals are envisaged with clear focus and/or certain requirements regarding potential beneficiaries. Also, Calls for Proposals might use the rotating principle for the selection of thematic priorities (TP) and their specific objectives and in that respect the number of proposals might not necessarily be increased. For these reasons, the potential expected increase in the number of applications received could be calculated for each consecutive call individually and will be affected by a factor that could be calculated based on: 1) Total financial envelope available, 2) Thematic priorities, specific objectives and results included in the Call for Proposals, 3) Minimum and maximum amounts of grants allowed, 4) Number of applications and grants allowed per applicant/co-applicant/affiliated entity and 5) Any other special provisions influencing various eligibility criteria applicable for a specific call for proposals.

- Potential applicants
- Grant beneficiaries
- Final project beneficiaries
- General audience

3.3 HORIZONTAL AND CROSS-CUTTING ISSUES

Guaranteeing equal opportunities and preventing any discrimination based on gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation are important principles in all programme stages. They shall apply in the implementation of the programme but also in the selection and implementation of individual projects. Contribution to the horizontal principles is foreseen as an assessment criterion. Projects that would have a negative impact on equal opportunities and anti-discrimination would not be approved.

Sustainable development and climate change will be taken into account as a horizontal principle in all programme implementation. A selection criterion is foreseen for sustainable development. Projects with a direct negative impact on the environment and sustainable development will not be funded.

Projects supporting equal opportunities and anti-discrimination directly are foreseen under Thematic Priority 1 where needs of vulnerable groups have been taken into specific account. Additionally, the Thematic Priority 2 relates directly to environmental protection while Thematic Priority 3 focuses on tourism respectful of natural resources. Thus projects funded under these priorities will have a direct positive impact on sustainable development. Finally, Thematic Priority 3 strives to improve understanding of different cultures for promoting tourism.

In addition to the general principle of anti-discrimination the programme will pay attention to the equality between men and women. This is a concern for all Thematic Priorities. Equality between men and women will be considered in programme implementation when recruiting staff and in all personnel policy.

The contribution to the horizontal principles is foreseen as an assessment criterion. Projects that would have a negative impact on equality between men and women will not be approved.

Projects prepared under the Area Based Development (ABD) approach to facilitate sustainable growth in defined geographical areas in cross-border regions in the Western Balkans, in particular rural areas characterized by specific complex development problems, may be considered for funding under this cross-border cooperation programme. Account will be taken of the preparatory work for the ABD approach already carried out in the cross-border region covering Bosnia and Herzegovina and Montenegro.

SECTION 4: FINANCIAL PLAN

Table 1 shows the indicative annual amount of Union contribution to the cross-border cooperation programme for the period 2014-2020. Table 2 provides an indicative distribution of the allocations per thematic priority as well as an indication on the maximum amount of Union co-financing.

Table 1: Indicative financial allocations per year for the 2014-2020 cross-border cooperation programme

Year	IPA II CBC Bosnia and Herzegovina - Montenegro 2014-2020							Total (EUR)
	2014	2015	2016	2017	2018	2019	2020	2014-20
CBC Operations (all thematic priorities)	840 000	1 200 000	1 200 000	840 000	1 200 000	1 200 000	1 080 000	7 560 000
Technical Assistance	360 000	0.00	0.00	360 000	00	00	120 000	840 000
Total (EUR)	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	8 400 000

Table 2 Indicative allocations per thematic priority over the 2014-2020 period and rate of Union contribution

PRIORITIES	IPA II CBC Bosnia and Herzegovina - Montenegro 2014-2020			
	Union contribution	Beneficiary/ies co-financing	Total funding	Rate of Union contribution
	(a)	(b)	(c) = (a)+(b)	(d) = (a)/(c)
1 - Promoting employment, labour mobility and social and cultural inclusion across the border	2 100 000.00	370 588.23	2 470 588.23	85%
2 - Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management	2 940 000.00	518 823.53	3 458 823.53	85%
3 - Encouraging tourism and cultural and natural heritage	2 520 000.00	444 705.88	2 964 705.88	85%
4 - Technical Assistance	840 000.00	0.00	840 000.00	100%
GRAND TOTAL	8 400 000.00	1 334 117.64	9 734 117.64	

The European Union contribution has been calculated in relation to the eligible expenditure, which is based on the total eligible expenditure including public and private expenditure. The European Union co-financing rate at the level of each thematic priority shall not be less than 20% and not higher than 85% of the eligible expenditure.

The co-financing of the thematic priorities will be provided by the grant beneficiaries. Grant beneficiaries should contribute with a minimum of 15% of the total eligible expenditure.

The amount dedicated to technical assistance shall be limited to 10% of the total amount allocated to the programme. The European Union co-financing rate shall be 100%.

Funds for the thematic priorities will be committed through Commission Implementing Decisions covering one to three years allocations, as appropriate. Funds for technical assistance will be committed through a separate Commission Implementing Decision.

SECTION 5: IMPLEMENTING PROVISIONS

Calls for proposals:

The responsible authorities in the participating IPA II beneficiaries are planning to implement the majority of interventions through grant schemes based on public calls for proposals. They will ensure full transparency in the process and access to a wide range of public and non-public entities. The Joint Monitoring Committee will be responsible for identifying the thematic priorities, specific objectives, target beneficiaries and specific focus of each call for proposals which shall be endorsed by the European Commission.

The dynamics of publication of calls for proposals depends on a number of factors, including logistics, timing of the evaluation and level of interest from the potential applicants. It cannot be therefore defined at this stage how many calls for proposals will be published during the programme period. The responsible authorities are anyway committed to publish calls for proposals avoiding overlapping of thematic priorities between the different CBC programmes in which they participate. The calls for proposals will in principle use the rotating principle for selection of thematic priorities and their specific objectives.

Before the publication of the application package, the responsible authorities will review the needs/perspectives at that time and assess the achievement of indicators in previous CfPs. On this basis, a list of the thematic priorities and specific objectives to be published in the CfPs will be proposed. The plan will be coordinated with other programmes/CfPs that could be eventually open/published at the same time, to avoid overlapping. For subsequent calls for proposals under this financial cycle, those thematic priorities and/or specific objectives which had not been previously published would be selected.

Strategic projects:

During the preparation of the programme no strategic projects have been identified. However during the programme implementation period it might be considered to allocate part of the financial allocation of the programme to one or more strategic projects. The identification of such projects will depend on whether a strong interest is demonstrated by both countries to address specific strategic priorities which clearly match objectives of both countries and prove to have a clear cross-border impact.

Strategic projects can be selected through calls for strategic projects or outside call for proposals. In the latter case the programme partners will jointly identify and agree on any strategic project(s) that will be approved by the JMC at the appropriate moment along the programme implementation. In that event, after being proposed and approved by the JMC and endorsed by the Commission, the CBC programme must be amended to incorporate such a strategic project. The selection of strategic projects will be implemented in a transparent manner. After the identification and confirmation of the strategic approach by the responsible authorities and the JMC, relevant institutions (lead institutions for strategic projects) will be invited to submit their proposals in the form of terms of reference, technical specifications or bills of quantities. In that event, after being proposed and approved by the JMC and endorsed by the Commission, the CBC programme must be amended to incorporate such a strategic project.

The *Thematic Priority* **Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management** seems to be the most appropriate for the formulation of strategic projects. Projects of a preparatory character, such as the compilation of project documentation, cannot be considered strategic projects. Only ready-to-go institutional initiatives, which clearly target joint challenges at both sides of the border and produce sustainable and joint solutions, are suitable strategic projects.

LIST OF ANNEXES

ANNEX 1: Situation analysis

**IPA II CBC “Bosnia and Herzegovina – Montenegro”
2014 - 2020**

Analysis of the Programme area

Revised on 27/05/2014



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Purpose

The present document aims at presenting the Situation Analysis carried out in the framework of the preparation of the IPA II Cross Border Cooperation (CBC) Programme “Bosnia and Herzegovina – Montenegro” 2014 – 2020. It is meant to provide the necessary basis for the identification of key needs and priorities to be addressed by the future CBC instrument, as well as to constitute a sound element for the preparation of the overall programme strategy.

It seeks to offer an overview of the programme area along with its major strengths and weaknesses; it identifies the specificities and commonalities of the territory (identity) and defines the key areas where the implementation of cross border actions would generate high additional value.

The preliminary outcomes of the S.W.O.T. were presented and discussed during the first Joint Task Force meeting which was held in Trebinje on 18 October 2013. Inputs and remarks offered by the JTF in the framework of a written procedure have been included.



Methodology

The situation analysis has been carried out using both P.E.S.T.L.E. and S.W.O.T. methodologies. Main statistical data and most relevant documents have been provided by the OSs of the two Countries.

The SWOT analysis has been prepared per thematic priority as suggested by the European Commission (EC). They are all an adaptation of the Thematic Objectives as proposed in Article 9 of the Commission's proposal for the Common Strategic Framework (CSF) funds regulation, therefore strongly aligned with the EU2020 Strategy and its regional declination SEE2020.

No.	Thematic Priority	TOs (art. 9 CSF Reg.)	SEE2020	EU2020
1	Promoting employment, labour mobility and cultural inclusion across the border	TOs 8 and 9	Inclusive growth	Inclusive growth
2	Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management	TOs 4, 5 and 6	Sustainable growth	Sustainable growth
3	Promoting sustainable transport and improving public infrastructures	TO 7	Sustainable growth	Sustainable growth
4	Encouraging tourism and cultural and natural heritage	n.a.	Integrated growth	
5	Investing in youth, education and skills	TO 10 for Education	Inclusive growth	Inclusive growth
6	Promoting local and regional governance, planning and administrative capacity building	TO 11	Governance for growth	Horizontal
7	Enhancing competitiveness, business and SME development, trade and investment	TO 3	Smart growth	Smart growth
8	Strengthening research, technological development, innovation and ICT	TOs 1 and 2	Smart growth	Smart growth

The first step in the analysis has been a survey implemented in the cross-border area. The Operating Structures (OSs) sent standardised questionnaires to municipalities and other relevant institutions in the eligible area (national/regional/local governments, high education institutions, public enterprises, associations, chambers of commerce, NGOs, etc.).

A separate analysis has been implemented for municipalities as the feedback received has allowed a comparative approach. Out of 13 municipalities in the eligible area on the Montenegrin side of the border, 9 returned the filled-in questionnaire. The percentage of received questionnaires (sample) was 69,2% of the total number and 79,8% of the total population in the eligible area on the Montenegrin

side. Out of the 56 municipalities in the eligible area on the Bosnian side of the border, 21 municipalities returned the filled-in questionnaire. The percentage of received questionnaires is 37,5% of the total number of municipalities in the eligible area in Bosnia and Herzegovina. From other institutions/organisations from both sides of the border the total of 77 questionnaires were received.

As a second step, the programming expert team carried out individual in-depth interviews with different institutions in the eligible area and relevant ministries at national/entity level. The interviews were implemented via face-to-face as well as telephone interviews. The analysis of in-depth interviews allowed further definition of the SWOT. Conclusions for each of the thematic priorities are presented below under each specific section.

As a third step, the team screened statistics related to each thematic priority and other relevant pieces of information, such as: evaluation of past CBC programmes and sector strategic documents, often suggested by the interviewees.

Situation Analysis

History

Throughout history, the territories and peoples of the eligible area periodically belonged to the same states, but were often separated by borders and wars. Links between communities in the bordering area are therefore strong and interdependent.

In the late 19th century, intellectuals in the area started to promote the idea of united Slavic nations which eventually resulted in the creation of the Kingdom of Serbs, Croats and Slovenians which eventually became the Kingdom of Yugoslavia, also known as first Yugoslavia. The Kingdom fell apart with the outbreak of the Second World War, and SFRY⁷ was created in 1945. The territories of today's Bosnia and Herzegovina and Montenegro were defined, and these two entities became two of the six Yugoslav Republics.

After the breakup of the former SFRY, Bosnia and Herzegovina gained its independence in 1992, while Montenegro became an independent state after the referendum on independence in 2006.

Both countries share strong commitment towards EU integrations. Montenegro was granted the EU candidate status on 17 December 2010. BiH and the EC signed the Stabilisation and Association Agreement on 16th June 2008. By signing the agreement the EU recognised the efforts of BiH in the path of EU integrations. The SAA with BiH has been ratified by all EU Member States, but has not yet come into effect. Both countries have already put significant efforts into the adopting of a compatible legislation with the Acquis Communautaire.

As of June 2012, the European Union has opened EU accession negotiations with Montenegro. In turn, the EU relations with Bosnia and Herzegovina are still governed by the Interim Agreement (IA) of 2008.

Demography

The population of Montenegro has remained practically unchanged in terms of total numbers, from 615,035 in 1991 to 620,029 in 2011, as per the census of the same year. The population of the area participating in the cross-border programme in Montenegro is 300,176. Bosnia and Herzegovina has conducted the first population census after 1991 in October 2013. The results of this census will be included in this programme once they are available.

Over the past decades, a significant portion of the previously predominant rural population has moved to the urban areas. Thus, the population of the eligible area of Montenegro and Bosnia and Herzegovina is nowadays mainly concentrated in urban centres.

On the Montenegrin side of the border, the internal migration from the less developed North to the more developed central and coastal areas has resulted in 9.34% decrease of population in the northern region in the period 2007 – 2012 alone. In Bosnia and Herzegovina, the population has also migrated to larger urban centres, particularly to Sarajevo.

⁷ Socialist Federative Republic of Yugoslavia

Along with depopulation, the rural areas and smaller cities in both states have been hurt by a 'brain drain' process leaving them without skilled human resources.

Even though the natural growth rate in the eligible area still remains positive, the age structure of the population indicates an unfavourable demographic ageing process.

Ethnic Minorities

Inhabitants of the programme area enjoy national equality in both countries since their constitutions secure the rights of the minorities. Nonetheless, during the 2014 – 2020 programming process, the EU had still awaited from Bosnia and Herzegovina to implement the European Court of Human Rights judgement in the Sejdić-Finci case regarding discrimination against citizens on the grounds of ethnicity.

Geographical Description

The programme area is located in the south-eastern part of Bosnia and Herzegovina and the north-western part of Montenegro. In Bosnia and Herzegovina, the programme area extends over 20,909.33 km² and covers 38.51% of the national territory. In Montenegro, the eligible area extends over 9,285 km² or 67.2% of the national territory.

The terrain is mostly mountainous including some of the most rugged in Europe. The rivers in the eligible area flow into either the Adriatic Sea or the Black Sea basin. In the mountains, the rivers flow along deep canyons such as the Tara River Canyon which is the deepest canyon in Montenegro and in Europe, at 78 km in length and 1,300 meters at its deepest point. There are around forty natural and seven artificial lakes in the area. This region is rich in water and forests that cover 32 % of the territory.

The climate of the eligible area varies, but in general, the northern part is characterized by a continental climate, with cold winters and hot, relatively humid summers with well distributed rainfall patterns and heavy inland snowfall, while the southern part enjoys a more Adriatic climate with hot, dry summers and autumns and mild winters. Differences in elevation and proximity to the Adriatic Sea, as well as the exposure to the winds, account for variations in climate.

The Bosnia and Herzegovina part of the eligible area comprises 56 municipalities. The Montenegrin side covers 14 municipalities in coastal, central and northern Montenegro.

The eligible area in Bosnia and Herzegovina includes 20 km of coast which is the only access of Bosnia and Herzegovina to the Adriatic Sea and is characterised by well-preserved beaches and the Neum tourist centre.

In Montenegro, 163.78 km of coast, out of a total of 288.21 km, are included in the programme area with a unique landscape characterised by beautiful bays and relevant tourist centres.

Infrastructure

Infrastructure is an important pre-requisite for the economic and social development as it secures accessibility of goods and people to and from the eligible area. On the whole, the infrastructure in the

eligible area is obsolete, having suffered greatly from lack of investments that were mostly confined to the more developed areas of the country.

The length of the border between Montenegro and Bosnia and Herzegovina is 254.4 km, along which there are eight border crossings. A number of them has been upgraded in recent years or are presently under-going modernisation with EU funding support.

Investments over the past several years in the road sector of both states have improved the overall condition of roads in the eligible area, but many of them are still in need of rehabilitation and modernisation that require significant budgetary outlays.

The main road transport routes going through the programme area are the following:

1. Sarajevo - Foča – Nikšić - Podgorica
2. Mostar - Trebinje - Nikšić – Podgorica
3. Srajevo – Trebinje – Herceg Novi

Railways make up a less significant part of the overall transport infrastructure of the eligible area in which there are no rail border-crossings between the two countries. Montenegro, nonetheless, has recently completed the reconstruction and modernisation of a rail link, mainly used for cargo transport, stretching from Nikšić outside the eligible area, towards Podgorica and Bar. This has represented a major investment effort for the country. The small BiH rail network remains underdeveloped and not fully electrified, limiting its potential for providing effective transport service.

Ports, airfields and dams are in a somewhat better condition. There are three international airports in the programme region – Tivat, Mostar and Sarajevo. One small airport is located in Nikšić. The Port of Kotor services large cruisers and other commercial boats, while the marina in Tivat has positioned itself as a major Adriatic gateway for yachts.

The telecommunication network in the eligible area is composed of several systems offering both fixed and mobile telephony.

In Montenegro, services in mobile telephony are provided by three GSM operators (Telenor, T-mobile/com, M-tel). All providers have national coverage, and provide advanced services.

The three operators in Bosnia and Herzegovina are BH Telekom, Telekom Srpske and HT Mostar. They have undergone privatization but the federal government still has a majority stake in BH Telekom and HT Mostar, while Telekom Srpske has been privatised by Telekom Srbija whose main shareholder is the Government of Serbia.

The capacities of the fixed network are well developed, and the mobile network has good signal coverage, throughout the area.

In June 2013, the Montenegrin Ministry for Information Society and Telecommunications issued a report on the status of electronic communications which reveals that the mobile telephony penetration in December 2011 has been 187.6%, i.e., above the regional average of 121.96% and the EU 27 average of 127%. Bosnia and Herzegovina, on the other side, had a penetration of 99% in 2012 according to the Agency for Statistics.

Internet is widely used in the eligible area with three providers on the Bosnian side of the border and four on the Montenegrin side.

A November 2013 MONSTAT publication⁸ on the use of information-communication technologies indicates that 55.8% of Montenegrin households have and use personal computers to access internet, but that practically each household has and occasionally uses mobile phones to access internet. In Bosnia and Herzegovina, the estimated penetration of internet users in 2012 has been 57%.

Water supply, waste water, waste disposal

Environmental infrastructure is among the biggest weaknesses of the area, but its improvement is high on the list of development priorities in both BiH and Montenegro.

The population living around the municipality centres and larger settlements is covered by the water supply network. However, the water supply capacity and hygiene quality is a main concern of many rural areas. Alternative systems used in many rural areas, such as local springs, wells and cisterns, do not guarantee the adequate quality of water.

In general, this situation requires sustained efforts to revitalize and repair the water supply systems, especially when considering the fact that the existing water supplies do not meet the needs of the population. Because of old age, the damage caused by the war, and leakage due to poor maintenance, between 30% and 60% of the capacity is lost. Water supplies throughout the eligible area are subject to frequent interruptions, especially in the dry summer season. This indicates the necessity of establishing larger water supply systems at municipal, inter-municipal and regional levels.

In the eligible area, sewage networks are only available in the centres of larger municipalities. In many municipalities, the sewage system is not capable of processing the volume of waste water generated, which overflows as untreated sewage. In parts of the area direct discharging of untreated sewage into streams, tanks, and septic dumps occurs. Only a few larger municipalities possess efficient waste water processing facilities.

The treatment of solid waste is handled in a similar, unsatisfactory manner in the whole eligible area. The system of solid waste management is based on collection, transportation and disposal of solid waste by public utility companies at municipal level. Dump sites are poorly maintained, with minimal sanitary and hygienic conditions. Effective separation of solid waste is also minimal.

Municipalities complain that insufficient financial and technical support from the national governments, sometimes just to prepare pre-feasibility and other plans or studies, hinders efforts to improve the inadequate environmental infrastructure. Some Montenegrin municipalities also cite as problem the lack of interest of private companies to invest in this sector on a public partnership basis. The government and civil society representatives, in turn, often point at inefficient public utility management as the main cause of the poor quality of service.

Electricity

Electricity supply and transmission systems are well developed on both sides of the border where they represent the largest and strongest enterprises. The rivers of the eligible area carry 50% of the hydro-potential in both countries. In Bosnia and Herzegovina, there are five hydro power plants on the river Neretva and three more plants on the river Trebišnjica. There is a thermal plant located in Gacko which supports the stability of the power system. Together with other power plants in Bosnia and

⁸ <http://www.monstat.org/userfiles/file/ICT/IKT%20U%20DOMACINSTVIMA%202013.pdf>



Herzegovina, managed by three separate electricity utility companies, they meet the domestic needs for electricity consumption and export a portion of their production to other countries in the region.

The Montenegrin electricity utility, including the generation, distribution and supply entities, was privatised in 2009 but the state has kept the majority stake in the company. Its power generation units are located in the eligible area and consist of two large hydropower plants Piva and Perućica and a thermal power plant in Pljevlja. Following the recent upgrading of existing power plants and the downsizing of several large industries, Montenegro has become a net exporter of power in 2013. This status could be preserved in the coming years if the planned investments in the existing and new power generation plants are realised.

Besides hydro and thermal energy potential, the area also offers significant but still unexploited opportunities for use of solar and wind power energy.

In addition, a high-voltage transmission line in the eligible area is an important part of the Balkan network and represents a solid basis for further modernisation and development. The state controlled Montenegrin power transmission company, along with a consortium of Italian power companies, has started the construction of a submarine power transmission cable connecting Italy and Montenegro under the Adriatic Sea. This will facilitate exports and imports of electricity and encourage further power generation investments in Southeast Europe.

In this regard, however, a number of NGOs from the region and neighbouring countries have raised concern that some of these investments might involve construction of high dams and large thermal plants that could be in conflict with environmental goals such as biodiversity and decarbonisation.⁹ They claim that instead of such investments stronger focus should be assigned to the developing of alternative energy supply solutions and the improving of energy efficiency.

The low-voltage (user) network in the eligible area is at a somewhat less satisfactory level. However, no settlements without electric power have been identified.

Economy

Bosnia and Herzegovina and Montenegro are members of the Central European Free Trade Agreement (CEFTA). CEFTA complements the EU Stabilization and Association Agreement for the countries of the Western Balkans, providing a good framework for economic development and regional co-operation.

Municipalities within the eligible area still experience the consequences of the war in the nineties and of the more recent global economic crisis. The overall level of economic development of the eligible area is lower than the respective national averages, but the precise GDP figure cannot be deduced from the available statistical data. The GDP per capita in Bosnia and Herzegovina in 2012 was 3,419 €, while in Montenegro it amounted to 5,063 €.

The area is characterized by the predominance of agriculture, primary production and low value added activities. Even though various natural conditions in the eligible area are suitable for diversified development of agriculture, the agricultural activities are limited due to a lack of good soil quality and the area's mountainous relief. The largest part of the agricultural land is covered by pastures and natural meadows.

⁹ <http://seechangenetwork.org/index.php/newsfeed/1-latest-news/83-press-release-on-pecis-approved-by-energy-community.html>

The area has optimal conditions for vegetable production. In the northern part of the area, the largest percentage of the territory is comprised of grasslands, ideal as summer pasture for cattle.

The coastal region is especially suitable for fruit (subtropical fruits and olives) and field crop production, and its hilly relief for breeding small cattle. This relief is also rich with honey plants and medical herbs, as well as wild fruit species (dog rose, fig).

With regards to livestock, sheep and goats are predominant in the eligible area. Large cattle breeding and beekeeping are also important agricultural activities in this region.

Agricultural production in the eligible area is based on small-scale family households due to existing natural conditions and property issues. The young generation is losing interest to maintain this family tradition and is increasingly seeking job opportunities in urban areas.

The industrial sector in the eligible area is based on electricity generation, coal mining, forestry and wood processing, textile, leather and construction industries.

Both countries have a good basis for industrial processing of agricultural products: butcheries, grain mills with silos, dairy plants, bakeries, beer and juice factories, fruit processing factories, capacities for grape processing and wine making, processing of medical herbs and factories for production of confectionary products.

SME Sector

Following the restructuring and/or liquidation of large state owned enterprises, small and medium size companies have taken the leadership in generating new economic activity and employment in the eligible area. SMEs are usually more flexible to adjust to the market needs which provide diverse employment opportunities, sustainable development and positive contribution to export and trade.

Montenegro had 23,741 companies in 2012, of which 8,713 were based in the eligible area. Bosnia and Herzegovina, in turn, had 59,719 registered companies in 2012, of which 30,768 were based in the eligible area. More than 90% of them are small and medium sized companies, but the precise percentages could not be deduced from the statistical reports.

The majority of them are rather small SMEs lacking managerial and marketing experience. Business support services (business centres, business incubators, business advisory services, etc.) to help them build up performance and strengthen their competitiveness, are not well developed.

A number of state sponsored business support structures have been established on several locations in the region, but their number and capacity are still insufficient to satisfy the growing needs. The local tradition of using commercial business advisory services is almost inexistent, which discourages would-be consultants to engage in this activity.

Another constraint for SME and entrepreneurship development in the area is the existence of business barriers both within internal markets and for various types of economic transactions between the two countries. Business community representatives complain that it is cumbersome and very time consuming, for example, for a company of one state to obtain various permits and move its specialised equipment and qualified staff across border to provide an, otherwise locally unavailable, short-term business operation in the other state.

This discourages potential initiatives for fostering cross border cooperation and creation of various types of business clusters and vertically integrated company linkages. Consequently, options should be explored for reducing business barriers and creating a more business-friendly environment for cross border cooperation.

Poor access to finance is an additional market barrier for small enterprises and entrepreneurs in rural parts of the eligible area who have difficulties to obtain loans from commercial banks, as these seldom accept their land and property as collateral. Establishment of missing credit guarantee funds or schemes with state support and in partnership with the private sector could alleviate this market failure.

Tourism

Tourism is in expansion in the region, particularly in Montenegro where it has become the country's key industry. In 2012, a total of 1,439,500 tourist arrivals have been registered, of which 90% have been foreign tourists. Of these, some 8% have been tourists from Bosnia and Herzegovina.

The eligible area in Montenegro accounts for 27.86% of all tourist arrivals, of which 22.9% have been visits to the three coastal municipalities (Herceg Novi, Kotor and Tivat) and the remaining 4.96% visits to the 10 northern municipalities.

Bosnia and Herzegovina has registered 745,537 tourist arrivals in 2012, of which some 58% have been foreign tourists. The key tourist destinations are the large cities of Sarajevo and Mostar and the coastal city Neum. They have attracted some 46% of all tourists visiting the country in 2012, or some 69% of tourists visiting the eligible area.

Cultural tourism could be further enhanced in these urban centres given their rich and unique cultural heritage and the great variety of cultural events organized throughout the year. Other regions also have rich cultural heritage but it is still insufficiently exploited for tourism purposes. Poor state of cultural monuments and facilities around them are one of the key reasons for this.

Besides attractive coast and cities, the eligible area of both countries offers unique landscape resources, mountains, forests, lakes, clean rivers, mineral and thermal springs, natural parks and protected areas and rich biodiversity.

The central and eastern continental parts of the eligible area have less developed tourism, but have significant potential for its future development. These are mostly mountainous areas that have a comparative advantage for specialised tourist programmes focused on new "active" type of holidays, including but not limited birdwatching, skiing, hiking, cycling. On BiH side, these are Jahorina, Bjelašnica, Igman and Zelengora mountains. On the Montenegrin side, Durmitor and Bjelasica mountains and national parks have the greatest potential in this regard. These areas offer plenty of opportunities for rural tourism, agro-tourism and eco-tourism but these have yet to be explored.

In addition, tourist resources, such as mineral water springs, salt lakes or mud offer the possibility of different forms of health/wellness tourism

The key weaknesses hampering tourism development outside the major tourist cities are inadequate hospitality infrastructure and marketing skills, static and ineffective tourist promotion, low integration of cultural heritage in the tourism offer, lack of information exchange within the tourism industry, low level of networking between tourism operators and other sectors like agriculture, and lack of

differentiated and innovative tourism products and services that would encompass the whole region and make it more attractive to potential tourists.

Successful marketing campaigns to bring increasing number of tourists to well-known cities and the coast could be further enhanced by integrating in them the opportunities offered by the rest of the eligible region. The same could be jointly promoted as a multi-ethnic and culturally diverse European destination that has unique cultural/historic heritage and beautiful unspoiled nature, coast, mountains, rivers, canyons, spas, national parks and protected areas. Among others, such campaign could stress that the region offers many attractive possibilities for active holidays like hiking and biking, as well as alternative forms of health, eco and rural tourism combined with organic farming.

Education, Research, and Development

The system of education in the eligible area is well developed with regard to primary and secondary schools, and high education. In most cities, less than 2% of the inhabitants are illiterate. Secondary schools are located in every city of this area.

The education systems of Bosnia and Herzegovina and Montenegro are similar, with compulsory primary education and non-obligatory secondary and high education, which is mainly performed in public schools.

The primary and secondary education network is well developed but the facilities and conditions for study are still below the desired levels in most of the cases. The number of higher education institutions is also steadily increasing, and is offering a greater diversity of undergraduate and graduate level curricula.

Links between educational institutions and the business sector, however, are still weak and result in low innovation, research and development activity.

Labour Market (employment and unemployment)

The comparison of labour market surveys, conducted by the state statistical offices¹⁰ in accordance with ILO recommendations, indicates that the low employment and high unemployment rates in Bosnia and Herzegovina and in Montenegro have either remained stagnant or have slightly deteriorated in the period 2007 – 2012.

The surveys did not analyse specifically the employment situation in the eligible area of Bosnia and Herzegovina, but the available data indicates that the unemployment rate in the same is lower than the average for the whole state. In turn, Montenegrin surveys allow comparisons of the more developed central and coastal areas with the less developed northern part of Montenegro, where 9 out of 14 eligible municipalities are located.

The labour market surveys indicate that the already low employment rate in the North has fallen from 31.2% in 2006 to 26.9% in 2012, and that its very high unemployment rate has further risen from

¹⁰ Statistical institutions in BiH (Agency for Statistics of BiH – BHAS, Federal Office for Statistics – FOS and Republican Institute of Statistics of Republika Srpska – RZSRS) http://www.bhas.ba/?option=com_content&view=article&id=113=ba and the Montenegrin Statistical Office Monstat <http://www.monstat.org/cg/page.php?id=22&pageid=22>

33.2% in 2006 to 36.5% in 2012. Therefore, the eligible area in Montenegro has a significantly higher unemployment rate than the national average, and this disparity seems to be widening.

The highest rate of unemployment is among unskilled workers, young and women.

Lack of employment opportunities is a major reason for concern for both states, in view of its detrimental impact on the already low income and standard of living of the majority of the population. The prospects for major improvement of this situation in the short term are not bright given the slow pace of recovery from the consequences of the global economic crisis and the need to complete the restructuring of some over-staffed state owned companies and public administration bodies.

In both states, the slow process of employment generation has also been accompanied by unfavourable migration trends. In Montenegro, a 2.9% decrease of the total population has been registered over the past years, from 638 000 in 2007 to 619 700 in 2012.

Nonetheless, the internal migration from the less developed North to the more developed central and coastal areas is an even greater cause of concern for Montenegro, since the northern region has lost 9.34% of its population over this same five years period.

The unfavourable situation with migration is further compounded by a steady 'brain drain' process leaving both states and, in particular, their eligible programme areas without the preciously needed skilled human resources.

There is still high dependence on public sector employment, since the weak entrepreneurial initiative does not generate sufficient opportunities for alternative employment. The mobility of the workforce also remains low, particularly the cross-border mobility in view of restrictions and administrative hurdles imposed by both sides to protect their labour markets.

This problem is a bit less pronounced in Montenegro where, according to the employment agencies of Bosnia and Herzegovina and Montenegro, about 25% - 30% of non-residential labour force in Montenegro has traditionally been engaged from Bosnia and Herzegovina. Montenegrin authorities issue annually some 15,000 – 20,000 work permits for non-residents whose services are mainly needed in the coastal areas during the tourist season.

Both Montenegro and Bosnia and Herzegovina have developed active labour policies and the necessary institutional infrastructure to address these important issues, but there is scope for improving their effectiveness. Better results and cooperation within the region could, in particular, be achieved in improving access to vocational training, internship, non-formal and life-long learning modules and programmes, as well as increased cooperation between public and private partners in the labour market.

The eligible area along the border includes some of the most remote regions of both countries that have not been (made) attractive to investors that could have created employment opportunities. Needless to say, an improved cooperation of the two countries, their engaging in joint investment promotion efforts and in offering specifically designed incentives could enhance the attractiveness of these border areas to the investment community.

Environment and Nature

The eligible area in Bosnia and Herzegovina and Montenegro is fairly homogeneous from a natural, geographic and environmental point of view and characterised by well-preserved natural environment

and precious landscape resources with relatively low pollution levels. On the other hand, it also has some "pollution hot spots", which create serious problems.

There are three National Parks (Durmitor, Biogradska Gora and Sutjeska) and five protected areas in this territory. The natural resources are mostly preserved but some locations are exposed to heavier pollution. The biggest polluters in this region have been the coal power plant in Pljevlja and the foundry in Nikšić. The coal mine in Pljevlja and the red bauxite mine in Nikšić cause waste and groundwater problems.

Both sides of the border face similar challenges to ensure a balanced path towards socio-economic development, while preserving the outstanding natural and cultural heritage and meeting the EU environmental requirements.

One of them is to enforce more effectively the principle "Polluter pays". Another one is to improve the inadequate environmental infrastructure and public utility management, as well as to speed up the implementation of the EU aligned energy efficiency strategies and action plans. Last, but not least important, is the need to complete the cleaning of mine fields that are still suspected to exist in the eligible area.

There is a lack of integrated and co-ordinated interventions on both sides of the border to protect the environment and promote sustainable development. Efforts should be directed towards development and upgrading of special protected areas, special areas of conservation, visitor information systems, exchange programmes, information systems and implementation of public-private partnerships in nature protection.

Among others, some of the first steps in this regard would be to establish new or upgrade the existing cross border facilities for monitoring the environment and coping with natural disasters, raise awareness of the merits of environment protection and sustainable development, develop partnership between public, private and civil sector in implementing environmental protection initiatives and sustainable development projects and promote the principle of socially responsible business conduct.

Montenegrin government has established an environmental protection agency whose task is to identify, promote and help implement similar activities, while Bosnia and Herzegovina does not have such institution at state or entity level.

Culture

The protection of cultural heritage has been given a solid legal basis and is ensured by specialized institutions in both countries.

In Montenegro, the institution in charge of culture is the Ministry of Culture. Also there are two specialized institutions responsible for cultural heritage, formally organized under the Ministry of Culture. The Administration for Protection of Cultural Heritage is in charge of legal matters and protection of cultural heritage, while the other public institution Center for preservation and archeology is the leading institution in the field of archeology and preservation of cultural heritage in Montenegro.

Unlike Montenegro, in Bosnia and Herzegovina institutions in charge of culture and cultural heritage are highly decentralized, i.e. the responsibility of culture is within the two entities' institutions: Ministry of Education and Culture of the Republic of Srpska, with its Republic Institute for the Protection of Cultural, Historical and Natural Heritage and Federal Ministry for Culture and Sport,

with its Institute for the Protection of Cultural and Historical Heritage while the Ministry of Civil Affairs of Bosnia and Herzegovina is in charge of establishing basic principles of coordination and harmonization of entity plans as well as defining strategies at international level.

In both countries, municipalities in coordination with the relevant ministries and culture protection institutes have the primary responsibility to look after, maintain, use, and protect monuments from the damaging impact of nature and human activities, to make them publicly available, and support the costs of regular maintenance.

Cooperation among relevant institutions in the area of culture has been strengthened in recent years.

The lack of financial resources, however, limits the possibilities of exchange of experience, opportunities for knowledge dissemination, organisation of joint events and activities related to the protection of cultural heritage.

Cultural cooperation has been and still is a very important link for communities on each side of the border. The programme area shares very similar traditions, customs, language and cultural heritage. There are a large number of cultural, minority associations and clubs the purpose of which is to preserve local tradition.

Furthermore, there is vast untapped potential for promoting and celebrating cultural and natural heritage in the cross border area and linking the same to the tourist offer.

Main findings

Topography shows an eligible area that is dominated by mountains and scarcely populated rural areas suffering from demographic imbalances as a significant portion of the previous population has moved and it is still moving to the urban areas. This is particularly true for young, educated people that are in this way increasing the “brain drain” effect.

Additionally, the lack of employment opportunities is a major reason for concern for both states, in view of its detrimental impact on the already low income and standard of living of the majority of the population.

The overall level of economic development of the eligible area is lower than the respective national averages. Its economy is characterized by the predominance of agriculture, primary production and low value added activities. The majority of SMEs are rather small, lacking managerial and marketing experience. Business support services and business advisory services to help them build up performance and strengthen competitiveness are not well developed.

The system of education in the eligible area is well developed with regard to primary and secondary schools, and faculty education.

Cultural differences and language barriers are minimal due to the long history of good cooperation and mutual relations.

Besides attractive coast and cities, the eligible area of both countries offers unique landscape resources, mountains, forests, lakes, clean rivers, mineral and thermal springs, natural parks and protected areas and rich biodiversity.

These are all endogenous assets and potentials that can be further utilized to strengthen economic growth as well as social growth cohesion. However, they all need to be approached and used in a sustainable way in order to avoid overexploitation and consequent environmental trauma.

ANNEX 2: S.W.O.T. analysis of the area

Priority 1: Promoting employment, labour mobility and cultural inclusion across the border

Labour market has been ranked among the key weaknesses by the respondents to the questionnaires and by the interviewed institutions. Lack of employment opportunities and lack of labour mobility, coupled with the “brain drain” effect, are major reasons for concern, as are their detrimental impact on the already low income and standard of living of the majority of the population.

In the ranking of opportunities, labour market has a high place, while labour mobility and social inclusion have been rated low. In turn, workforce employability is low in Montenegro and high in BiH. Education, labour, social and health care infrastructure have been rated among the lower priorities of the programme area.

Lack of human resources has been rated as a high threat by both BiH and Montenegrin institutions and by BiH municipalities, while Montenegrin municipalities consider it to be a medium size threat.

As regards the interest for future cooperation, employment, labour mobility and cultural and social inclusion are high in the list of joint priorities.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Existence of complementarities of economies in the border areas as well as similarities in the trade market; ▪ Historical links and common paths offer solid basis for cultural understanding, confidence-building and cross-border cooperation; ▪ Absence of language barriers; ▪ Good neighbouring relations; ▪ Adequate number of border crossings; ▪ Existence of employment policies and plans in support of private sector development; ▪ Active employment 	<ul style="list-style-type: none"> ▪ Negative population growth leading to unfavourable demographic trends; ▪ Low living standards and aging of the rural population; ▪ Insufficient quality and capacity of existing border crossings; ▪ Limited market information flows; ▪ ‘Brain drain’ and migration; ▪ Growing trend of a relatively high unemployment rate in the rural areas; ▪ Low income and standard of living among the majority of the population; ▪ Low mobility of the 	<ul style="list-style-type: none"> ▪ Enhanced tendency towards / potential for major cross-border cooperation activities; ▪ Increased mobility and adjustment of labour force to new economic demands; ▪ Greater awareness of and sensitivity for social inclusion of marginalised groups; ▪ Policy orientation towards implementation of active labour measures in support of employment generation in less developed areas of the region (the special orientation should be directed toward youth educated for craft activities in undeveloped areas); ▪ Cross-border exchange and cooperation in exploring potential for 	<ul style="list-style-type: none"> ▪ Increasing of depopulation trends; ▪ Ageing of the population; ▪ Total depopulation of some rural settlements; ▪ Increased social exclusion for some sectors (persons with disabilities, minorities, women and youth); ▪ Unemployed caused by collapse or restructuring of larger industries at least in some parts of the eligible area; ▪ Insufficient investment into human capital and workforce mobility.

Strengths	Weaknesses	Opportunities	Threats
policies implemented on the base of IPA cross/border cooperation in the previous period, through organization of Job Fairs and Roundtable sessions on mediation in employment between the two states.	labour force.	<p>creation of social economy and social entrepreneurship;</p> <ul style="list-style-type: none"> ▪ Development of joint programmes for upgrading skills of the employed and unemployed; ▪ Joint development of the support environment for promotion of entrepreneurial culture and employment especially for young employed. 	

Priority 2: Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management

Environmental protection has been rated with very high scores by municipalities and institutions. Quality of environment has been considered as the biggest strength of the area.

Environmental infrastructure, in particular the waste water treatment facilities and waste collection and sewage, have been considered to be among the biggest weaknesses of the area.

Quality of the environment and the improvement of the environmental infrastructure have been rated among the highest development priorities in both BiH and Montenegro.

Efficient use of sustainable natural resources is considered to be one of the greatest opportunities of the area. Enhanced waste water treatments are seen as opportunities of lesser importance, while development of alternative energy sources and improved waste collection and disposal systems are assessed as rather high opportunities by municipalities and institutions in BiH and by the interviewed Montenegrin institutions.

Insufficient financial resources from national budget have been indicated as the highest threat, particularly by the municipalities.

The interest for future cooperation in the environmental sector is very strong in both BiH and Montenegro.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Strengthened legal and institutional framework for environment 	<ul style="list-style-type: none"> ▪ Lack of joint cross-border facilities for monitoring the environment and prevention of natural 	<ul style="list-style-type: none"> ▪ Adoption of EU aquis will improve benefits and enhance prospects for eco-friendly development and protection of the 	<ul style="list-style-type: none"> ▪ Poor wastewater, sewage and solid waste disposal facilities could endanger public

Strengths	Weaknesses	Opportunities	Threats
<p>protection</p> <ul style="list-style-type: none"> ▪ Enhanced public awareness thanks, among others, to actions / projects implemented in the past programming period ▪ Sustainable development approach increasingly taken into consideration by some local plans ▪ Relatively large areas under nature protection 	<p>disasters</p> <ul style="list-style-type: none"> ▪ Inadequate infrastructure and public utility management, especially in smaller settlements(water, sewage, solid waste) ▪ Lack of solid waste dumps and re-cycling plants ▪ Poor enforcement of the principle “Polluter pays” ▪ Slow implementation of energy efficiency and renewable energy strategies and action plans 	<p>environment, unspoiled nature and precious landscape resources</p> <ul style="list-style-type: none"> ▪ Potential for use of sustainable environmentally friendly and energy efficient services and technologies ▪ Raising awareness of the merits of environment protection and sustainable development and increased public participation in the related decision making process ▪ Promotion and establishment of the principle of socially responsible business conduct ▪ Partnership of public, private and civil sector in implementing environmental protection initiatives and promoting sustainable development programmes and projects ▪ Establishment of joint emergency centres ▪ Promotion of renewable production including demonstration projects 	<p>health, and contribute to slowing economic development</p> <ul style="list-style-type: none"> ▪ Infrastructure investments potentially adversely affecting the environment ▪ Unsustainable economic development and uncontrolled pollution may deteriorate air, water and soil quality ▪ Increased and unchecked cutting down of forests

Priority 3: Promoting sustainable transport and improving public infrastructures

Transport and public infrastructure has been rated slightly below the average score in Montenegro and rather low in BiH.

Within the area of transport, the road infrastructure is considered to be a relative strength, while the same applies for rail only in Montenegro. In both states, nevertheless, a relatively high priority in development plans has been assigned to the improvement of roads and a very low one to the improvement of rail and public transport services.

As regards other public infrastructure, electricity supply, telecommunications/internet access and water supply are the three top strengths. Waste management, water waste treatment and other

infrastructure in the area of environment are the key weaknesses. In terms of future development priorities, the order is reversed, and the improvement of the environmentally-related infrastructure is a strong priority, while electricity supply and telecommunications/internet access do not figure prominently in these plans.

Increased maintenance/development of existing infrastructure is perceived as a high priority by both BiH and Montenegrin respondents to questionnaires and by the interviewed institutions. The development of alternative sources of energy and the improving of waste collection and disposal are seen as high opportunities by municipalities and institutions in BiH and by the interviewed Montenegrin institutions.

Insufficient financial resources from state budgets for addressing the infrastructure shortages (transport, water, energy) is the greatest threat, according to all parties. In Montenegro, a number of respondents from municipalities and institutions have also cited the lack of interest of the private sector to invest in these areas. Lack of municipal resources for co-financing projects as well as poor vertical and horizontal coordination are perceived as the biggest threats by respondents to questionnaires in BiH. For Montenegrin municipalities, slow decentralisation and grey economy also are major threats, undermining their already weak capacity to invest in capital intensive infrastructure improvements.

The interest for future cooperation in improving transport and public infrastructures is rather low, most notably in BiH.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Presence of basic transport infrastructure (relatively good quality of the main inter-connecting roads) ▪ Presence of three international airports as main gateways ▪ Possibility of connecting to international routes 	<ul style="list-style-type: none"> ▪ Peripheral geographic and transport location within the Balkan area ▪ Remote position of the border areas within their national territories and from the major economic centres ▪ Morphology of the region hampers transport infrastructure ▪ Difficult terrain makes maintenance and construction of transport infrastructure more expensive ▪ Lack of interest for small scale investments / soft 	<ul style="list-style-type: none"> ▪ More efficient border crossing points to cope with increased traffic flows ▪ Rehabilitation, reconstruction, extension and integration of road infrastructure ▪ Improving the availability of pre-feasibility and other plans / studies ▪ Development opportunities offered by the future Adriatic – Ionian macro regional strategy 	<ul style="list-style-type: none"> ▪ Peripheral position of the eligible area in relation to the main traffic flows ▪ Delays in the implementation of relevant infrastructural transport projects due to weak financial capacity ▪ Increased transport costs (internal / external) due to the underdeveloped transport infrastructure ▪ Bypassing the region due to bad transport infrastructure ▪ Fragmentation of the competences and responsibilities

Strengths	Weaknesses	Opportunities	Threats
	projects <ul style="list-style-type: none"> The existing road infrastructure does not provide the required level of service and safety of roads 		in the transport sector (transport providers)

Priority 4: Encouraging tourism and cultural and natural heritage

Tourism based on cultural and natural heritage has obtained a very high overall rating in both BiH and Montenegro.

In this regard, natural heritage has been assessed to be a key strength while tourism and cultural heritage have been seen as relative strengths of the area, although this does not apply for leisure/culture facilities.

Tourism is a highly ranked sector in development plans at all government levels.

Development of the tourism offer connected with the cultural and natural heritage has been ranked among the highest opportunities of the area, which is consistent with the equally high ranking for "Efficient and sustainable use of natural resources". The interviewed Montenegrin institutions also noted that they had excellent cooperation to date with their BiH counterparts, particularly in promoting cultural heritage and tourism.

The key threats besides the lack of financial resources from the public budget, as perceived by BiH and Montenegrin respondents to questionnaires, are the lack of qualified human resources and, to some extent, the unresolved property issues.

As for interest in future cooperation in tourism and cultural and natural heritage, it is very high in both BiH and Montenegro.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> Unique landscape resources (mountainous area with forests and water resources, lakes, clean rivers, mineral and thermal springs); Easily accessible coastal region with good quality beaches; Temperate continental climate 	<ul style="list-style-type: none"> Low integration of cultural heritage with the development of the tourism offer and inefficient utilisation of culture and leisure facilities; Weak local institutional structures lacking capacity for stimulating tourism development; Under-developed 	<ul style="list-style-type: none"> Cultural/historic tourism and education activities promoting the region as a multi-ethnic and attractive European location; Expansion of alternative forms of rural tourism and organic farming with accommodation possibilities; Expansion of and international recognition of natural parks and 	<ul style="list-style-type: none"> Business barriers, particularly for obtaining hotel development permits; Lack of knowledge, experience and skills in destination management and marketing; Lack of sufficient resources for current maintenance and



Strengths	Weaknesses	Opportunities	Threats
<p>with different influences and fertile soils;</p> <ul style="list-style-type: none"> ▪ Diverse and well preserved nature with natural parks and protected areas; ▪ Rich biodiversity, including valuable medicinal plants and herbs; ▪ Rich cultural heritage (history, architecture, tradition and folklore); ▪ (Partially) developed tourism infrastructure in place. 	<p>hospitality infrastructure and lack of differentiated and innovative tourism products and services;</p> <ul style="list-style-type: none"> ▪ Under-developed air transportation connections with the region; ▪ Static and ineffective national tourism marketing promotion; ▪ Lack of coordination and information centres apart from big urban centres; ▪ Seasonally conditioned development of tourism; ▪ Some areas remain closed due to presence of land mines; ▪ Cultural heritage sites in poor condition. 	<p>protected areas;</p> <ul style="list-style-type: none"> ▪ Improving the existing tourist offer by activating cultural/natural/historical resources and potentials; ▪ Increasing the visibility of the cross-border tourism by linking individual offers around main tourist and cultural potentials; ▪ Improving bilateral cooperation in marketing of the regional tourist destination; ▪ Visible private initiative in the tourist sector responding to the increasing demand for wellness, health and eco-tourism; ▪ Development of specialised tourist programmes focused on new "active" type of holidays; ▪ Joint development of tourist products and their joint marketing; ▪ Rise of biking / hiking tourism as a global trend. 	<p>preservation of the natural, cultural and historical heritage;</p> <ul style="list-style-type: none"> ▪ Overexposure / overexploitation of specific sites / resources; ▪ Global climate change might influence tourism.

Priority 5: Investing in youth, education and skills

Education, labour, social and health care infrastructure has been rated among the lower ranked priorities of the area.

Primary and secondary education systems, presence of universities and high education institutions in the major towns are considered to be strengths, while shortage of modern vocational education services and migration of young and skilled people to urban centres and abroad are considered to be key weaknesses.

Opportunities are seen in developing education and training programmes that are more adapted to the needs of the young population in the labour market, and in strengthening the links between education



and business communities in order to jointly assess and meet such future needs for skilled young workers.

The key threat is seen in the slow economic development, poor employment opportunities and continued migration that marginalise the border areas.

Very few institutions and municipalities have declared that they had established cross border cooperation in the education sector. As regards interest for future cooperation, the respondents to questionnaires expressed a rather low (BiH) or very low interest (MNE) in this regard.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Well-developed primary and secondary education systems; ▪ Presence of university and high education institutions; ▪ Presence of research institutions; ▪ Established joint agreements / positive past experiences. 	<ul style="list-style-type: none"> ▪ Internal economic migration of young people and skilled and productive workforce to urban centres and emigration abroad deplete the labour force and development potential of the eligible area; ▪ Academic and business environment insufficiently connected; ▪ Shortage of modern vocational and educational services; ▪ Absence of coherent policies and programmes for development; ▪ Limited cross-border experience; ▪ Lack of research institutions and consultancy services. 	<ul style="list-style-type: none"> ▪ Increased focus on education and training programmes adapted to the needs of the young population in the labour market, ▪ Strengthening the links between education and business communities in order to jointly assess and meet future needs for skilled young workers; ▪ Fostering of youth exchange initiatives; ▪ Development of and support to informal youth education and skills development programmes. 	<ul style="list-style-type: none"> ▪ Slow transition of secondary education systems will increase the gap between labour market supply and demand; ▪ No changes in the vicious circle of poverty, lack of education and poor employment opportunities marginalises border areas and hinders economic development; ▪ Isolation of the general education system and closing of schools (particularly in remote areas); ▪ Lack of informal education opportunities.

Priority 6: Promoting local and regional governance, planning and administrative capacity building

Local governance, planning, administrative capacity building and public services at local level have been perceived as weaknesses in both BiH and Montenegro, but particularly in the latter. Their



improvement, however, is at the bottom of the list of development priorities in the questionnaires received from municipalities from both states.

With regard to opportunities for future improvement of public services, besides in general terms, it is seen more concretely in the area of disaster management systems and emergency preparedness. In addition, an opportunity exists for introduction and promotion of study, training, pre-qualification and skills development programmes with the dual goal of facilitating downsizing of the public administration and improving the quality of its services to citizens.

The main threats have been seen in the slow decentralisation process and slow implementation of public administration reform and downsizing of redundant staff, insufficient amount of public funds and financial autonomy at local level, lack of qualified human resources, high turnover of local senior administration staff due to political changes and corruption in the public sector.

The municipalities and institutions reported that they had cooperation agreements, good bilateral relationships and experience in implementation of common programmes.

Nonetheless, the expressed interest for cooperation in promoting local governance, planning, administrative capacity building is rather weak in both states, particularly in BiH where it is the lowest in the rankings.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Good bilateral relationships and existence of cooperation agreements; ▪ Experience in implementation of common programmes; ▪ On-going decentralisation process; ▪ Legislation on local-self-government favourable for cross-border cooperation; ▪ Increased planning capacity of the local administrations. 	<ul style="list-style-type: none"> ▪ Low level and lack of policy framework for local economic development; ▪ Slow public administration reform process; ▪ Limited administrative and absorption capacity at local level; ▪ Limited partnership in programming and implementation of regional development policy; ▪ Insufficient amount of public funds and financial autonomy at local level; ▪ Obsolete facilities and equipment in the sector of public services offered at local level. 	<ul style="list-style-type: none"> ▪ Harmonisation of administration on both sides by implementation of the acquis; ▪ Development of mechanisms for provision of cross-border institutional assistance and know-how; ▪ Possible partnership of civil society and public administration in decision making processes and services; ▪ Introduction and promotion of study, training, pre-qualification and skills development programmes with the dual goal of facilitating downsizing of the public administration and improving the quality of its services to citizens; ▪ Transfer of knowledge and experience related to good practice in 	<ul style="list-style-type: none"> ▪ Lack of sustainability in political commitment for public administration reform at the central and local level; ▪ Different speed in the EU accession process and in acquiring the acquis might lead to compatibility issues; ▪ High turnover of local senior administration staff due to political changes.

Strengths	Weaknesses	Opportunities	Threats
		regional/local governance in the themes of CB importance; <ul style="list-style-type: none"> ▪ Establishment of pilot and demonstration projects of cross-border relevance (health, social, child care, education). 	

Priority 7: Enhancing competitiveness, business and SME development, trade and investment

SME and business development and the enhancing of competitiveness, trade and investment have obtained high overall ratings in both BiH and Montenegro.

While competitiveness and economic development are not key strengths but rather weaknesses of this under-developed area, the availability of business sites and premises, including the industrial zones and incubators, is only a medium size priority in the municipal development plans of both states. Furthermore, there is low level of cooperation and clustering among SMEs and inadequate promotion of business opportunities in the area.

As regards the ranking of perceived opportunities in the questionnaires, SME and business development have obtained the highest scores. Additional opportunities are seen in the development of capacities for agricultural production and food processing, standardisation and certification of local agricultural and food products, development of local markets and internationalisation and, at the bottom of the list, in the establishment of business incubators and/or industrial zones.

A number of institutions and chambers of economy also indicated that cooperation between business support structures, and promotion of investment and business opportunities in the area could be improved.

In turn, the biggest perceived threat is the persistent grey economy, lack of managerial skills and qualified human resources and unresolved property issues.

The interest for cooperation in enhancing competitiveness, business and SME development, trade and investment is very high in both BiH and Montenegro.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Well developed energy production and supply network; ▪ Growing SME sector by number and turnover; ▪ Existing industrial base (e.g. textile, chemical industry, 	<ul style="list-style-type: none"> ▪ Low level of cooperation and clustering among SMEs; ▪ Low level of added value in the processing industry; ▪ Insufficient national/local, as well 	<ul style="list-style-type: none"> ▪ Exploiting benefits of Central European Free Trade Agreement - CEFTA- to increase export potential; ▪ Developing and exploiting networking links between local economic sectors in order 	<ul style="list-style-type: none"> ▪ Lack of strong commitment to alleviating regional development imbalances and supporting faster economic growth of less developed regions at least for

Strengths	Weaknesses	Opportunities	Threats
<p>energy production and supply, metal and food processing) is undergoing restructuring towards a more competitive future;</p> <ul style="list-style-type: none"> ▪ Relatively well developed craft industry; ▪ Suitable eco climate for wine-making, fruit, vegetables, tobacco, medical plants and herbs and healthy foodstuffs; ▪ Tradition in the processing of certain agricultural products recognized in foreign markets; ▪ Existence of basic business support structures. 	<p>as direct foreign investments, which inhibits modernisation and restructuring of border areas' obsolete and uncompetitive industrial and agricultural resources;</p> <ul style="list-style-type: none"> ▪ Inadequately developed local infrastructure; ▪ Insufficient development of more sophisticated business support structures and services; ▪ Economy in rural parts of the eligible area is often segmented, mono-sector and marginal; ▪ Poor access to finance, particularly for SMEs and entrepreneurs in rural areas. 	<p>to profit from supply chains and clusters so as to improve competitiveness and further economic growth;</p> <ul style="list-style-type: none"> ▪ Improvement of entrepreneurship and product quality through cross-border initiatives; ▪ Market potential for creation of economic co-operation leading to processing of bio products; ▪ Increasing of cross-border cooperation between business support structures in industry and service sectors; ▪ Branding of regional products; ▪ Potential for public sector partnership with growing banking sector in improving access to finance for SMEs and entrepreneurs in rural areas and supporting local infrastructure development; ▪ Improvement of waste and sewage disposal services will increase the economic potential of the area; ▪ Potential for development of alternative / renewable energy sources. 	<p>a part of the area;</p> <ul style="list-style-type: none"> ▪ Slow adoption of EU technical and quality standards; ▪ Inadequate promotion of regional business and investment opportunities.

Priority 8: Strengthening research, technological development, innovation and ICT

The strengthening of research, technological development, innovation and ICT has obtained a low overall rating.

Research and development has been identified as the key weakness by municipalities and institutions in both states. However, it is listed very low in the municipal development plans.

The ratings with regard to the availability of the related infrastructure vary from high scores for telecommunications and internet access to a low score for availability of sites and premises. They figure more prominently but not very high in the municipal development plans.

As regards future opportunities, research, technological development and innovation, as well as access and quality of ITC, have obtained the lowest rankings in both BiH and Montenegro.

The main threats are perceived in the lack of appropriate public awareness, strategies and action plans as well as in the lack of qualified human resources.

The interest for cooperation in strengthening research, technological development, innovation and ICT is low in both BiH and Montenegro.

SWOT

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> ▪ Well-developed telecommunications network ▪ Existence of ICT business incubation centres in major cities ▪ Relatively well educated new youth generations and their improved overall access to learning opportunities in these areas 	<ul style="list-style-type: none"> ▪ Low share of modern technologies utilized in agriculture and industry ▪ Lack of state support to research, technological development, innovation and ICT ▪ Poor promotion and public awareness of importance of innovation and existing mechanisms of support to innovators 	<ul style="list-style-type: none"> ▪ Increasing the number of internet connections and access to new technologies ▪ Development of ICT business incubation and innovation centres in the eligible region ▪ Promotion and public awareness raising of merits of innovation and support to innovators ▪ Improving the existing and developing of new incentives for research, technological development, innovation and ICT 	<ul style="list-style-type: none"> ▪ Continued neglect of public investment in research, technological development, innovation and ICT ▪ Limited capacity of perception and adaptation to the new trends ▪ Low attractiveness of the eligible region for domestic and foreign investors



ANNEX 3: Comparative analysis of the questionnaires for Municipalities

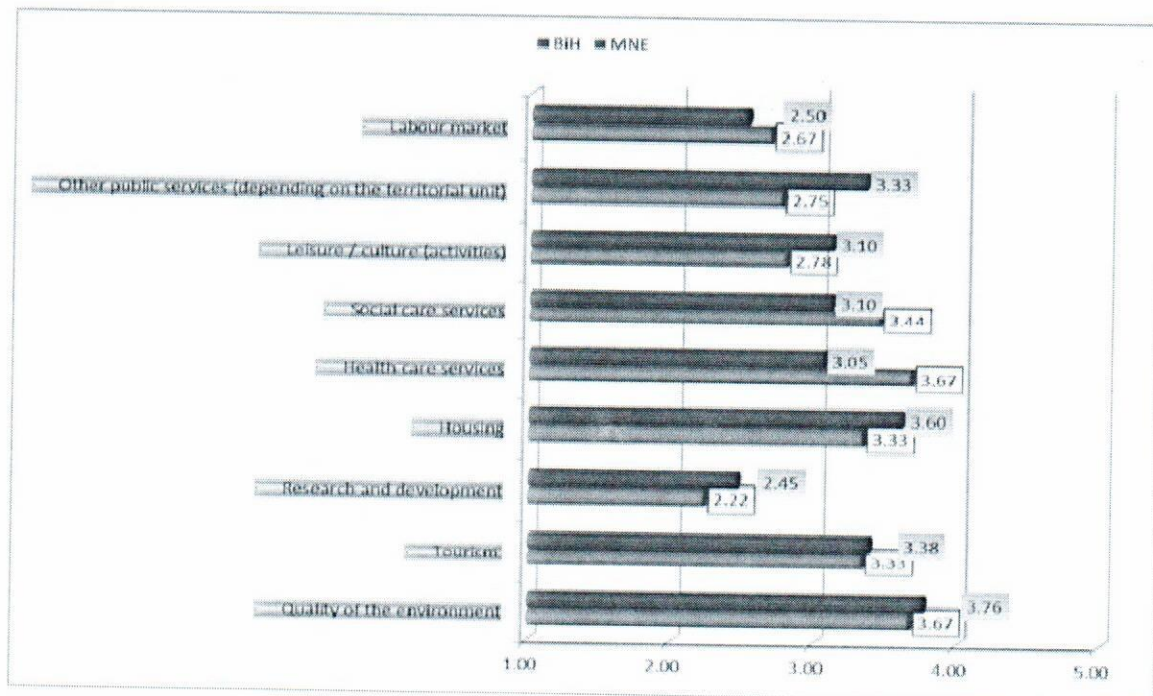
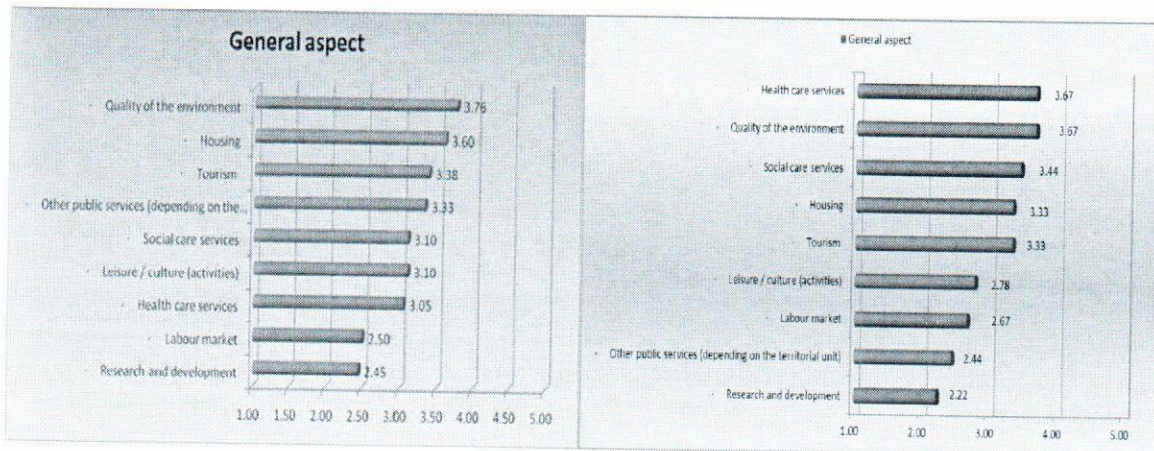
Evaluation of the strengths and weaknesses of each Municipality's territorial unit

Bosnia and Herzegovina

Montenegro

Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)

General aspect

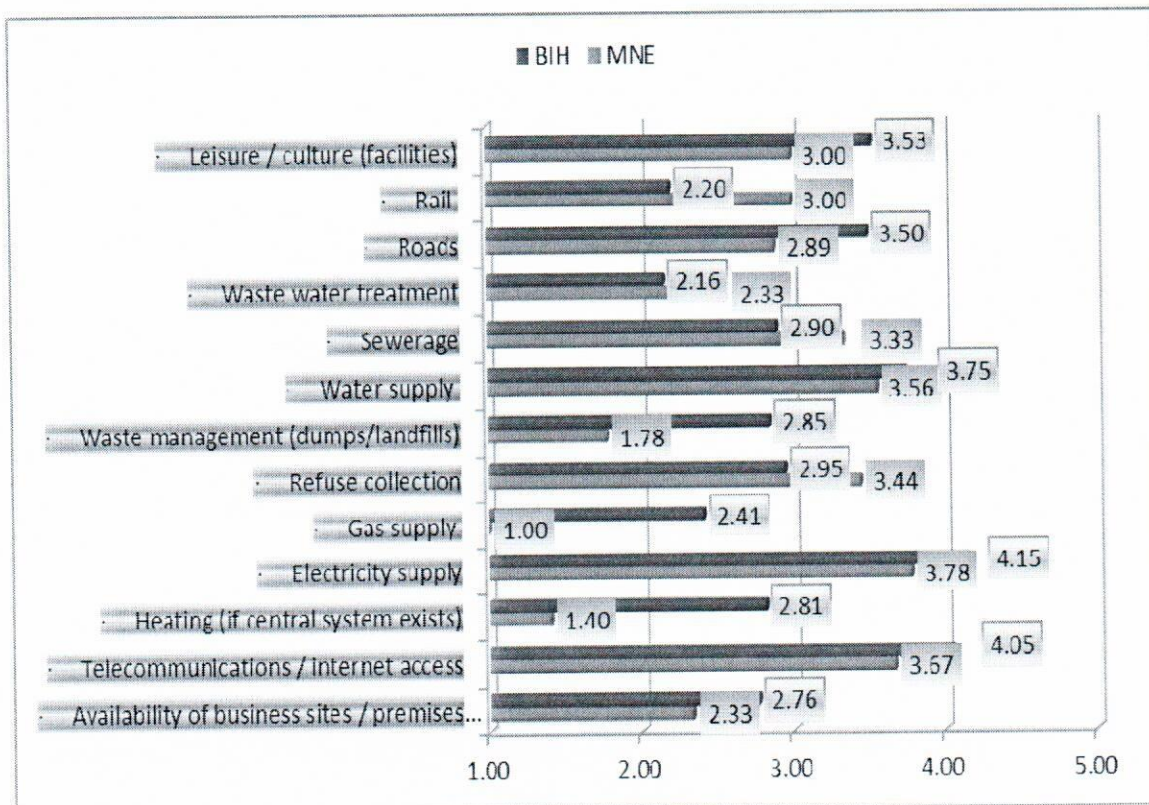
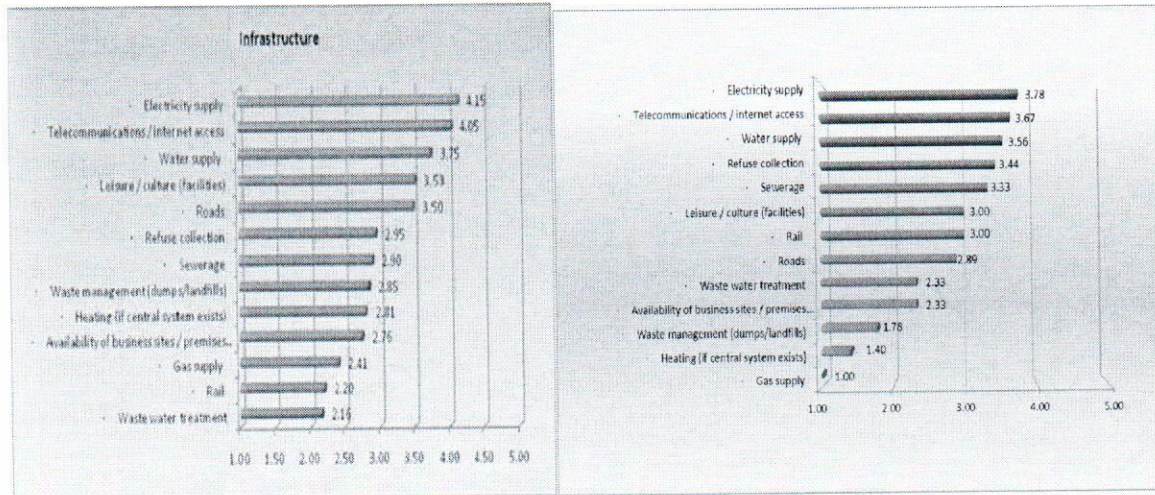


INFRASTRUCTURE

Bosnia and Herzegovina

Montenegro

Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)



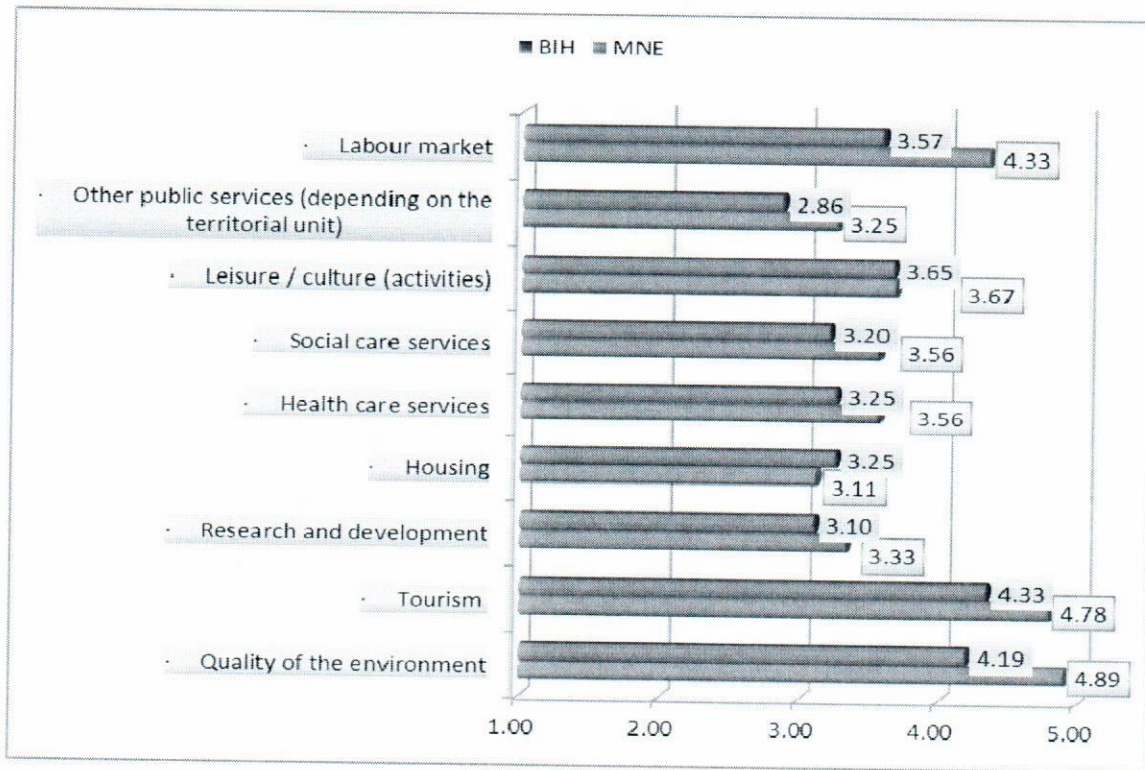
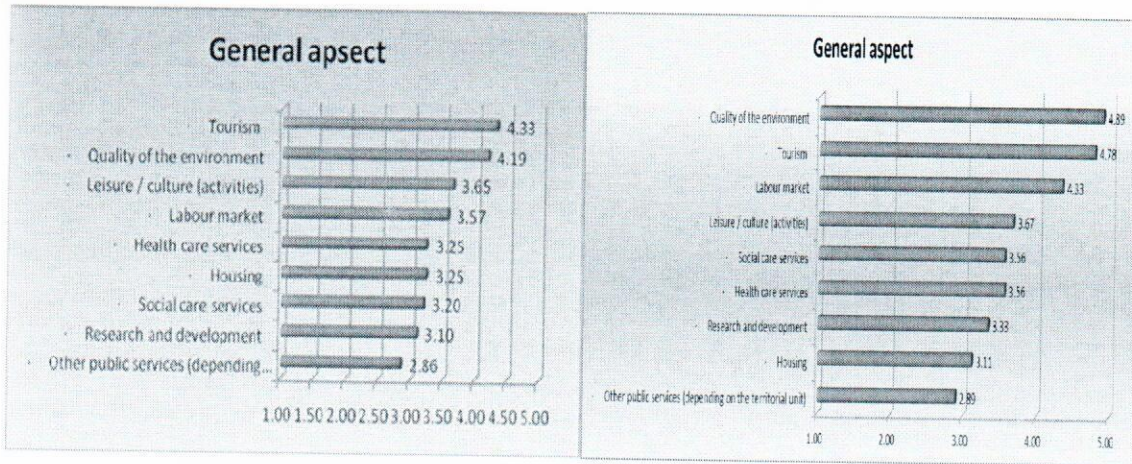
Rate of each territorial unit's development and infrastructure priorities

Bosnia and Herzegovina

Montenegro

Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)

General aspect

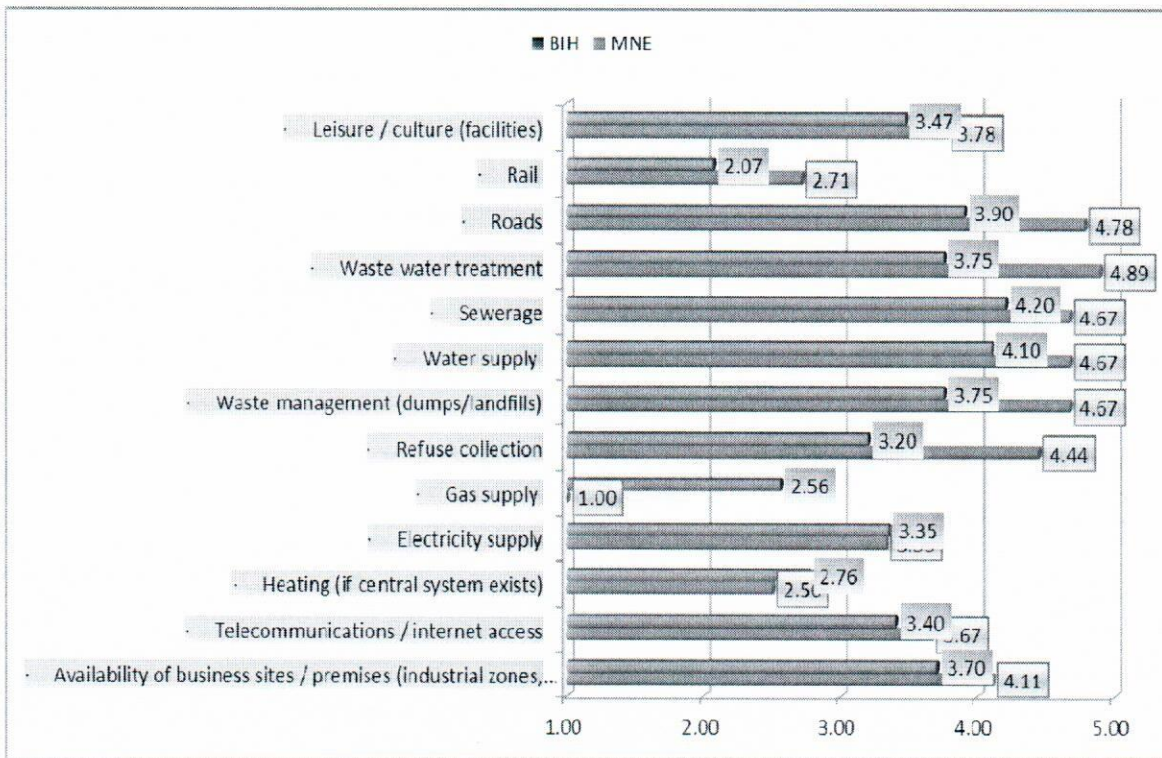
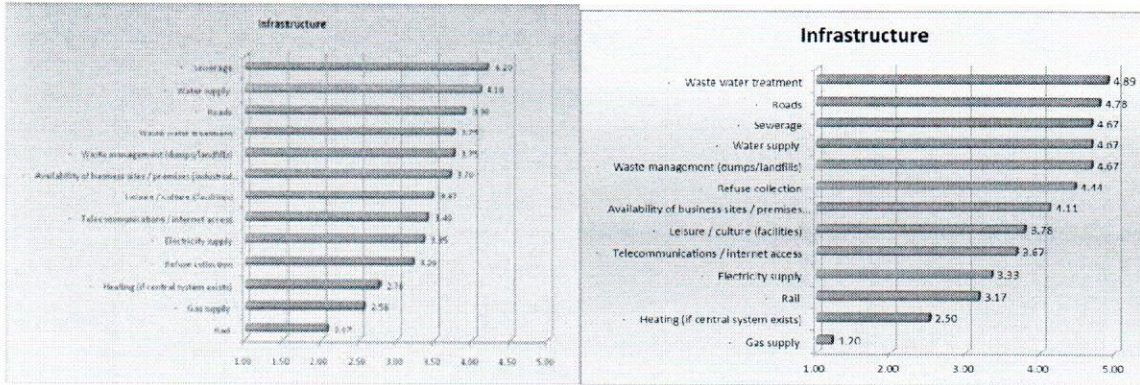


INFRASTRUCTURES

Bosnia and Herzegovina

Montenegro

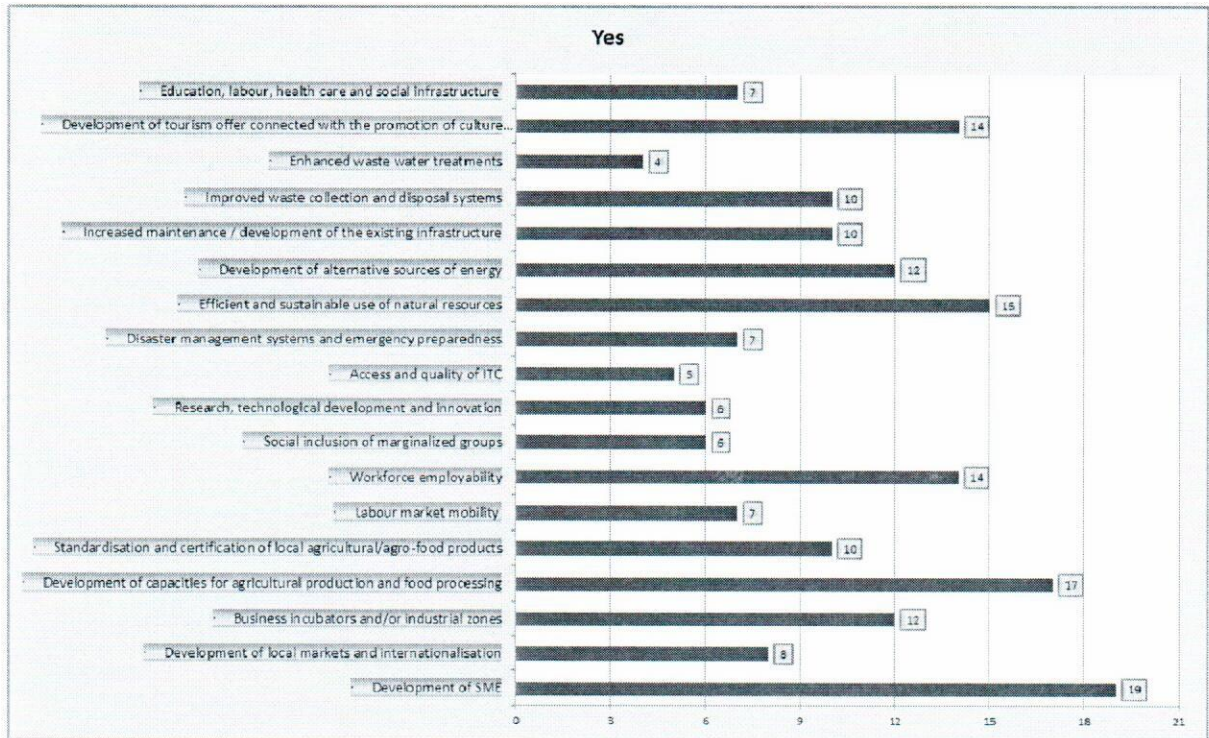
Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)



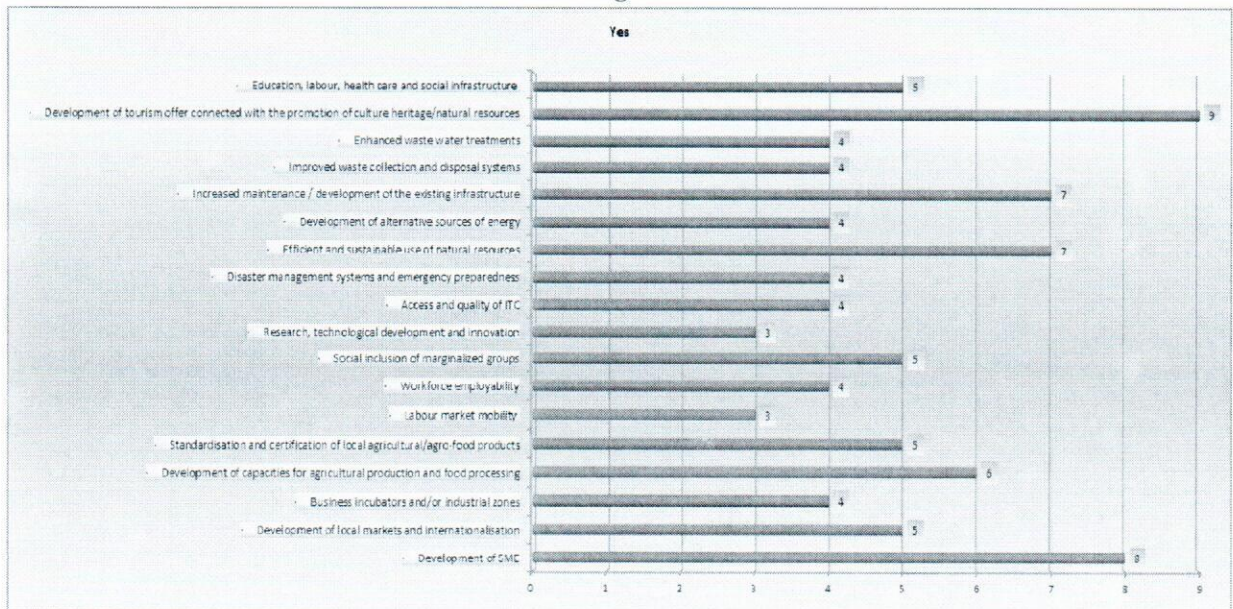
Main opportunities perceived by Municipalities

Number of Yes answers

Bosnia and Herzegovina



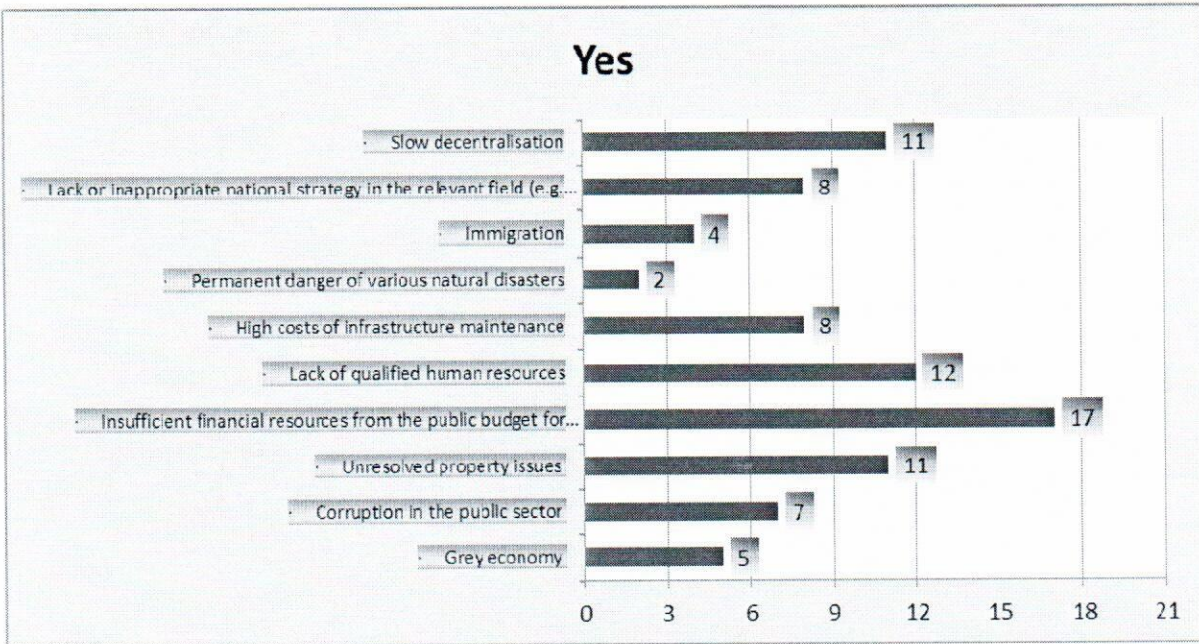
Montenegro



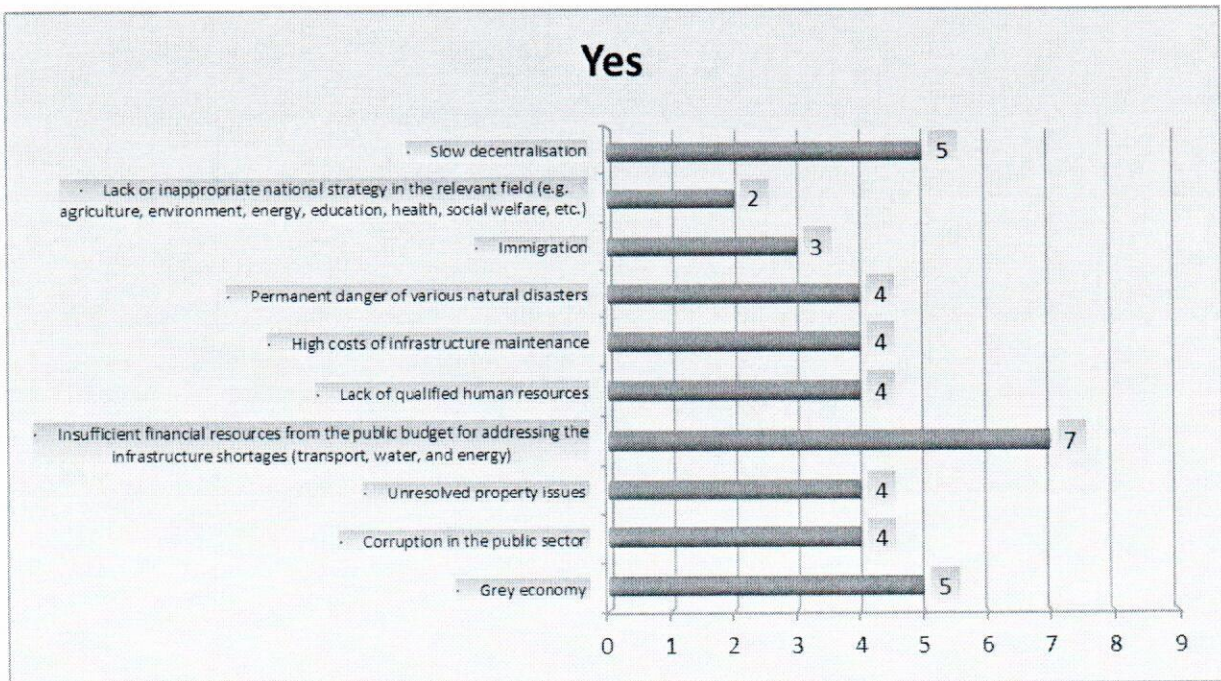
Main threats perceived by Municipalities

Number of Yes answers

Bosnia and Herzegovina

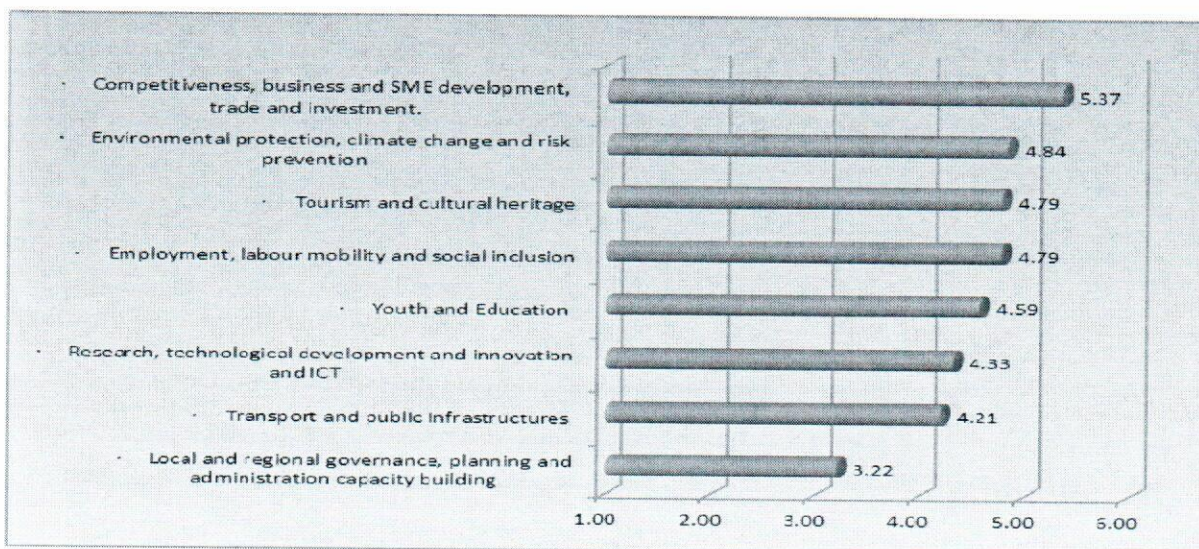


Montenegro

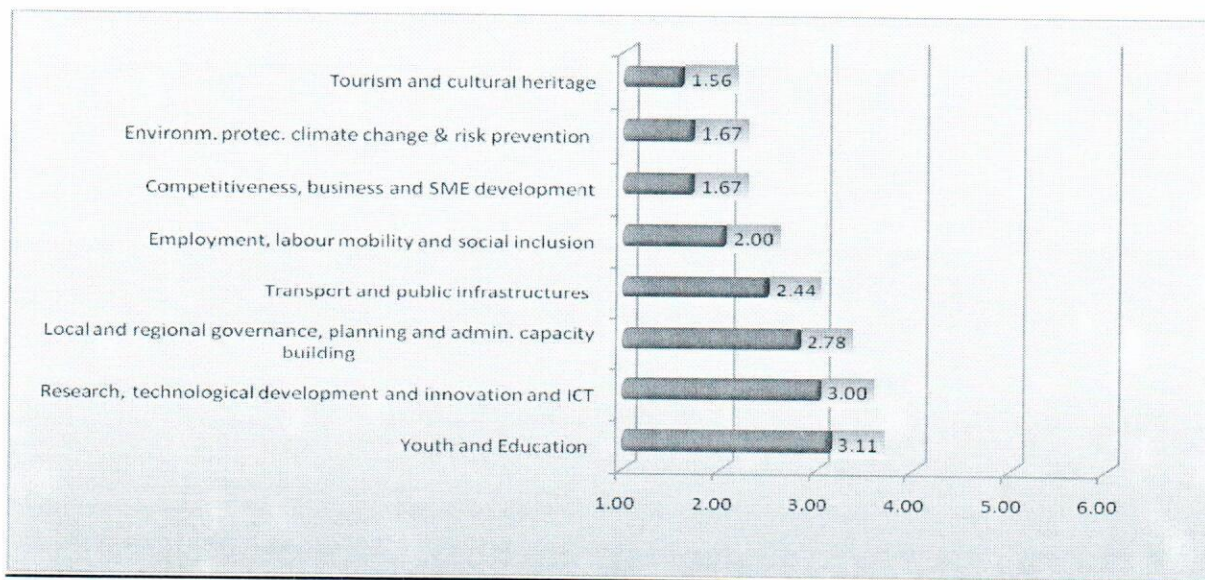


Preferred areas of cooperation with the counterpart institutions

Bosnia and Herzegovina: scores are allocated between 1 (low) and 6 (high)



Montenegro: scores are allocated between 1 (high) and 6 (low)



ANNEX II - GENERAL CONDITIONS

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Part One: General Provisions

Article 1 - Execution period, operational implementation period and contracting deadline

- (1) The execution period 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 shall start on the entry into force of this Financing Agreement.
- (2) The operational implementation period is the period in which all operational activities covered by procurement and grant contracts of the Action Programme are completed. The duration of this period is stipulated in Article 2(2) of the Special Conditions, and shall start on the entry into force of this Financing Agreement;
- (3) The execution and operational implementation periods shall be respected by the Contracting Authority when concluding and implementing procurement and grant contracts within this Financing Agreement.
- (4) Costs related to the operations of this Action Programme shall be eligible for EU financing only if they have been incurred during the operational implementation period.
- (5) The procurement and grant contracts shall be concluded at the latest within three years of the entry into force of the Financing Agreement, except:
 - (a) amendments to contracts already concluded;
 - (b) individual procurement contracts to be concluded after early termination of an existing procurement contract;
 - (c) contracts relating to audit and evaluation, which can be signed after operational implementation;
 - (d) change of the entity charged with entrusted tasks.
- (6) A procurement or grant contract which has not given rise to any payment within two years of its signature shall be automatically terminated and its funding shall be de-committed.

Article 2 - The IPA II beneficiaries and their joint duties

- (1) As provided for in Article 76(3) of the respective Framework Agreements, the IPA II beneficiaries shall cooperate closely, and shall jointly fulfill in particular the following functions and assume the following responsibilities:
 - (a) prepare the cross-border cooperation programmes in accordance with Article 68 of the respective Framework Agreements, or revisions thereof;
 - (b) ensure participation to the Joint Monitoring Committee (JMC) meetings and other bilateral meetings;
 - (c) nominate their representative(s) to the JMC;
 - (d) set up the Joint Technical Secretariat (JTS) and ensure that it is adequately staffed;
 - (e) prepare and implement the strategic decisions of the JMC;
 - (f) support the work of the JMC and provide it with the information required to carry out its tasks, in particular data relating to the progress of the operational programme in achieving the specific objectives and targets per thematic priority as set up in the cross-border cooperation programme;
 - (g) establish a system to gather reliable information on the cross-border cooperation programme's implementation;
 - (h) draw up the annual and final implementation reports as referred to in Article 80 of the respective Framework Agreements in accordance with Article 3;
 - (i) prepare and implement a coherent plan on communication and visibility;
 - (j) draw up an annual work plan for the Joint Technical Secretariat, to be approved by the JMC.

Article 3 - Reporting requirements

- (1) For the purpose of the reporting requirements set out in Article 80(1) of the respective Framework Agreements, the operating structures shall use the template provided for in Annex III to this Financing Agreement.
- (2) For the purpose of the general reporting requirements to the Commission set out in Article 58 of the Framework Agreement and the specific reporting requirements under indirect management set out in Articles 59(1) of the respective Framework Agreements on the annual report on the implementation of IPA II assistance, the NIPACs shall use the template provided for in Annex IIIA to this Financing Agreement.
- (3) For the purpose of the specific reporting requirements under indirect management set out in point (a) of Article 59(2) of the Framework Agreement on the annual financial report or statements, the NAO in the IPA II beneficiary that is the Contracting Authority shall use the templates provided for in Annex IV to this Financing Agreement.
- (4) For the purpose of Article 59(4) of the Framework Agreement the NIPAC in the IPA II beneficiary that is the Contracting Authority shall submit a final report on the implementation of IPA II assistance of this Action Programme to the Commission no later than four months after the last disbursement to its contractors or grant beneficiaries.
- (5) For the purpose of Article 59(6) of the Framework Agreement the NAO in the IPA II beneficiary that is the Contracting Authority 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 10(5). This should be supported by a signed un-audited summary financial report in accordance with point (c) of Annex IV.

Article 4 - Visibility and Communication

- (1) As provided for in the provisions of Articles 24(1), 76(3)(k), and Article 78(8)(f) of the respective Framework Agreements, the IPA II beneficiaries shall prepare a coherent plan of visibility and communication activities which shall be submitted to the Commission for an agreement within 6 months of the entry into force of this Financing Agreement.
- (2) These visibility and communication 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 5 - Intellectual property rights

- (1) Contracts financed under this Financing Agreement shall ensure that the IPA II beneficiaries acquire 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 II beneficiary that is the Contracting Authority shall guarantee that the Commission, or anybody or person authorised by the Commission, and the other IPA II beneficiary shall have access and the right to use such a material. The Commission will only use such material for its own purposes.

Article 6 - Eligibility of costs

- (1) The following expenditure shall not be eligible for funding under this Financing Agreement:
 - (a) debts and debt service charges (interest);
 - (b) provisions for losses or potential future liabilities;

- (c) cost declared by the beneficiary(ies) and financed by another action or work programme receiving a Union grant;
 - (d) currency exchange losses;
 - (e) credits to third parties;
 - (f) fines, financial penalties and expenses of litigation.
- (2) The purchase of land not built on and land built on in the amount up to 10% of the total eligible expenditure for the operation concerned shall be eligible for funding under IPA II cross-border cooperation assistance if it is justified by the nature of the action and provided in Annex I.

Part Two: Provisions Applicable to Indirect Management by the IPA II beneficiary

Article 7 - General principles

- (1) The purpose of Part Two is to lay out the rules for implementing the Action Programme under indirect management and in particular the rules related to the entrusted budget implementation tasks as described in Annex I and to define the rights and obligations of the IPA II beneficiary that is the Contracting Authority and the Commission respectively in carrying out these tasks.
- (2) As provided for in point (b) of Article 76(3) of the respective Framework Agreements, the IPA II beneficiaries shall jointly prepare a bilateral arrangement and ensure its implementation.
- (3) The IPA II beneficiary that is not the Contracting Authority shall cooperate with the IPA II beneficiary that is the Contracting Authority to ensure that the following tasks are fulfilled:
 - (a) carry out operational follow-up and management of the operations as provided for in point (b) of Article 76(4) of the Framework Agreement;
 - (b) verifications in accordance with Article 76(5) of the Framework Agreement;
 - (c) protection the financial interest of the Union as provided for in Article 51 of the Framework Agreement.

Article 8 - Procurement and grant award procedures

- (1) The tasks referred to in Article 7(3) shall be carried out by the IPA II beneficiary that is the Contracting Authority 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 force at the time of the launch of the procedure in question (PRAG), as well as in accordance with the required visibility and communication standards referred to in Article 4(2).
- (2) In accordance with Article 18(2) of the Framework Agreement the Commission will provide the IPA II beneficiary that is the Contracting Authority with further guidance as to the adaptation of the procedures and standard documents laid down and published by the Commission for the award of procurement and grant contracts in external actions to the specific case of cross-border cooperation.
- (3) The IPA II beneficiary that is the Contracting Authority 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.
- (4) The IPA II beneficiaries shall fully cooperate in establishing evaluation committees as provided for in point (a) of Article 76(4) of the respective Framework Agreements.

- (5) The IPA II beneficiary that is the Contracting Authority shall inform the Commission when a candidate, tenderer or applicant is in a situation of exclusion from participating in procurement and grant award procedures, or has been found in serious breach of its contractual obligations.

In such cases, without prejudice to the power of the Commission to take measures against such an entity according to the applicable Financial Regulation, financial penalties mentioned in the provisions on administrative and financial penalties of the General Conditions of procurement and grant contracts concluded by the IPA II beneficiary that is the Contracting Authority may be imposed on the contractors and grant beneficiaries by this IPA II beneficiary if this is allowed by its national law. Such financial penalties shall be imposed following an adversarial procedure ensuring the right of defense of the contractor or grant beneficiary. The IPA II beneficiary that is the Contracting Authority shall take into account the information contained in the Central Exclusion Database, when awarding procurement and grant contracts. Access to the information can be provided through the liaison point(s) or via consultation with the Commission¹ (European Commission, Directorate- General for Budget, Accounting Officer of the Commission, BRE2-13/505, B-1049 Brussels, Belgium and by email to BUDG-C01-EXCL-DB@ec.europa.eu in copy to the Commission address identified in Article 3 of the Special Conditions).

- (6) The IPA II beneficiary that is the Contracting Authority 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 if the procurement procedure, call for proposals or direct grant award procedure was launched prior to the entry into force of this Financing Agreement:

- (a) For procurement procedures in particular:

- a) Forecast notice with proof of publication of the procurement notice and any corrigenda;
- b) Appointment of shortlist panel;
- c) Shortlist report (incl. annexes) and applications;
- d) Proof of publication of the shortlist notice;
- e) Letters to non-shortlisted candidates;
- f) Invitation to tender or equivalent;
- g) Tender dossier including annexes, clarifications, minutes of the meetings, proof of publication;
- h) Appointment of the evaluation committee;
- i) Tender opening report, including annexes;
- j) Evaluation / negotiation report, including annexes and bids received;²
- k) Notification letter;
- l) Cover letter for submission of contract;

The IPA II beneficiary shall be allowed to have direct access to the Central exclusion database through a liaison point when the Beneficiary certifies to the Commission service responsible that it applies the adequate data protection measures as provided in the Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data (OJ L 8, 12.1.2001, p. 1).

² Elimination of unsuccessful bids five years after the closure of the procurement procedure.

- m) Letters to unsuccessful candidates;
 - n) Award / cancellation notice, including proof of publication;
 - o) Signed contracts, amendments, riders, implementation reports, and relevant correspondence.
- (b) For calls for proposals and direct award of grants in particular:
- a) Appointment of the evaluation committee;
 - b) Opening and administrative report including annexes and applications received;³
 - c) Letters to successful and unsuccessful applicants following concept note evaluation;
 - d) Concept note evaluation report;
 - e) Evaluation report of the full application or negotiation report with relevant annexes;
 - f) Eligibility check and supporting documents;
 - g) Letters to successful and unsuccessful applicants with approved reserve list following full application evaluation;
 - h) Cover letter for submission of grant contract;
 - i) Award/cancellation notice with proof of publication;
 - j) Signed contracts, amendments, riders and relevant correspondence.

In addition, financial and contractual documents referred to in paragraph 6(a) and (b) of this Article shall be complemented by all relevant supporting documents as required by the procedures referred to in section 1 of this Article, as well as all relevant documentation relating to payments, recoveries and operating costs, for example project and on the spots checks reports, acceptance of supplies and works, guarantees, warranties, reports of supervising engineers.

All relevant financial and contractual documents shall be kept for the same duration in accordance with Article 49 of the Framework Agreement.

Article 9 - *Ex-ante* 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 the tendering of contracts, launch of calls for proposals and the award of contracts and grants for the following stages of procurement or grant award:
- (a) approval of contract notices for procurement, work programmes for calls for proposals and any corrigenda thereof;
 - (b) approval of tender dossiers and guidelines for applicants on grants;
 - (c) approval of the composition of Evaluation Committees;
 - (d) approval of evaluation reports and award decisions⁴;
 - (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

³ Elimination of unsuccessful applications three years after the closure of the grant procedure.

⁴ For service contracts this steps includes *ex ante* controls concerning approval of the shortlist.

- (c) to completely dispense with *ex ante* controls.
- (3) If the Commission decides to perform *ex ante* controls in accordance with paragraph 2, letters (a) or (b) of this Article, it shall inform the IPA II beneficiary that is the Contracting Authority of the files selected for *ex ante* controls. This IPA II 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 work programme for publication.
- (4) 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 II beneficiary that is the Contracting Authority arising out this Financing Agreement. This IPA II 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 authorize a person or an entity to perform *ex post* controls on its behalf.

Article 10 - Bank accounts, accounting systems, and cost recognised

- (1) After the entry into force of this Financing Agreement, the National Fund and the operating structure of the IPA II beneficiary that is the Contracting Authority for the Action Programme shall open at least one bank account denominated in euro. The total bank balance for the Action Programme shall be the sum of the balances on all the Action Programme bank accounts held by the National Fund and all participating operating structures in the IPA II beneficiary that is the Contracting Authority.
- (2) The IPA II beneficiary that is the Contracting Authority shall prepare and submit to the Commission disbursement forecast plans for the duration of the implementation period of the Action Programme. These forecasts shall be updated for the annual financial report referred to in Article 3(2) and for each request for funds. The forecasts shall be based on a documented detailed analysis (including the planned contracting and payment schedule per contract for the following twelve months) which shall be available to the Commission on 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 Action Programme. Subsequent plans shall contain summary annual disbursement forecasts for the balance of the implementation period of the Action Programme and monthly disbursement forecasts for the following fourteen months.
- (4) The IPA II beneficiary that is the Contracting Authority is required to establish and maintain an accounting system in accordance with Clause 2(3)(b) of Annex A to the Framework Agreement which will hold at least the information for the contracts managed under the Action Programme indicated in Annex V.
- (5) Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary that is the Contracting Authority under local contracts.
- (6) The cost recognised in the accounting system shall be used by the Commission for its own provisional recognition of cost during the implementation of the Action Programme (including clearance of pre-financing paid to the IPA II beneficiary that is the Contracting Authority), the approval process for payments, the final clearance of accounts procedure at the end of the Action Programme, the annual cut-off exercise and any other management implementation and performance reviews.
- 

- (7) The IPA II beneficiary that is the Contracting Authority shall provide to the Commission reports as follows:
- (a) Cut-off report - as set out in Article 3(5);
 - (b) Annual reports as set out in paragraphs (2) to (4) of Article 3;
 - (c) Request for funds reports as referred to in Article 11.

Article 11 - Provisions on payments made by the Commission to the IPA II beneficiary that is the Contracting Authority

- (1) The IPA II beneficiary that is the Contracting Authority shall submit its initial disbursement forecast for the Action Programme, prepared pursuant to Article 10(2), with the first pre-financing payment request. The first pre-financing payment shall be for 100 % of the forecast disbursements for the first year of the disbursement forecast plan.
- (2) The IPA II beneficiary that is the Contracting Authority shall submit subsequent pre-financing payment requests when the total bank balance for the Action Programme falls below the disbursements forecast for the following five months of the Action Programme.
- (3) Each request for additional pre-financing shall be supported by the following reports in accordance with points (a), (b) and (d) of Annex IV:
- (a) A summary statement of all disbursements made for the Action Programme;
 - (b) The bank balances for the Action Programme at the cut-off date of the request;
 - (c) A forecast of disbursements for the Action Programme for the following fourteen months at the cut-off date of the request..
- (4) The IPA II beneficiary that is the Contracting Authority 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 section 3(b) of this Article at the cut-off date of the request for funds increased by any amount funded by the IPA II beneficiary under paragraph 5 of this Article 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 II beneficiary that is the Contracting Authority under this Programme and on all other IPA I or IPA II programmes managed by the IPA II beneficiary that is the Contracting Authority exceeds the disbursement forecast for the next fourteen months.

- (5) Where the payment is reduced under paragraph 4 of this Article, the IPA II beneficiary that is the Contracting Authority must fund the Programme from its own resources up to the amount of the reduction. The IPA II beneficiary that is the Contracting Authority may then request the reimbursement of that funding as part of the next request for funds as specified in paragraph 4 of this Article.
- (6) 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 IPAII beneficiary that is the Contracting Authority to give reasons for the delay in disbursing the funds and demonstrate a continuing need for them within the next following two months.
- (7) Interest generated by pre-financing of the Action Programme bank balances shall not be due.
- (8) Following Article 33(4) of the Framework Agreement, if interruption of time limit for payment request exceeds two months, the IPA II beneficiary that is the Contracting Authority may request a decision by the Commission on whether the interruption of time limit is to be continued.
- (9) The final financial declaration referred to in Article 37(2) of the Framework Agreement shall be submitted by the NAO no later than 16 months after the end of operational implementation period.

Article 12 - Interruption of payments

- (1) Without prejudice to the suspension or termination of this Financing Agreement according to Articles 16 and 17 respectively, and in addition to Article 39 of the Framework Agreement, the Commission may interrupt payments partially or fully, if:
 - (a) the Commission has established, or has serious concerns that the IPA II beneficiary that is the Contracting Authority has committed substantial errors, irregularities or fraud questioning the legality or regularity of the underlying particular transactions in the implementation of the Action Programme, or has failed to comply with its obligations under this Financing Agreement;
 - (b) the Commission has established that or has serious concerns, whether the IPA II beneficiary that is the Contracting Authority has committed systemic or recurrent errors or 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 on this Financing Agreement or call into question the reliability of the IPA II beneficiary's internal control system or the legality and regularity of the underlying expenditure;

Article 13 - Recovery of funds

- (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary that is the Contracting Authority as provided in the Financial Regulation, in particular in case of:
 - (a) the Commission established that objectives of the Action Programme set out in Annex I are not achieved;
 - (b) non eligible expenditure;
 - (c) expenditure incurred as a result of errors, irregularities, fraud or breach of obligations in the implementation of the Action Programme, in particular in the procurement and grant award procedure.
- (2) In accordance with national law, the IPA II beneficiary that is the Contracting Authority shall recover the Union contribution paid to the IPA II beneficiary that is the Contracting Authority from recipients who were in any situation defined in paragraph 1 points b) or c) of this Article or referred to in Article 41 of the Framework Agreement. The fact that the IPA II beneficiary that is the Contracting Authority does not succeed in recovering all or part of the funds shall not prevent the Commission from recovering the funds from the IPA II beneficiary that is the Contracting Authority.
- (3) The IPA II beneficiary that is not the Contracting Authority shall do its utmost to support the IPA II beneficiary that is the Contracting Authority in the recovery when the recipient is established on its territory. The arrangement for recoveries shall be provided in the bilateral arrangement to be concluded in accordance with Article 69 of the respective Framework Agreements.
- (4) Amounts unduly paid or recovered by the IPA II beneficiary that is the Contracting Authority, 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 II beneficiary that is the Contracting Authority on candidates, tenderers, applicants, contractors or grant beneficiaries, to the IPA II beneficiary that is the Contracting Authority shall be either re-used for the Action Programme or returned to the Commission.

Part Three: Final Provisions

Article 14 - Consultation between the IPA II beneficiaries and the Commission

- (1) The IPA II beneficiaries 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 18 of these General Conditions.
- (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 II beneficiaries 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 II beneficiaries of the implementation of activities described in Annex I which do not fall under Part Two of these General Conditions.

Article 15 - Amendment of this Financing Agreement

- (1) Any amendment of this Financing Agreement shall be made in writing.
- (2) If the IPA II beneficiaries request an amendment, the request shall be submitted jointly to the Commission at least six months before the amendment is intended to enter into force.
- (3) The Commission can amend the Model Documents in Annex III, IIIA, IV and V without this necessitating an amendment to this Financing Agreement. The IPA II beneficiaries shall be informed in writing about any such amendment and its entry into force.

Article 16 - Suspension of this Financing Agreement

- (1) The implementation of this Financing Agreement may be suspended in the following cases:
 - a) If any IPA II beneficiary breaches an obligation under this Financing Agreement.
 - b) If the IPA II beneficiary that is the Contracting Authority breaches any obligation set under the procedures and standard documents referred to in Article 18(2) of the respective Framework Agreements without prejudice to the provisions in Article 8(2).
 - c) If the IPA II beneficiary that is the Contracting Authority does not meet requirements for entrusting budget implementation tasks.
 - d) If the IPA II beneficiaries do not jointly fulfil the functions and responsibilities referred to in Article 2(1) and when applicable in indirect management Article 7(3).
 - e) If any IPA II beneficiary decides to suspend or cease the EU Membership accession process.
 - f) If any IPA II beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption.
 - g) 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.

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 procurement and grant contracts and delegation agreements and for such contracts, delegation agreements to be signed shall be indicated.
- (5) A suspension of this Financing Agreement is without prejudice to the termination of this Financing Agreement by the Commission in accordance with Article 17.
- (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 Action Programme to the new implementing conditions, including, if possible, the extension of the implementation period, or the termination of this Financing Agreement in accordance with Article 17.

Article 17 - 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) This Financing Agreement shall be automatically terminated, if within a period of two years of its signature:
 - (a) it has not given rise to any payment;
 - (b) no implementing contract or delegation agreement has been signed.
- (3) When the termination is notified, the consequences for the on-going procurement and grant contracts, and such contracts or grants to be signed shall be indicated.
- (4) 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 Framework Agreement.

Article 18 - Dispute settlement arrangements

- (1) Any dispute concerning the Financing Agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 14 may be settled by arbitration at one of the parties' request.
- (2) Each party shall designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within

30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.

- (3) Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.
- (4) Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.



MODEL

Annual CBC Report on Implementation

IPA II Cross-border cooperation between IPA II beneficiaries (Article 80 of the Framework Agreement)



1. Identification

CROSS-BORDER PROGRAMME	Programme title: Cross-border programme <country A> – <country B> <year>/<year>
	20xx appropriations:
	20xx appropriations:
	20xx appropriations:
ANNUAL REPORT ON IMPLEMENTATION	Reporting year (from 1 st January 20xx until 31 December 20xx)
	Prepared by: – <operating structure country X> – <operating structure country Y>
	Date of examination of the annual report by the Joint Monitoring Committee

Legal basis: Article 80 of the IPA II Framework Agreement

2. Overview of the implementation of the Cross–border cooperation programme

2.1 Achievement and analysis of the progress

- *A summary of programme implementation during the period covered (activities carried out, calls launched, partner search forums, JMC meetings, etc).*
- *If relevant , include also information on the 2014-2020 programme preparation or revision*

2.2 Progress made in implementing the cross –border cooperation programme (Art.80.1a IPA II FWA)

Progress made in implementing the cross-border cooperation programme and in particular in achieving the specific objectives per thematic priority (and also of the TA priority), including qualitative and quantitative elements indicating progress in relation to targets.

2.2.1 Quantitative analysis

- *Information on the progress made in implementing the cross–border programme with quantifications when possible using the targets and indicators included in the programme (Fill Annex 1)*

Analysis of the achievements as measured by the physical and financial indicators. Indicators shall be broken down by gender, where possible.

If the figures (data) are not yet available, information on when they will become available and when they will be included in the annual report on implementation should be provided. In addition, the information may be presented graphically.

2.2.2. Qualitative analysis

- *Qualitative analysis of the progress made in implementing the cross–border programme including an analysis of the impact of the programme in the programme area*

2.3 Detailed information about the financial execution of the cross –border cooperation programme (Art.801(d) IPA II FWA)¹

- *Information on contracting and disbursement of yearly appropriations (**Fill Annex 2)*

- *Analysis of the following factors:*

- *Financial status*
- *Information on co-financing*
- *Factors that impeded and/or delayed the financial implementation*
- *Factors that had a positive impact on the financial implementation*

¹ This paragraph shall be included in the reports only in the case of indirect management.

2.4. Information on the steps taken by the operating structures and/or the Joint Monitoring Committee to ensure the quality and effectiveness of implementation:

2.4.1 Monitoring and evaluation

- *Monitoring measures taken by the operating structures or the Joint monitoring committee, including data collection arrangements.*
- *In programmes implemented in indirect management evaluation measures taken by the operating structure where the contracting Authority is located (article 57 of the FWA).*

2.4.2. Problems encountered and corrective actions

- *Summary of any significant problems encountered in implementing the programme and any corrective actions taken.*
- *Recommendations for (further) corrective actions.*

2.5 Visibility and publicity

- *Measures taken to ensure the visibility of and publicise the programme (visibility plan), including examples of best practice and highlighting significant events.*

2.6 The use made of technical assistance

- *Detailed explanation of the use made of technical assistance.*
- *Summary of any significant problems encountered in implementing the TA budget*

2.7 Changes in the context of the cross-border programme's implementation (if relevant)

- *Description of any element which, without stemming directly from the assistance of the programme, have a direct impact on the programme's implementation (e.g. legislative changes, relevant socio-economic changes, etc.)*

*** - include an annex 2 – list of projects and short summary



Period covered by the report:
01/01/20XX-31/12/20XX

Report issued on XX/XX/20XX

**Model annual report on the implementation of IPA II assistance in accordance with
Article 58 of the Framework Agreement**

**Annual Report on the implementation of IPA II assistance under direct and indirect
management by [country] submitted by the National IPA Coordinator**

I. Executive Summary

1. Reference to the objectives of the Country Strategy Papers and a brief overview of challenges in the sectors
2. Involvement in programming
3. Relations with the European Commission.
4. Problems encountered in meeting the required conditions for implementation and in ensuring sustainability, related measures taken/planned, recommendations for further action.
5. Relevant issues stemming from the IPA II beneficiary's participation in the IPA monitoring committee and in sectoral monitoring committees (including Joint Monitoring Committee for CBC), if any.
6. Involvement in Multi-country actions and any related issues.
7. Monitoring and evaluation activities, main lessons learned & follow-up to recommendations.
8. Communication and visibility activities.
9. Donor coordination.

In case of indirect management the executive summary should also cover:

10. Overall implementation of IPA assistance under indirect management (max. one page).
11. Main horizontal problems encountered in the implementation of IPA assistance and subsequent measures taken/planned (max. half page).
12. Recommendations for further actions (max. half page).
13. Audits – main findings and recommendations and corrective actions taken



II. Information per Sector

Sector title¹: [*Transport*]

Narrative part: summary per sector, including the following information:

1. Involvement in programming
2. Overview of results in moving towards a fully-fledged sector approach (i.e. targets reached as per sector roadmap in the Sector planning document).
3. Coordination with other instruments and/or donors/ IFT's within the sector
4. The impact of IPA II actions within the sector on the development of the relevant national administrative capacity in the sector, strategic planning and budgeting

Under indirect management the following information should also be included:

5. Operating structure(s) in place and related changes, if relevant: [*Ministry of Transport*]
6. Information on the implementation of programmes in the sector
7. Main achievements in the sector
8. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
9. Recommendations for further actions
10. Implemented monitoring and evaluation activities, audits – main findings & lessons learned, recommendations, follow-up and corrective action taken

Sector title: Cross-Border Cooperation²

1. Involvement in programming as appropriate.
2. Progress made in implementing the CBC programme and in particular in achieving the specific objectives per thematic priority (including qualitative and quantitative elements indicating progress in relation to targets)
3. A summary of problems encountered in implementing the CBC programme and any corrective actions taken, as well as recommendations for further corrective actions.

¹ As per the sectors in the indicative Strategy Papers.

² For Cross-border Cooperation specific reporting is required.



4. Monitoring, including data collection arrangements and where applicable evaluation activities.
5. Communication and visibility activities.
6. Coordination with the partner country.

Under indirect management the following information should also be included:

1. Operating structure in place and related changes, if relevant.
2. Any significant problems encountered in implementing the tasks entrusted e.g. delays in contracting, and subsequent measures taken/planned.
3. Recommendations for further actions
4. Implemented audits – main findings & recommendations and corrective action taken



II a. Performance indicators in the [e.g. Transport] sector covering both direct and indirect management:

Indicators³ per programme

Financing Agreement/Programme reference ⁴	Indicator for sector [Transport]	Source	Baseline	Milestone (2017)	Target (2020)	Value (2014 ⁵)
2014 country programme	<i>Reduction of average travel time of passengers between major urban centres by transport mode</i>					
2014-20xx multiannual programme	<i>Reduced transportation costs per unit of output</i>					

³ These should be mostly outcome, as well as selected relevant output indicators

⁴ It has to be consistent with the way of programming (annual, multi-annual with or without split commitments) and with the NAO report

⁵ Number of columns to be adjusted for all years from 2014 up to the year of the reporting period. Values should be cumulative.

II b. Overview at the action level for sector [e.g. Transport]

Financing Agreement/ Programme reference	Action	State of play/Progress for particular action (e.g. ToR in preparation, tender launched, contracted, under implementation, completed)	Main achievements and their assessment	Significant problems encountered in implementing the entrusted tasks and the measures taken/planned to overcome them	Developments that influence implementation for the future	Recommendations for corrective further actions
[2014 country programme]	Electrification of the railway line from xxx to border with xxx	e.g. Service contract for preparation of ToR for the works contract signed and under implementation, tender for works contract to be launched in the second quarter of 2015		e.g. The service contract for the preparation of ToR for the works contract was delayed as the negotiated procedure failed and had to be re-launched	e.g. change of local law, like alignment with and implementation of the fourth Railway package	



Under indirect management the following annexes should also be provided:

Annex 1

Overview of the functioning of the management and control systems (including changes in the institutional structure) (max. one page).

Transparency, visibility, information and communication activities in line with FWA (max. one page)

Annex 2

Success stories (N.B. this section may be used for the annual financial assistance report prepared by the European Commission)

Annex 3

Annual procurement plan

For both direct and indirect management, the following annex should be provided:

Annex 4

Sector approach roadmap – achievements (highlighting whether planned targets have been fulfilled or not)