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Economic Reform  
**Agenda**  
for Montenegro  
2002-2007



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## **Introductory Remarks**

Economic Reform Agenda for the period 2002-2007 includes results achieved in the previous two years of the Agenda implementation, as well as vision of the key direction of activities in the next period.

The idea for the analysis of the up-to-date results of and amendments to the Agenda emerged in December 2004, at the meeting of the working body for monitoring implementation of the Agenda, chaired by the Prime Minister. First version of this document is a result of the work of nearly twenty working groups with 150 members (foreign experts, primarily USAID and EAR and their implementers, World Bank, IMF, UNDP, GTZ, KfW, representatives of embassies and institutions implementers of technical support in Montenegro, Faculty of Economics - Podgorica, Institute for Strategic Studies and Prognoses, Center for Applicative Studies and Analyses, Center for Entrepreneurship, Montenegro Business Alliance, in cooperation with experts from government agencies and institutions and independent institutions). The first version represents the expert opinion of institutions, organizations and individuals outside the Government and within the Government (experts from individual ministries, agencies and secretariats) on the up-to-date results and problems in the implementation of the Agenda, and suggestions for areas that need focusing in the next period.

The document "Agenda – Report And Recommendations" served the Government as a starting point for the development of the final document that was reviewed in the procedures of working bodies and adopted by the Government. All ministries and competent government institutions were involved in the development of the final version of the document, in the period until April 15.

For a great contribution to the development of the Agenda, the Government of Montenegro would like to thank international institutions, particularly USAID and EAR, and Professor Veselin Vukotić, who has coordinated the work of a large number of experts and institutions in the development of the first, expert version of the "Agenda – Report and Recommendations."



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## Content

Summary .....	7
A. Conceptual Basis and Objective of the Agenda.....	7
B. Tasks Included in the Agenda .....	8
Table of Contents of the Economic Reform Agenda .....	11
Expected Outcomes of the Agenda .....	15
Key Indicators and Data Needed for the Monitoring of the Agenda.....	17
<b>I EVALUATION OF THE ACHIEVEMENTS AND OVERVIEW BY AREAS .....</b>	<b>21</b>
1. Macroeconomic Trends and Macroeconomic Stability.....	23
2. Overview by Areas .....	31
1 Business Environment.....	33
2 Trade and Regional Economic Cooperation .....	34
3 Fiscal System .....	35
4 Financial System.....	37
5 Privatization and Post-Privatization .....	39
6 Pension Reform .....	40
7 Labor Market .....	42
8 Sector Policies .....	43
8a Energy .....	43
8b Agriculture.....	45
8c Forestry .....	47
8d Tourism .....	48
9 Public Administration .....	49
10 Local Government.....	50
11 Judicial Reform .....	51
12 NGO Sector Development .....	53
13 Information Society.....	54
14 Macroeconomics and Statistics .....	55
15 Environmental Protection.....	57
<b>II ACTIVITIES AND NEW INITIATIVES.....</b>	<b>59</b>
0. Tasks that Cut Across the Entire Agenda.....	61
1. Monitoring of Implementation of the Economic Reform Agenda and Macroeconomic Policy	61
2. Accession to the European Union .....	61
3. Educating the Public about Economic Reforms .....	63
4. Participation of Civil Society in Economic Policy Making and Preparation of Laws .....	65
A. Macroeconomic Stability and Development of Institutions as Support to Integral Market.....	67
1. Business Environment.....	69
2. Trade and Regional Economic Cooperation .....	73
3. Fiscal System .....	74
4. Financial System.....	81
5. Capital Markets.....	84
6. Reform of the Pension System.....	86
7. Labor Market .....	89
8. Social and Child Care System .....	90

9. Administration Reform.....	91
9a Public Administration.....	91
9b Local Administration.....	95
9c Judicial Reform.....	99
9d Economic Regulation.....	101
9e Information Society.....	102
10. NGO Sector Development.....	104
11. Macroeconomics and Statistics.....	105
12. Relations with International Financial Institutions (IFI).....	109
13. Environmental Protection.....	115
14. Anti-Corruption Initiatives.....	121
B. Economic Growth and Development.....	123
15. Incentives for Growth and Development.....	125
15a Regional Development.....	125
15b Development of Small and Medium Size Enterprises and Entrepreneurship.....	126
15c Investments.....	129
15d Research, Innovation and Technology.....	131
16. Structural Policies in the Function of Growth and Development.....	132
16a Restructuring of Enterprises.....	132
16b Privatization and Post-Privatization.....	134
17. Sector Growth and Development Policies.....	137
17a Tourism.....	137
17b Agriculture.....	143
17c Forestry.....	147
17d Education.....	149
17e Health System.....	156
18. Infrastructure as a Growth and Development Factor.....	161
18a Energy.....	161
18b Transportation Infrastructure.....	164
18c Utility Infrastructure.....	169
18d Telecommunication.....	172
ABBREVIATIONS USED IN THE DOCUMENT.....	175

## Summary

### A. Conceptual Basis and Objective of the Agenda

The document **Economic Reform Agenda for Montenegro, 2002-2007** is a further development of the Economic Reform Agenda for Montenegro, 2002-2006, adopted by the Government in March 2003. Two years after the implementation of the Agenda, the need has arisen to analyze what has been done in the previous two years, particularly in order to learn lessons from that experience for the **next period of EU accession**. Also, success in the implementation of the Agenda in the past two years encourages the need for new activities and updating of the original document.

In order to objectively evaluate what has been done and what needs to be done, the Government left that part of the work, in the initial phase, to domestic and foreign experts. The first draft of the document was the subject of mutual discussion of representatives of the Government, the Central Bank and all international institutions and donors: USAID, EAR, World Bank, IMF, UNDP, GTZ, as well as representatives of embassies and institutions implementers of technical assistance in Montenegro.

Following the discussion, an expert team prepared the draft document "Agenda – Report and Recommendations" that was submitted to the Government, discussed and corrected by agencies, institutions and government commissions and ultimately adopted at the Government session. Prior to its adoption, the document was available to the public (Government of the Republic of Montenegro and Montenegro Development Forum web sites) which gave useful suggestions and proposals.

This vision is relying on the following basic pillars of the new economic system in Montenegro:

- Open market economy,
- Domination of private property, and
- Protection of property rights and contracts.

Such manner provides continuity of **conceptual** systematic changes and economic policy in Montenegro, which is important information for entrepreneurs, investors and managers, and all other persons wishing to enter the business. This is a so-called "announcement effect," i.e. effect that creates continuity of policies, based on which companies know in advance what the Government intends to do and what is the further direction of changes.

This document is in the function of the achievement of Montenegro's strategic choice: **joining EU and NATO** and relates to its economic aspects. Through the creation of institutional environment and Government policies, implementation of the Agenda should lead to the gradual, evolutionary and essential integration in the EU business. The emphasis is on the process and essential changes in the way of thinking, business management and organization of the State.

This document represents a **vision** of what needs to be done in the next couple of years and defines conceptual framework for operational activities. Agenda is intended for **investors, entrepreneurs and managers** to get familiar with Government policy, which facilitates their decision-making and expands the horizon of their decision-making.

In the past two years, satisfactory level of **macroeconomic stability** has been achieved (through the decrease of budget deficit, low inflation rate, and development of new institutional framework), which was the focus of Government activities.

In the next period, the focus is shifting **to economic growth and development**: i.e. dynamism of the economy. It is the path towards improving **living standard and life quality of all citizens**. Improvement of the living standard and life quality will be achieved through growth and development based on the private sector and its creative and innovative potential. Growth and development will be particularly stimulated through **increase of economic freedoms**. Economic freedom is related to the individual and his/her opportunities: freedoms to work, produce, spend and invest. Our aspiration to join the EU imposes the need to increase economic freedoms in Montenegro and to become closer to the level of economic

freedoms in EU countries, such as Ireland, Estonia and Slovakia.

Economic freedoms are important for **regional economic cooperation** in the area of West Balkans. Encouraging regional cooperation and active participation – on the State and business level – is one of development pillars of Montenegro. Regional economic cooperation is an important evolutionary step towards the adoption of business principles functioning in the EU.

Economic freedoms, considered as an easy way into the business, are important for resolution of **poverty** problem. It is necessary to enable people to engage in business, linked to good business ideas and the money required for starting business. Eliminating obstacles for entering business and easier access to financial resources to all people that have a business idea is an important part of poverty reduction strategy. Therefore the Agenda is compatible with **Poverty Reduction Strategy**, adopted by the Government in 2004, and their implementation is mutual.

There are two important lessons learned from previous implementation of the Agenda. One is positive, the other negative. Positive lesson is that Montenegro already has **human capital**, able to create laws and institutions, people that have modern knowledge, and represent enormous reform and development resource of Montenegro. However, it is undisputable that there is an **“implementation gap,”** i.e. problem of implementation of enacted laws, which arises mainly from current concept of state administration. One of the tasks strongly emphasized in this document is implementation of the already enacted laws.

In that direction, the **reform of state administration**, i.e. state administration on the Republic and local level, is particularly important. Besides a number of already undertaken measures, particularly regarding its professionalism, activities on the rationalization of the state administration and its adaptation to the economic power of Montenegro will continue.

**Protection of property rights and observing of contracts** are of the key importance for investors. Therefore, judiciary reform is very important. Efficient courts are an attraction force for domestic and foreign investors. Protection of

property rights, which is in the conceptual basis of the Agenda, requires more accurate and efficient cadastre and regulated land ownership, which has already been emphasized in this document.

**Considering that on the new political and economic map of Europe, transition has, strategically and essentially, developed into the EU accession process, Economic Reform Agenda should become a specific European Agenda for Montenegro.**

## B. Tasks Included in the Agenda

Reaching Montenegro’s strategic decision to join EU and WTO and its objective to increase living standard and quality of life of citizens is possible through the accomplishment of series of tasks.

Economic Reform Agenda sets forth a series of separate but interconnected tasks that, if completed, will transform the Montenegrin economy and help Montenegro become dynamic, flexible and efficient knowledge-based society. Individually defined sections are each dedicated to a particular aspect of economic reform. Several themes cover and discuss priority tasks.

The first of these tasks is the recognition that **entrepreneurship** will be a key driver of future economic growth and development. Entrepreneurship is the energy of development. Increase of the number of new private businesses can increase growth of GDP; develop new business culture and new way of thinking, compliant with market economy. Developing an entrepreneurial economy requires a wide range of reforms in the business environment (legal, regulatory, simplification of administrative procedures, incentive measures, etc.) making it administratively easy to understand, faster, and cheaper for new businesses. It also requires mechanisms for permanent monitoring of business trends, and securing effective growth. A comprehensive review of public sector activities and the tendering of those services that are suitable for private sector participation will open new opportunities for entrepreneurs and at the same time help reduce the employment disproportion between public and private sector. Tax rates will be analyzed and adjusted to maximize private sector growth, attract investment and shift workers from the gray to the formal economy. Proportional taxes



introduction will be taken into consideration and broadening of the tax base and improved tax base structure combined with tighter control of government expenditures will create the space to reduce tax burden on private sector.

Financial sector, that has been almost entirely privatized, along with consolidation and sound regulations, should make credit lines available to citizens, particularly for investments in programs and projects of companies. Additionally, financial sector has to develop capacity for risk acceptance in the area of insurance services, with prices and conditions that are acceptable on the market. Such measures, along with other reforms, will make business environment stimulating and attractive for individual initiatives. One of the effects of the initiative directed in such manner is respect for private property that has to be absolutely protected and guaranteed by the law. It is realistic to expect that good environment for development of entrepreneurship will lead to the recognition of the fact that economic growth is based on private sector initiative, replacing previous capital expectations from the public sector.

**Investment** is a recurring theme throughout the Agenda and is related to a number of sectors, because it represents an important requirement for the growth of Gross Domestic Product (GDP). In this segment, main objective is to reduce uncertainty in deciding about investments and investment realization. Factors that influence elimination of uncertainty are described in the Agenda on several levels. Resolution of issues related to obligations relations (restitution, efficient judicial system, etc.) will provide compensation to entitled parties that will give confidence to potential investors that their property and businesses will be secure. Reform legislation and implementation of the Law on Secured Transactions and the Law on Mortgage will increase credit access. Systematization and efficient enforcement of anti-corruption measures will further increase investor confidence. The combination of a dependable, efficient legal framework, fair and equal tax treatment, effective corporate governance practices and respect for property rights are fundamental to the ability to attract investment to Montenegro's economy. It is important to establish mechanisms for the quick identification of liabilities in order to resolve claims that the State has in formerly state owned companies, with determined use of new Law on Insolvency of Business Organizations, in

order to provide for realization of specific investment projects. These will open new viable investment opportunities in some of the sectors in Montenegro that have developmental potential. Completing the sale of the remaining company shares in state ownership will help investors consolidate controlling interest, thereby giving them the ownership position enabling higher security for investments in the company.

Important topic of the Agenda is the formalization of the **gray economy**. In a depressed economy, gray market activity offers an alternative to formal employment, but has negative impact on tax revenues and reduces competitiveness of legitimate businesses. If the informal sector would be shifted to the zone of regular taxation, that would create space for the decrease of tax rates and broadening of the tax base, which would contribute to the decrease of fiscal imbalance. When talking about informal employment, the most effective way to shift workers to the formal economy is to remove reasons that motivate employers to carry on irregular employment. Reducing the cost of taxes and social contributions and other administrative burdens would create space for increase of formal number of available jobs, and enable legalization of "gray employment." Specific projects that stimulate legalization of employment and provide new budget revenues are being successfully realized in this segment.

The availability of funded, individual retirement accounts where workers set aside their own money increases the incentive to participate in the formal labor market. Improvements in tax administration would make it more difficult and costly to continue to participate in the gray economy. Measures that remove barriers and numerous activities that create disincentives for remaining in the gray economy will create conditions for a natural shift from the gray economy to the formal economy.

**Competition** and competitiveness are also among the central themes in the Agenda. Emphasizing sound competition in the economy is a prerequisite to improve the economy's competitiveness. Ending subsidies to state owned companies will increase competitors' pressures. Simplification of procedures for businesses to enter and exit the market that will result from the reform of the business regulation system will increase competition. A new anti-monopoly law

and the gradual introduction of the World Trade Organization (WTO) rules will additionally contribute to it.

The **competitiveness** of the Montenegrin economy will improve with a complete review of existing business regulatory and securities legislation and adoption of new legislation in line with the criteria that will be introduced during the negotiation within the process of stabilization and accession to EU and joining the World Trade Organization (WTO). Harmonization of the laws with EU, WTO and major trading partners will facilitate lower cross-border transaction costs. Modernization of the structure of the public administration and implementation of clear procedures within the public administration together with adoption and implementation of the anti-corruption law will enable Montenegrin economy to improve its competitive position and attract direct investments.

Development of **Research, Innovation and Technology (RIT)** is an important task of the Agenda. Development of modern society is based on the investments in science and technology area. Lagging in this area can have a negative impact on civilization trends in Montenegro. Globalization makes competitiveness of our products on the world market impossible without following scientific and technological development and creating conditions for making

investments in products and services that are produced or could be produced in Montenegro and find a buyer on the wider market.

**Local government** plays an important role in creating a competitive business environment as well as in maintaining macroeconomic stability. In various conducted surveys, businesses cite 'administrative burdens' as one of the top five barriers to doing business in Montenegro. Local governments need to review and streamline administrative processes especially business licensing and issuing of construction permits. Citizens, businesses and local governments must jointly establish goal, mechanisms and models to upgrade and improve communal services that are vital to local business development, such as water, solid waste management, waste water sewage and treatment, roads, lighting... For local governments to be efficient partners in revitalizing local economies, they need to be professional and financially sustainable.

Cutting across all others is the theme of **job creation**. In addition to those measures already mentioned, a market-based, flexible Labor Law that does not unduly burden employers is critical to improving employment. Creating conditions for greater flexibility of labor market is fundamental to increasing employment.

**Table of Contents of the Economic Reform Agenda**

Summary	Conceptual basis, objectives and tasks of the Agenda are presented.
Expected Outcomes	Expected outcomes are presented.
Evaluation and Overview by Areas	Basic macroeconomic indicators, indicators of macroeconomic stability and projections for the next 3 years are presented. Marks are given, as well as greatest achievements and problems in activities for all areas contained in the initial Agenda.
Tasks that Cut Across the Entire Economic Reform Agenda	Four tasks pertain to all others in the Economic Reform Agenda: <ol style="list-style-type: none"> <li>1. Monitoring and reporting on the activities and outcomes of the economic reforms on the EU accession path;</li> <li>2. European integration process;</li> <li>3. Communicating the progress and impact of economic reforms on the dynamics of the EU accession process to the citizens of Montenegro; and</li> <li>4. Full participation of Civil Society in the policymaking and legislation development process.</li> </ol>
EU Accession	Strategic goal the implementation of which implies positive Feasibility Study, defining negotiation team, conducting negotiations on stability and accession preceding the signing of Stabilization and Association Agreement, fulfilling obligations from the Agreement and negotiations for achieving the status of the Country Candidate for joining the EU. Intensive line coordination between all Government portfolios.
Business Environment and Trade	Harmonize legislation with legal system of the EU, with standards of the World Trade Organization and with the new constitutional framework; promote competition in internal and external markets to develop Montenegro's competitive advantage; adopt and implement a package of laws including mortgage issues and intellectual property rights; improve court administration; implement Law on Restitution and Compensation of the Taken away Property Rights; complete customs system reform including modernization, strengthening of professionalism and expert capacities of custom services.
Fiscal Reform	Institutionalize budget prioritization processes; capital and recurrent budget planning and analysis; debt management; strengthen tax policy analysis unit; optimize tax rates; develop system of financial reporting in accordance with the Budget Law; continue with the implementation of the Law on Supreme Audit Institution.

Financial System	Stimulate privatization of banks with the aim of increasing competition that will have positive effect to the quality and pricing of services; insurance sector, capital markets and investment funds will be organized in compliance with the Law on Investment Funds; full and fair resolution of problem or liquidated bank assets and frozen foreign currency deposits; amend Law on Securities, which will improve investment incentives.
Capital Market	Make Montenegro even more attractive for investments through investment in securities.
Reform of Pension System	Implement reforms in the new Law on Pension and Disability Insurance to achieve fiscal sustainability within ten years; improve procedures and oversight for investments made by the Pension Fund; private sector, voluntary pension funds will be introduced and well regulated.
Labor Market	Harmonize legislation with EU legal system and European Social Charter. In the area of labor market and labor legislation reforms changes and amendments will be made to several laws as a precondition for active employment policy with specific incentive programs for control of gray economy and job generation.
System of Social and Child Care	In the area of the reform of Social and Child Care System, national policies shall be defined regarding protection of vulnerable groups and citizens in need of social care.
State Administration Reform	Rationalize the state administration; increase efficiency and professionalism of Public Servants; carry out performance evaluation and professional training; define limited special arrangements to recruit talented officials in hard-to-fill positions.
Local Self Government Reform	Implement laws that establish the legal basis for fiscal decentralization, financing of municipalities and administration reforms; implement market-based real estate taxation.
Judicial Reform	Implement legal and administrative reforms to streamline and increase efficiency of judiciary system to increase investor and citizen confidence.
Economic Regulation	The objectives are to define precisely 'rules of the game', break down monopolies and protect consumers.
Information and Communication Technologies	Realization of the Agenda for building an information society signed by Montenegro on October 29, 2002.
Civil Society	Strengthen civil sector and Government partnership by adopting and implementing a regulatory framework that enables NGOs to take a needed role and become effective partners in the Agenda implementation.
Macroeconomics and Statistics	Identify key economic indicators and strengthen government statistics institutions; develop a system for data collection and adopt statistical methodology for monitoring and analyzing data in accordance with international standards; establish a system for monthly reporting to the Government; and provide data accessibility.

Relations with International Financial Institutions	Increase efficiency and exchange of information, and ways of finding sources of new investments in Montenegro. Support initiatives from the private sector.
Environmental Protection	Gradually harmonize laws with EU legal system, apply economically viable policies that are good for the protection of the environment; provide incentives for ecologically justified growth through taxes and regulatory regime; improve land use, construction, and building permit processes in accordance with the future Urban Development Plan; develop and realize programs for managing solid and liquid waste, including recycling and processing and conditions of landfills and other waste disposal areas, and improvement of urban and rural infrastructure, using private sector participation models where possible, increase public education and awareness about the importance of environmental issues.
Anti-Corruption Initiative	Prevention of events that deform the market.
Regional Development	Harmonize regional development policy and establish a more balanced regional development of the Republic.
Entrepreneurship	Considering entrepreneurship as a basic development force, disperse idea of entrepreneurship among population, particularly young people.
Investments	Improve institutional environment, as well as the flow and dispersion of information on investment possibilities in Montenegro.
Research, Innovation and Technology	Response to challenges of globalization.
Restructuring of Companies	Support and motivate companies to enter the restructuring process in order to revitalize them and make them more attractive to investors.
Privatization and Post-privatization	Full implementation of annual privatization plans, liquidation of companies or restructuring of assets of insolvent companies to put these assets into productive use; privatization of hotels and hotel companies and setting proper governance system, controlling of investment plans under privatization agreements.
Sector Policy - Tourism	<p>Master plan for sustainable development of tourism implies priority of the development of tourism resources in the sectors that have largest potential for economic growth, for decreasing "gray market," and merging of sound principle of environment protection. Implement the Law on Tourism, stimulate policy for consumer protection and provision of quality services, enforce the Master Plan complemented with new trends in tourism, improve and modernize transportation network and provide other preconditions for development of tourism (communal infrastructure and good electricity supply), integrated and controlled access to the development of new tourism resources and accommodation capacities.</p> <p>Principles of sustainable development and creation of high quality products will be incorporated in the Urban Development Plan of the Republic and PPPNMD – Special Purpose Urban Development Plan for the Coastal Area.</p>

Sector Policy - Agriculture	Gradually harmonize laws with EU legal system, harmonize agrarian policy with Common Agricultural Policy of the EU, reform agricultural institutions for efficient implementation of new legislation and principles of Common Agricultural Policy of the EU, provide crediting mechanisms for agriculture sector, define products for export, develop production of high quality (organic) food for export and domestic market consumption, develop cooperation with tourism sector in compliance with ecological state principles.
Sector Policy - Forestry and Wood Processing	Introduce policy changes and restructure harvesting companies with majority state ownership to achieve sustainable harvesting certification and prepare for privatization of companies in the sector.
Education	Influence of the education reform on the creation of human capital and economic growth and development.
Health Care	Increase quality of services and decrease costs, and develop private initiative in this area, which leads to the economic development and improvement of quality of life of citizens.
Infrastructure	Includes transportation infrastructure, energy and communal infrastructure and telecommunication, as key preconditions of accelerated economic growth that opens new possibilities and prospects for the overall development of the society.
Energy	Provide business viability of independent energy regulatory body; rationalize rates to allow for financial and commercial viability of energy providers; achieve efficiency increase of energy undertakings through direct intervention, private sector participation and competition; liberalize electricity market and participate in regional integration; develop new generation capacities and optimize the existing ones, taking into consideration balance between economic, energy and environmental aspects, as well as sustainability of energy sources. Adopt program for the development of renewable energy sources and Energy Strategy.
Managing the Reform Program	Defining an Economic Reform Agenda for the future is only the first step. The key to success will be in how effectively the initiatives within the Agenda are implemented. Management of the program will be based on a synergy between leadership and management functions. The Prime Minister will lead the Reform Program based on an executive decision made by the Government of the Republic Montenegro.

### Expected Outcomes of the Agenda

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The Economic Reform Agenda is a comprehensive long-term plan adopted by the Government of the Republic of Montenegro aimed at achieving the following goals:

- Growth of the standard of living, with adequate educational and health system and efficient social security system,
- Economic growth, based on the private sector, with the decrease of regional disproportions,
- Compatibility of legislation and processes with the European Union and World Trade Organization,
- Economic growth based on the protection of the environment, and
- Maintenance of macroeconomic stability, with the decrease of public consumption.

### At the end of the five-year program, the Montenegrin economy will exhibit the following characteristics:

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**High level of compliance of domestic legislation, procedures and institutions with the legal system of EU** on the strategic path to European Union accession. Open, liberal and competitive economic sectors in Montenegro that enable gradual integration in the common EU market.

**Fiscal Sustainability**, i.e. budget execution according to plan without arrears carried over to the following year and without significant unmet liabilities, this will occur in the context of a tax regime adjusted for development of private sector.

**Transformation of the Pension System** based on the principle of financial independence and capitalization.

**Stable Financial Sector** well regulated in all areas so that enables rapid resolution of disputes, high levels of competition of private sector with clear regulations for protection of rights of lenders and depositors, and a wide variety of investment options for savings.

**Encouraging Business Environment and High Degree of Economic Freedoms** with stable business conditions that implies quick resolution of disputes and protection of property rights, where all laws are harmonized with the European Union and World Trade Organization rules. There

is a clear system of regulations for protection of rights that are non-discretionary as a rule.

**Intensified employment** through creation of pre-conditions for legalizing employment, in the first stage, and subsequently, as a natural consequence of economic growth.

Established more balanced **regional growth** of the Republic.

Capital participation of **tourism sector** in the Gross Domestic Product (GDP) with the steady increase of revenues from domestic and international tourists, based on increased turnover resulting from increase in quality. Policy and legal framework to support fast privatization and incentives for investment in hotel capacity, and improvements in water supply, wastewater treatment, solid waste disposal and processing, and traffic conditions. Noted improvement in the quality of service and level of professionalism of those employed in the tourism sector.

Montenegro will be competitive in high value niches in **Agriculture, Forestry, and Wood Processing**, using modern business and technological methods, and developed citizens awareness on **Environmental Protection** in accordance with principles of Ecological State.

**Energy Sector** that provides stable sources of electricity and reliable transmission and distribution system, market prices and established transparent regulatory system competent for tariff policies supportive of investment in this sector, and set of policies and incentives that are consistent with Montenegro's orientation, as an Ecological State that appreciates its potentials.

**Public Administration** with motivating working conditions and remuneration system that is able to attract qualified public servants and promote them based on performance evaluation and who will continuously improve public administration and provide professional governance.

**Privatization** will be completed (with the exception of few strategic sectors), by auctioning sale of remaining state assets to the private sector and investors who are capable of driving reinvestment and growth. Private sector participation in the provision of public services is widespread, leading to an improvement in the quality and efficiency of public services.

**Local Governments** with full responsibility for local economy and macroeconomic stability, autonomous in its key functions with independent tax collection capacity to finance the new system of authorities and responsibilities. Local government must be responsible for macroeconomic stability, due to the plans for the decrease of Republic administration, therefore it is important to adjust fiscal policy on the local level. The

situation where the administration is decreasing at the level of the Republic and increasing at the level of local governments should be avoided in order to avoid restraining of entrepreneurship and investments.

**Education** i.e. education reform that leads to a high quality education and increases the quality of human capital.

Significant improvement in building Montenegro as **Information Society** based on the systematic development of IT culture and application of Information and Communication Technologies in accordance with the Agenda for development of the information society signed by Montenegro on October 29, 2002 (concept of accession of Stability Pact Countries to SEE e-initiatives of the EU). Availability of new electronic business services and mechanisms as well as availability of government and public services via Internet through the e-government initiative.

Realization of the Agenda should lead to the increase of investment in the area of **Innovation, Research and Technology**, and institutional framework that would make this area more attractive for private sector investment and create conditions for the development of flexible, dynamic and efficient society based on knowledge, innovation and patents in Montenegro.

**Infrastructure** is implemented to create preconditions for accelerated development based on high standards.



## Key indicators and data needed for the monitoring of the Agenda

With the objective of easier monitoring of activities within the Agenda, the following is presented:

- Data used in and related to all parts of the Agenda
- Projections of macroeconomic trends
- Indicators of macroeconomic stability and development

### Data used throughout the Agenda -official data-

	2000	2001	2002	2003	2004	Source
Gross Domestic Product (GDP) - mil € (current prices)	1,022.20	1,244.80	1,301.50	1,433.00	1,535.00	Monstat and Secretariat for Development
GDP per capita - € (current prices)	1,668.91	2,024.75	2,109.11	2,317.90	2,473.00	Secretariat for Development
Real GDP growth rate (%)	3.10	-0.20	1.70	2.30	3.70	Monstat and Secretariat for Development
Population	612,496	614,791	617,085	618,233	620,706	Monstat and Secretariat for Development
Industrial production (growth rate)	5.40	-0.70	0.60	2.40	13.80	Monstat
Processing industry (growth rate)		1.60	2.30	-2.10	13.10	Monstat
Electricity, gas and water production (growth rate)		-6.10	-6.60	17.50	21.00	Monstat
Mining and quarry (growth rate)		-11.50	7.50	1.40	-5.10	Monstat
Inflation – retail price index (%)	24.8	28.0	9.40	6.70	4.30	Monstat
Number of tourists	448,187	555,040	541,699	599,430	703,484	Monstat
Total revenue from tourism (in mil €)			144	151.20	179.70	CBM
Revenue from foreign tourists (mil €)		105.90	124.20	136.00	163.50	CBM
Revenue from transportation services abroad (mil €)		28.40	32.04	35.10	45.30	CBM
Retail trade turnover (mil €)	137.50	152.90	145.30	148.20	158.80	Monstat
Employed	140,762	141,112	140,100	142,679	143,479	Monstat
Unemployed	81,069	79,960	76,293	68,625	59,002	Bureau of Employment
Unemployment rate	32.7	31.5	30.45	25.82	22.6	Bureau of Employment
Pensioners	84,772	87,093	88,835	90,183	93,033	Pension Fund
Average salary (in €)	150.00	176.00	193.00	271.00	302.81	Monstat
Average pension (in €)	83.50	98.50	108.80	113.00	122.00	Pension Fund
Budget expenditures (mil €)			255.02	386.84	408.07	Ministry of Finance
Budget revenues (mil €)			229.87	341.55	375.85	Ministry of Finance
Budget deficit (mil €)			25.15	45.29	32.22	Ministry of Finance

Economic Reform Agenda for Montenegro 2002-2007

Budget deficit as % of GDP			n.a <sup>1</sup>	3.29%	2.18%	Ministry of Finance
M1 (mil €)	n.a	n.a	n.a	386.12	429.56	CBM
M1 as % GDP	n.a	n.a	n.a	402.59	435.77	CBM
M2 narrower concept (mil€)	n.a	n.a	n.a	460.84	536.11	CBM
M2 broader concept (mil €)	n.a	n.a	n.a	494.29	546.84	CBM
Total deposits (mil €)	130.00	148.00	205.50	211.01	273.78	CBM
Citizens deposits (mil€)	2.47	5.62	22.21	45.07	80.68	CBM
Private companies and entrepreneurs deposits (mil €)	n.a.	n.a.	65.34	81.55	71.86	CBM
Total loans (mil €)	113.50	124.00	124.66	200.63	284.08	CBM
Loans to citizens (mil €)	3.91	7.85	22.29	49.96	74.33	CBM
Loans to private companies and entrepreneurs (mil €)	n.a	n.a.	70.31	114.15	166.96	CBM
Annual active interest rate	41.00%	12.40%	15.16%	14.07%	13.50%	CBM
Annual passive interest rate	0.10%	0.20%	0.50%	1.84%	3.39%	CBM
Export of goods and services (mil €)	304.00	385.00	498.6	461.90	622.70	CBM
Import of goods and services (mil €)	427.00	776.00	815.00	709.60	913.70	CBM
Trade balance (mil €)	-123.00	-391.00	-334.00	-247.60	-291.00	CBM
Current account balance (mil €)	152.00	305.00	176.00	-101.98	-142.97	Monstat (2000-01), CBM (2002-04)
Net FDI (mil €)		10.60	87.00	38.72	50.00	CBM
Number of transactions on the capital market (growth rate)			374.72	395.79	168.95	Securities Commission
Turnover on the capital market (growth rate)			27.96	202.2	-1.5	Securities Commission
Gray economy (%) (p)		30.00	30.00	20.00	15.00	ISSP
Investment (mil €)	175.51	225.62	182.90	213.62	111.08	Monstat, estimates for 2004
Poverty rate (p)				12.20		ISSP
Number of registered legal entities					11,656	Commercial Court
Number of registered entrepreneurs					13,090	Commercial Court

<sup>1</sup> n.a. – not available

## Evaluation of Macroeconomic Trends

## Projections of Macroeconomic Indicators - 2005-2007

Macroeconomic Indicators	2005	2006	2007
Gross Domestic Product - mil. € (current prices)	1,644.0 <sup>1</sup>	1,759.0	1,873.3
Population (mid-year estimate)	623,189	625,682	628,184
Gross Domestic Product per capita - € (current prices)	2,638.0	2,811.3	2,982.1
Real GDP growth rate	4.1	4.5	4.5
Public expenditure (% of GDP) <sup>2</sup>	46%	43%	40%
Inflation rate - retail prices	3,5	2.9	2,5
Unemployment rate	21.6	20.6	19.3
Foreign direct investments (mil €)	150.0	180.0	200.0
Foreign direct investments per capita (€)	240.7	287.7	318.4
Human development index <sup>3</sup>	<b>0.790</b>	<b>0.792</b>	<b>0.795</b>

<sup>1</sup> Economic policy for 2005 has projected GDP of 1,580.00 mil.€, with the real growth rate of 4.1%. That projection has been made in the moment when not all required data were available for 2004, which represent basis for calculation

<sup>2</sup> Source: Ministry of Finance

<sup>3</sup> Source: ISSP: "Human Development in Montenegro 2004". Report analyzes index fluctuation in 2000-2003, while estimates for 2004-2007 were prepared based on projected GDP trends, with the assumption that other components are unchanged.



**I EVALUATION OF THE ACHIEVEMENTS AND OVERVIEW BY AREAS**



## 1. Macroeconomic Trends and Macroeconomic Stability

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**Gross Domestic Product (GDP).** In 2004, achieved **real growth of GDP was 3.7%**. Processing industry, which participated with 11.5% in GDP, realized the growth of 13.1%, which resulted in the growth of GDP of 1.5%. Production of electricity, gas and water realized the growth of 21%, which, having in mind that this sector accounts for 7.6% of GDP, resulted in the GDP growth by 1.59%. Remaining 0.61% of GDP growth is the result of the aggregate growth in agricultural sector, which makes 11.3% of GDP, and services sector (trade, transport, tourism, financial intermediation, etc.), which contributes more than 60% of GDP. **Private sector** participates with approximately 44% in the creation of GDP and is a dominant generator of growth.

**Inflation.** Introduction of DM and later of EURO as legal tender was a monetary policy strategy, which resulted in reduction of inflation to 4.3% in 2004. At the beginning of monetary reform in 2000, inflation rate was 24.8% and 28% in 2001, which was followed by a reduction to 9.4% in 2002, 6.7% in 2003 and finally 4.3% in 2004.

**Unemployment.** Unemployment rate in 2004 was 22.6%. Several researches indicated that private sector was generator of new work places and a factor that reduced unemployment. Number of unemployed persons at the end of 2004 was 59,000, while at the end of 2002, prior to the implementation of the Agenda, there were 76,000 unemployed persons.

**Budget expenditures.** Expenditures of Central Budget of Montenegro have been realistically reduced in 2004 in comparison to 2003. Share of expenditures in GDP in 2004 was at the level of 26.58%, while it was 27.0% in 2003. Deficit of the Central Budget of Montenegro of 2.18% of GDP in 2004 was lower than in 2003, when it was 3.29% of GDP. The goal of fiscal policy in coming period will be the reduction of both fiscal expenditures and deficit in order to create space for fiscal relief on businesses in Montenegro.

**International trade.** Value of export of goods and services increased from 498.6 million € in 2002 to 622.7 million € in 2004. At the same

time, value of import increased from 815 million € (2002) to 913.7 million € in 2004. Faster growth of export compared to import resulted in continuing reduction of foreign trade balance<sup>1</sup> deficit share in GDP, from 25.66% in 2002 to 18.96% in 2004.

**Foreign direct investments (FDI).** Value of investments is largely conditional on the speed of privatization process in Montenegro. In the period from 2001-2004, the highest level of FDI was in 2002<sup>2</sup> and amounted to 87 million € or 141€ per capita. Foreign direct investments in 2003 amounted to 38.7 million € and 50 million € in 2004, or 62.6€ and 80.6€ per capita, respectively.

**Foreign Debt of Montenegro** in 2003 amounted to 438 million €, while in 2004 it increased by approximately 64.7 million € and reached the value of 502.7 million €. Share of foreign debt in GDP was 30.57% in 2003 and 32.75% in 2004.

**Index of Human Development.** New indicator being analyzed in Montenegro since 2004<sup>3</sup> shows progress in this sphere. Human development index<sup>4</sup> increased from 0.766 (2001) to 0.788 in 2004. This value places Montenegro among countries with middle level of human development and is very close to the high level threshold (index value of 0.800 and more). According to preliminary estimates, this value will be reached in Montenegro in 2008.

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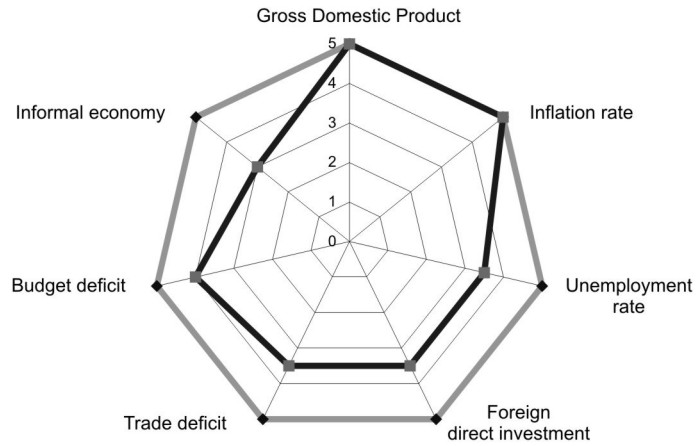
<sup>1</sup> Foreign trade balance refers to balance of trade in goods and services.

<sup>2</sup> Privatization of Jugopetrol represented 75% of total FDI.

<sup>3</sup> Report on human development in Montenegro is being prepared by ISSP.

<sup>4</sup> HDI is an indicator summarizing level of human development. It measures average achievements in a country from three aspects: (1) health of population, measured through life expectancy; (2) knowledge, measured as level of literacy (it carries two-thirds of index) combined with primary, secondary and tertiary level of enrollment in elementary/high schools and universities; (3) living standard measured as GDP per capita PPP in US\$

**Economic Indicators - 2002-04**



**Macroeconomic Indicators in Montenegro - 2002-2004**

Indicator	2002			2003			2004		
	Planned	Achieved	Difference	Planned	Achieved	Difference	Planned	Achieved	Difference
GDP growth rate (%) <sup>1</sup> (1a)	1.5	1.7	0.2	1.5	2.3	0.8	27	3.7	1
Inflation rate – retail price (%) <sup>2</sup> (3)	9.4	9.4	0	8	6.7	-1.3	4.5	4.3	-0.2
Unemployment rate (%) <sup>3</sup> (4)	23.23	30.45	7.2	22	25.82	3.8	21	22.6	1.6
Foreign direct investments (mil. €) <sup>4</sup> (6)	75	87	12	90	38.7	-51.3	120	50	-70
Foreign direct investments per capita - €	121.54	141	19.4	145.58	62.6	-83	193.33	80.6	-1128

<sup>1</sup> Source: Monstat (2002), Secretariat for Development (2003-2004)

<sup>2</sup> Source: Monstat

<sup>3</sup> Source: Employment Bureau

<sup>4</sup> Source: Central Bank of Montenegro



Other Indicators	2002	2003	2004
Gross Domestic Product - (mil. €) - current prices <sup>5</sup> (1)	1,301.5	1,433.0	1,535.0
Population (mid-year assessment) <sup>6</sup> (2)	617,085	618,233	620,706
Gross Domestic Product per capita - (€) - current prices	2,109.1	2,317.9	2,473.0
Expenditures of the Central Budget of the Republic (mil €) <sup>7</sup> (5)	255.02	386.84	408.07
Revenues of the Central Budget of the Republic (mil €) (5)	229.87	341.55	375.85
Deficit of the Central Budget of the Republic (mil €) (5)	25.15	45.29	32.22
Share of budget expenditures in GDP (%) (5)	19.59%	27.00%	26.58%
Share of budget deficit in GDP (%) (5)	1.93%	3.16%	2.10%
Export of goods and services (mil €) <sup>8</sup> (6)	498.6	461.9	622.7
Foreign trade deficit (mil €) (6)	334	247.6	291
Share of foreign trade deficit in GDP (%)	25.66	17.28	18.96
Foreign debt (mil €) <sup>9</sup> (7)		438	502.7
Share of foreign debt in GDP (%)		30.57	32.75
Human development index <sup>10</sup> (8)	0.774	0.786	<b>0.788</b>

<sup>5</sup> Source: Monstat for 2002 estimate of Secretariat for Development for 2003-2004 and for 2005-2007.

<sup>6</sup> Source: Monstat for 2002-2003, estimate of Secretariat for Development for 2004 based on average annual population growth rate.

<sup>7</sup> Source: Ministry of Finance of Montenegro.

<sup>8</sup> Source: Central Bank of Montenegro.

<sup>9</sup> Source: Ministry of Finance of Montenegro.

<sup>10</sup> Source: ISSP: "Human development report in Montenegro 2004". Report analyses trend of the index in the period 2000-2003, while for period 2004-2007 estimates were based on projected trends of GDP, with notion of unchanged other components. The index is calculated based on international methodology prescribed by UN, and includes three standard components: education (measured by the rate of literacy), health (measured by length of life expectancy of population) and revenue (measured by GDP per capita expressed in parity of purchase power). Index values in the range of 0.5-0.8 indicate the achieved medium level of human development.

GDP Growth Rates in Montenegro – 2002-2004<sup>1</sup>

## Growth Rates and Calculation Method

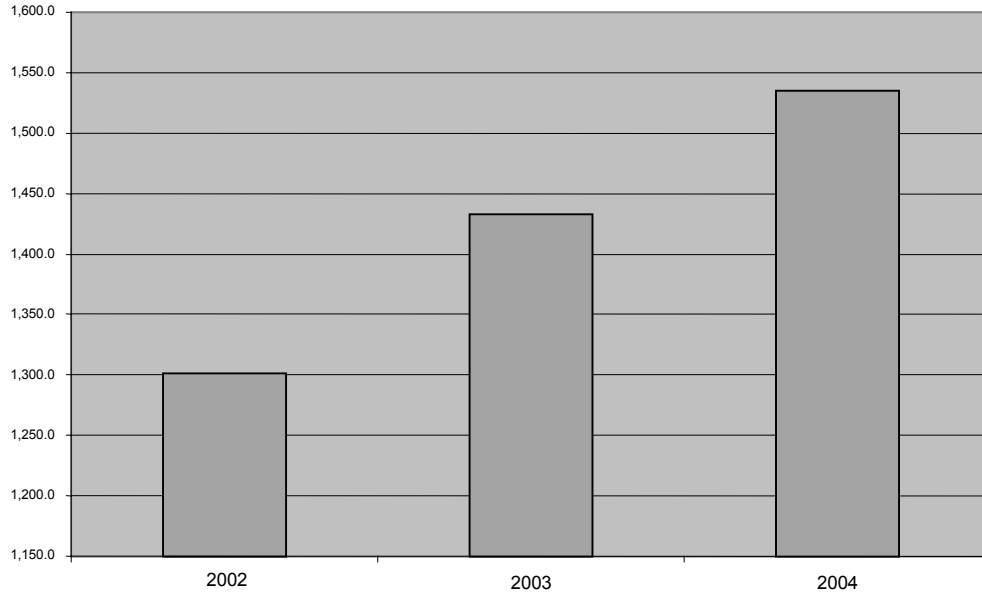
Economic Activities	2002			2003			2004		
	Share of GDP	Growth rate	Share of GDP growth rate	Share of GDP	Growth rate	Share of GDP growth rate	Share of GDP	Growth rate	Share of GDP growth rate
Agriculture, hunting and forestry	11.4	6.6	0.75%	11.3	1	0.11%	11.3	3.5	0.40%
Fishing	0	0.2	0.00%	0	0	0.00%	0.2	15	0.00%
Mining and query	2.3	10.4	0.24%	2.3	1.4	0.03%	2.1	-5.1	-0.11%
Processing industry	10.9	4.4	0.48%	10.5	-2.1	-0.22%	11.5	13.1	1.50%
Production and supply of electricity, gas and water	5.6	-4.7	-0.26%	6.5	17.5	1.13%	7.6	21	1.59%
Construction	3.8	5.2	0.20%	3.4	-9	-0.31%	3.1	-6	-0.19%
Trade	12.3	2.4	0.30%	12.4	2	0.25%	12.3	3	0.37%
Hotels and restaurants	2.5	-1.9	-0.05%	2.7	7.8	0.21%	2.9	14.7	0.43%
Transportation, storage and communications	11.2	2.7	0.30%	10.9	-1	-0.11%	10.7	1.3	0.14%
Financial intermediation	2.5	-13.1	-0.33%	2.5	0	0.00%	2.4	0	0.00%
Real estate related activities	7.6	1.9	0.14%	7.6	1.9	0.14%	7.5	1.9	0.14%
State administration, defense and social insurance	7.9	4.4	0.35%	8.1	4.4	0.36%	7.6	0	0.00%
Education	4.3	1.8	0.08%	4.3	1.8	0.08%	4.2	1.8	0.08%
Health and social growth	3.9	2.6	0.10%	3.9	2.6	0.10%	3.9	2.6	0.10%
Other public, social and personal services	2.8	4.9	0.14%	2.9	4.9	0.14%	2.8	2	0.06%
Private households with employed persons	0	-0.5	0.00%	0	0	0.00%	0	0	0.00%
Extraterritorial organizations and bodies	0	0	0.00%	0	0	0.00%	0	0	0.00%
Services of financial intermediation measured indirectly	-0.2	-0.3	0.00%	-0.2	-0.2	0.00%	-0.2	-0.2	0.00%
GDP (basic prices)	<b>88.7</b>	<b>2.6</b>	<b>2.44%</b>	<b>89.2</b>	<b>0.5%</b>	<b>1.92%</b>	<b>89.9</b>	<b>0.9%</b>	<b>4.51%</b>
Taxes on products, minus subsidies for goods	11.3	4.1	-0.70%	10.8	3.5%	0.38%	10.0	-7.2%	-0.80%
GDP (market prices)	<b>100</b>	<b>1.7</b>	<b>1.70%</b>	<b>100.0</b>	<b>2.3</b>	<b>2.30%</b>	<b>100.0</b>	<b>3.7</b>	<b>3.70%</b>

**Note:** Share of revenue from tourism in GDP was 12.7% (2002), 13% (2003) and 14.8% (2004), according to the WTTC (World Tourism and Travel Council) Report

<sup>1</sup> Source: Monstat (2002), Secretariat for Development and ISSP (2003-2004)

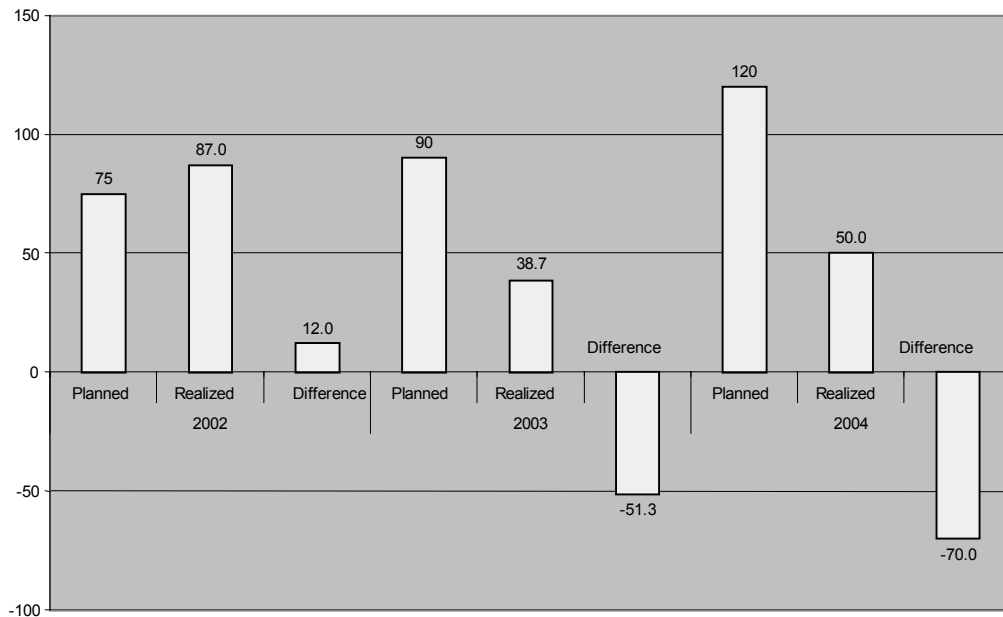
**Graphic Presentation of Specific Indicators**

**Gross Domestic Product - mil. € (current prices)**

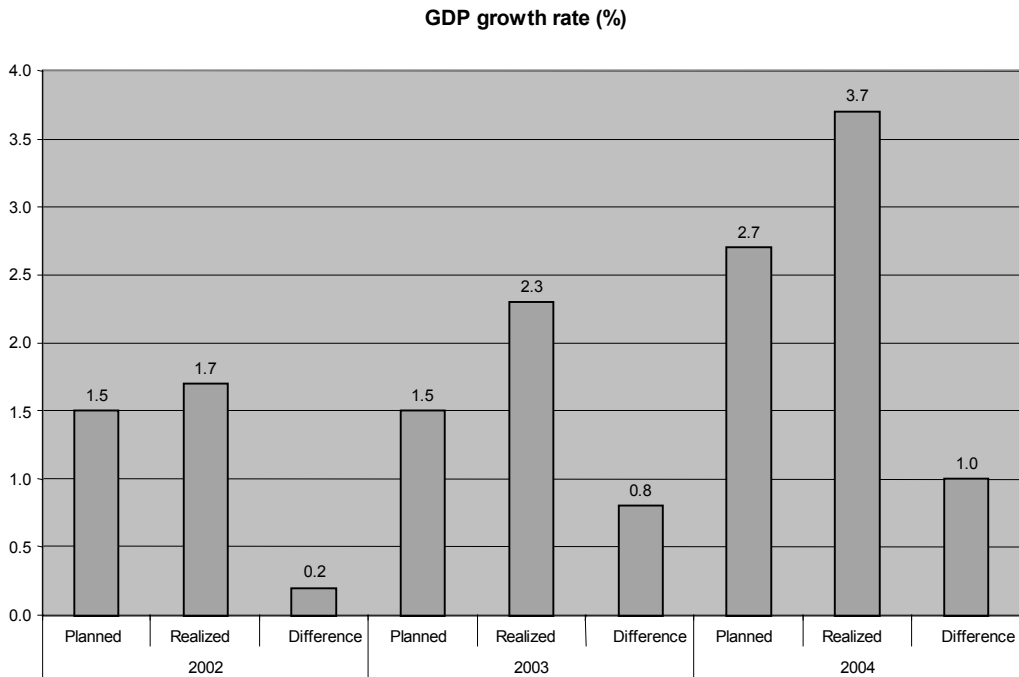


Graphic 1

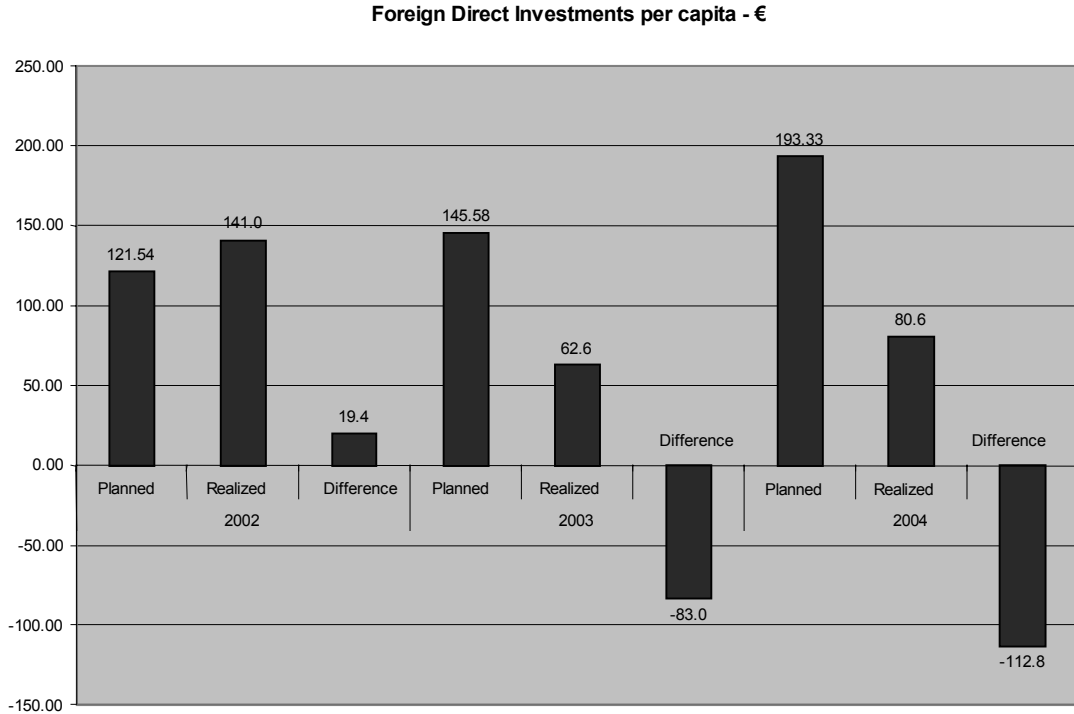
**Foreign Direct Investments (mil. €)**



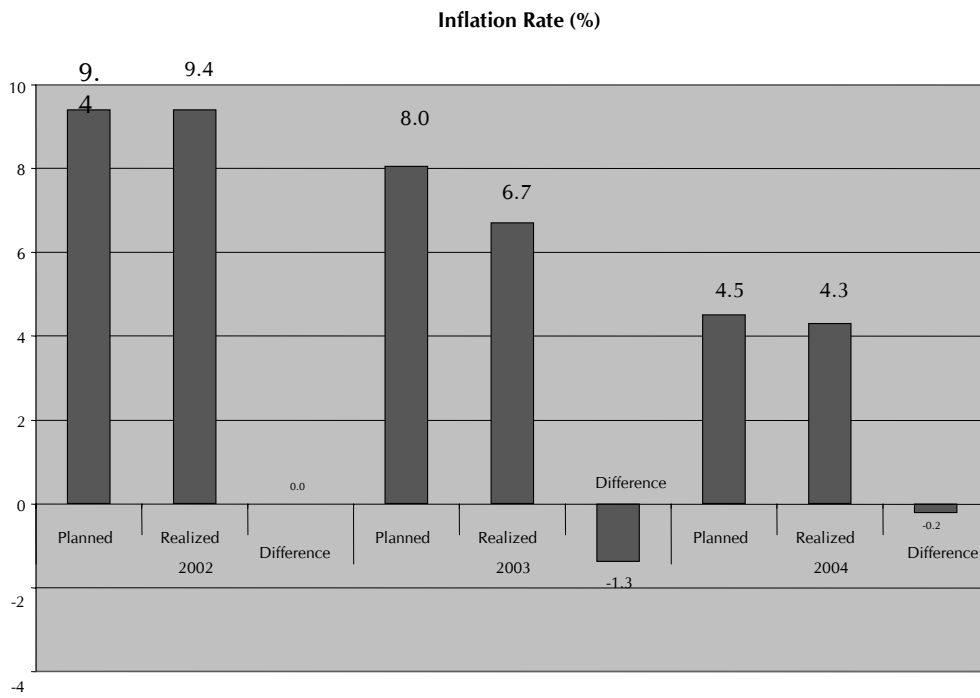
Graphic 2



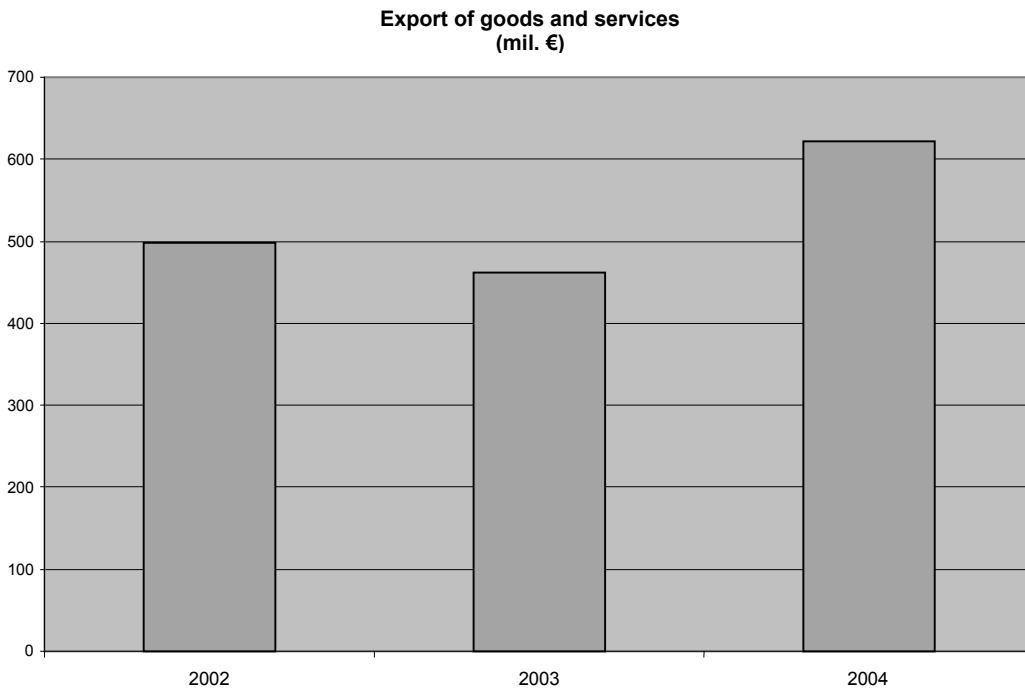
Graphic 3



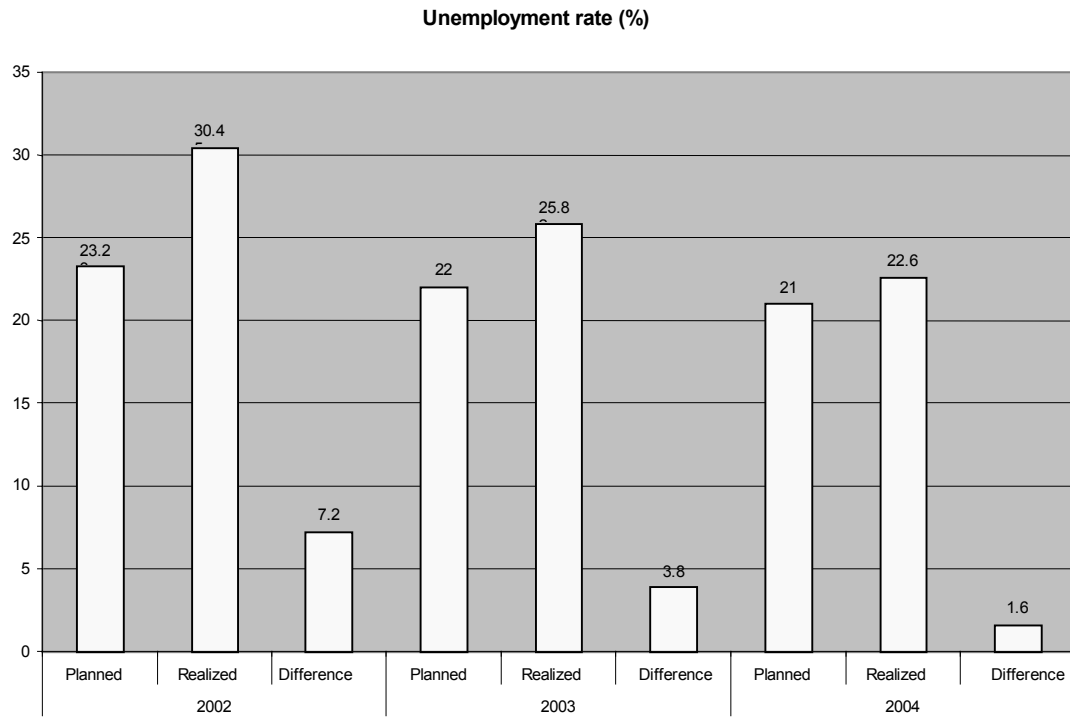
Graphic 4



Graphic 5



Graphic 6



Graphic 7

## **2. Overview by Areas**

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Marks were given for each area for indicators defined in the Agenda for 2002-2006. Marks relate to what was planned in the Agenda, not to the evaluation of the real situation in that area. Those marks are graphically presented, according to the methodology which gives the mark 5 to everything that was foreseen in the Agenda and then actually implemented, as represented by external curve of the graph. Internal curve connects indicator mark points. The difference between these two curves gives the area measuring unrealized tasks. For each area both highest achievements and problems are presented.

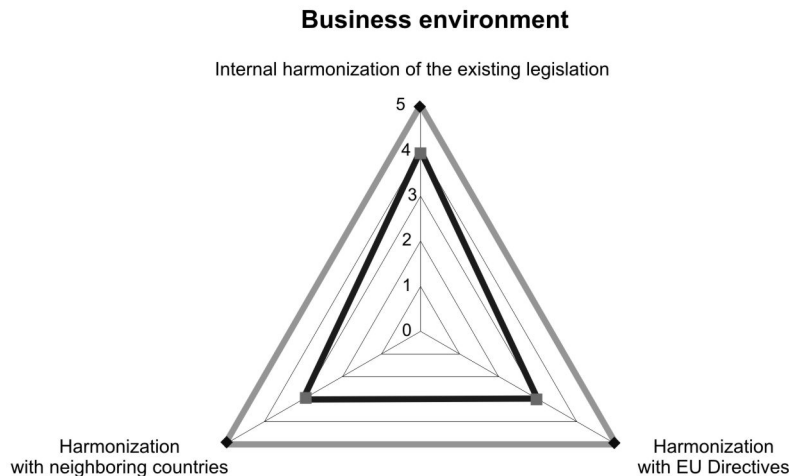




## 1 Business Environment

Assessment of Activities Based on Economic Reform Agenda Indicators

Business Environment	Goal	Result
Internal harmonization of existing legislation	5	4
Harmonization with EU Directives	5	3
Harmonization with neighboring countries	5	3



### TOP ACHIEVEMENTS

1. Law on Business Organization Insolvency. Since the application of the new Law, 508 petitions to initiate bankruptcy procedure were submitted, out of which 371 cases were terminated (data from Commercial Court of Podgorica).
2. Law on Secured Transactions. 220 pledges on movable property have been registered (the value of property is over 20 million €). Banks foreclose their secured interests in the case of default in an efficient, fast and cost-effective procedure (data from Pledge Registry and commercial banks).
3. Mortgage Law: The Mortgage Law was adopted, and its application started at the beginning of 2005. In January and February of this year, commercial banks have submitted 73 requests for registration of mortgages in the real estate cadastre. The new Law provides creditors with the possibility to foreclose the mortgage in the case of default through extra-judicial sale. Mandatory appraisal of mortgaged property by the State and limitations on a sale price, which are characteristic for judicial foreclosure, are abandoned (commercial banks data).
4. Law on E-Trade was adopted in December 2004.
5. Law on Electronic Signature: The Secretariat for Development adopted the Rules on Measures and Procedures for the Use and Protection of Electronic Signature, Signature-Creation Devices and Certification System.

**TOP PROBLEMS**

1. Small number of reorganization cases as opposed to classic bankruptcy procedures initiated with the commercial courts in accordance with the Law on Business Organization Insolvency (data received from Commercial Court of Podgorica).
2. Delay in organization of examination of certification for bankruptcy administrators. Montenegrin commercial courts do not have sufficient number of trained and educated bankruptcy administrators which is one of the main problems in implementation of the Law, having in mind more important role of bankruptcy administrators compared to previous legislation (data received from Commercial Court of Podgorica).
3. Lack of corporate governance knowledge in joint-stock companies and inappropriate interpretation of certain provisions of the Law on Business Organizations given by judges of the commercial courts. Insufficient education of general public regarding the concepts of this Law.
4. Delay in beginning of implementation of the Mortgage Law, due to inactivity of commercial banks and insufficient public education with respect to importance of this Law (commercial banks data).
5. Lack of skillful IT experts within the Commercial Court, especially in the light of on-line registration of pledges, maintenance of electronic database of the Central Registry of Commercial Court and possible introduction of system of internet registration of business organizations (data received from Commercial Court of Podgorica).

**2 Trade and Regional Economic Cooperation**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Trade and Regional Economic Cooperation</b>	<b>Goal</b>	<b>Result</b>
World Trade Organization accession	5	5
Operations of Customs Services	5	4
Agreements on Regional Free Trade	5	4



**TOP ACHIEVEMENTS**

1. Accession of Montenegro to World Trade Organization. On February 15, 2005, the decision on independent WTO accession was made.
2. Adoption of the Law on Foreign Trade. Law was adopted in April 2004. The Law contains all provisions necessary for WTO accession. Decree on implementation of the Law has been adopted in June 2004.
3. Adoption of the set of laws in the area of protection of intellectual property rights at the level of S&M, while the law on application of regulations in this area is in preparation for Montenegro.
4. Adoption of the Law on Free Zones
5. Improvement of Customs System and Customs Procedures
6. Entering into effect of all free trade agreements in the region under the auspices of the Stability Pact (full liberalization by 2007).

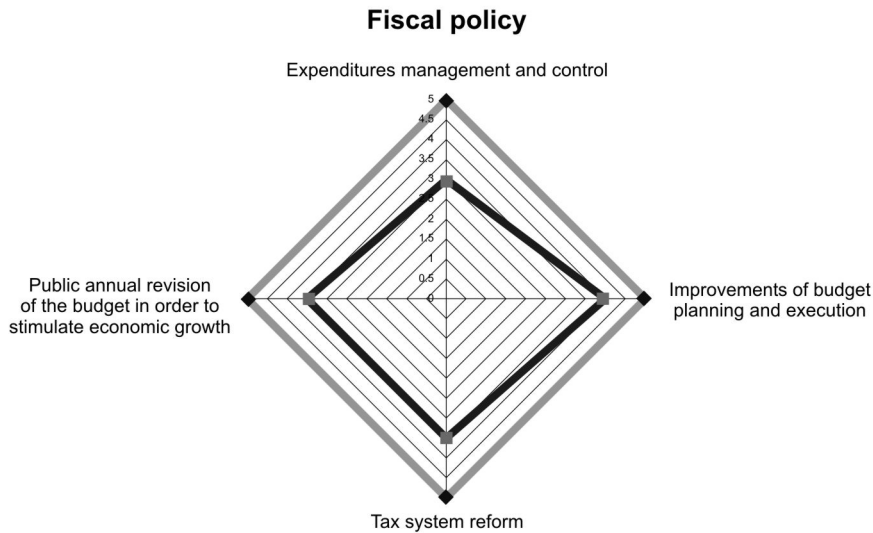
**TOP PROBLEMS**

1. Quality of statistics in foreign trade exchange and other areas is still not on the satisfactory level.
2. Montenegro still does not have full jurisdiction in trade and customs policy, sector policies, regional economic cooperation and related issues, in compliance with adopted double track model.
3. Harmonization of views among countries in the region on full implementation of Free Trade Agreements.
4. Joint office of Customs Administration of Montenegro and Customs Administration of Serbia. There is a need to decrease its jurisdiction within negotiations on stabilization and association; restituting jurisdiction to Customs Administration of Montenegro in the area of issuing certificates on goods origins for export to the EU market.

**3 Fiscal System**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Fiscal System</b>	<b>Goal</b>	<b>Result</b>
Expenditures management and control	5	3
Improvements of budget planning and execution	5	4
Tax system reform	5	3.5
Public annual revision of the tax policy in order to stimulate economic growth	5	3.5



**TOP ACHIEVEMENTS**

1. Introduction of revenue model. ZOP was closed on January 1, 2005, and new revenue management model was successfully implemented enabling decrease of payment operations costs. Tax Administration, Customs Administration and Ministry for Interior Affairs (accounting for over 98% of budget revenues) assumed full responsibility for the processing of budget revenues and contributions of extra-budgetary funds without disruptions to the flow of public revenues.
2. Implementation of new tax laws. The Law on Personal Income Tax, Law on Corporate Profit Tax, Law on Excise Taxes and Law on VAT were successfully implemented. Main results are: 1) balanced budget with tight budget and expenditure controls; 2) more competitive tax rates (personal income tax rate reduced by 10% and corporate profit tax reduced from 20% and 15% to 9%) and broader tax base; 3) more favorable environment for business activities and foreign investment. Budget deficit as percentage of GDP decreased from 3.29% in 2003 to 2.18% in 2004. Projected level for 2005 is 2.17% of GDP.
3. New organizational structure and IT systems in the Tax Administration. Restructuring of Tax Administration has been undertaken and implementation of an integrated IT system is near completion.
4. Establishing of the Internal Audit Department within the Ministry of Finance. Internal Audit Department was established. A three-year Strategic Audit Plan has been approved that will drive greater efficiencies of Government institutions.
5. Introducing regulations on financial reporting. More transparent financial reporting has been achieved through the introduction of: 1) Decree requiring that annual financial statements are developed using IFAC's cash based accounting; 2) Law on Civil Servants Salaries and 3) Program budgeting, covering five spending units.

**TOP PROBLEMS**

1. Absence of Debt Management Strategy and Delayed Implementation of Budget Preparation and Reporting Initiatives. The lack of Debt Management Strategy is creating risks to the achievement of medium and longer-term economic outcomes. The methodology for preparation of the Medium-Term Budget Framework (MTBF) needs to be further developed. MTBF will provide greater direction to future taxation reforms, debt reduction strategies and improve the alignment of the Annual Budget allocations with the Government's goals. One of the future tasks is the preparation of accrual based consolidated financial statements for the Government to complement the consolidated cash based GFS reports.

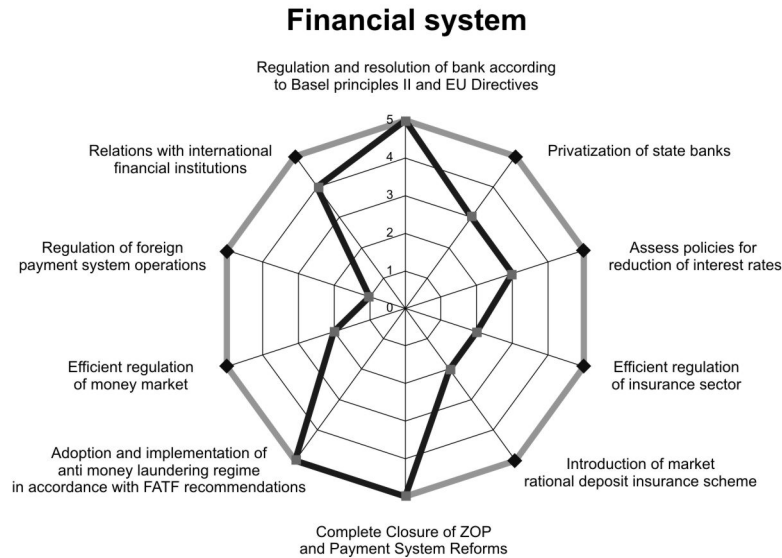
2. Insufficient Devolution of Decision Making and Deficient Reporting of Spending Unit Performance. Decision making over resource usage is being hampered due to insufficient devolution of financial responsibilities and controls from the Ministry of Finance to spending units. Responsibilities of heads of each spending unit should be defined. Establishment of systems of financial internal control and the preparation of Annual Report to the Parliament of Montenegro should be envisaged. The implementation of Program Budgeting and Reporting framework needs to be reviewed, particularly the lack of reporting on financial and non-financial performance.
3. Delays in Establishing Monitoring Activities within the Ministry of Finance. No capacity has yet been established within the Ministry of Finance, to monitor the financial performance for organizations that receive public funds (direct budget transfers, pricing and credit subsidies). A review needs to be completed on the benefits of bringing the funds managed by extra-budgetary funds on Budget. There has also been insufficient implementation of controls and strategies for achieving sustainable staffing levels. Further work needs to be undertaken in setting staffing targets based on international ratios and the MTBF.
4. Nonexistence of Reporting on Tax Administration Efficiency. Further work should be undertaken to establish targets for Tax Administration. Measures should target the rate of collection of declared liabilities, the timeliness of arrears recovery and a detection rate of non-filers. Efficiency should be generated by enhanced cooperation and information sharing between Tax Administration, the Customs Administration and other collection units. Effects of abolishing Large Taxpayer Units should be evaluated.
5. Under Performance of the Financial Management System of the Ministry of Finance. The SAP system is operating at less than full designed capacity. A strategic development plan is being prepared for SAP. Currently the system is being developed for the processing of payments and revenues. Further measures need to be put in place to reduce the high annual maintenance costs of the SAP system, increase the quality of on-site maintenance support and increase competence and capacity levels of Treasury personnel.

#### 4 Financial System

##### Assessment of Activities Based on Economic Reform Agenda Indicators

Financial System Reform	Goal	Result
Regulation and resolution of situation in banks according to Basel Principles II and EU directives	5	5
Privatization of state banks	5	3
Assess policies for reduction of interest rates	5	3
Efficient regulation of insurance sector	5	2
Introduction of deposit insurance scheme	5	2
Complete closure of ZOP operation and payment system reforms	5	5
Adoption and implementation of anti-money laundering regime in accordance with FATF recommendations	5	5
Efficient regulation of money market	5	2

Regulation of foreign payment system operations	5	1
Relations with international financial institutions	5	4



**TOP ACHIEVEMENTS**

1. Regulation of Banks According to Basel Principles and EU Directives: Progress was made in resolving problem bank issues, establishment of a sound banking system, and increasing the public confidence in the banking system. In July 2003, an independent assessment of the Central Bank's compliance with the Basel Core Principles for Effective Bank Supervision disclosed a high level of compliance. Out of the 28 principles, 26 were largely compliant or fully compliant. In order to increase compliance, amendments to both the Law on the Central Bank and Law on Banks should be adopted. The issue of offshore banking was resolved. Action was taken by the Central Bank to cease all offshore banking activity. The Law on Settlement of Obligations and Claims Under Foreign Debt and Foreign Exchange Savings was adopted and these accounts were removed from the banks' books, while the debt amount was converted to government bonds for repayment through the year 2017.
2. Privatization of State Banks. Montenegrobank was privatized (July 2003), which provided increased competition into the Montenegrin banking system. Privatization of other banks was delayed. Additionally, a tender for company to handle the privatization of Podgoricka Bank was recently accepted.
3. Adoption and Implementation of FATF Compliant Anti-Money Laundering Regime. Law on the Prevention of Money Laundering was adopted, and the Administration for the Prevention of Money Laundering was established. The reporting of large and suspicious transactions began in July 2004. A favorable review of activities in Montenegro was received by MoneyVal (European association of financial intelligence units) in January 2005. Montenegro's acceptance into EGMONT (International Association of financial intelligence units) is expected during 2005.
4. Complete closure of ZOP and Payment System Reform. ZOP payment system was closed down at year-end 2004 and a new inter-bank payment system was introduced.
5. Restored confidence in the banking system, reflected in the increase of deposits, loans, savings, etc.

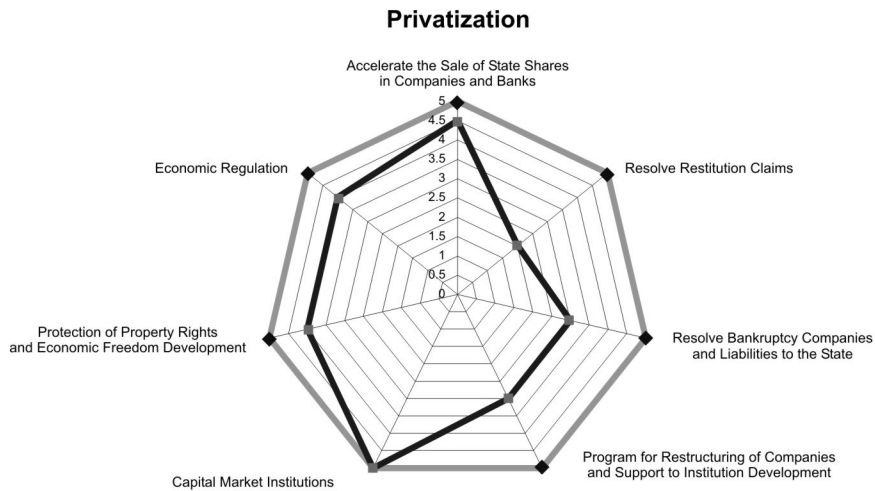
**TOP PROBLEMS**

1. Slowness or lack of judicial reform. Collection of receivables and/or foreclosures on collateral are slow. This adds costs to the banking system.
2. Gray economy. Although decreased, the level of activity in the gray economy is still at the high level. Therefore, initiatives should be continued towards the improvement of business environment and the increase of legitimacy of formal rights in order to decrease it further.
3. Reduction of Interest Rates. There is a downward trend of interest rates but loan interest rates remain extremely high.
4. Implementation of Mortgage Law (Official Gazette No. 53/04 dated August 2, 2004). The new Mortgage Law has been adopted primarily to address issues related to foreclosure of mortgage rights and the lengthy process under the old law. Full implementation of the Law will enable large improvements in this area toward the decrease of transaction costs and full allocation efficiency.
5. Lack of good Real Estate appraisal process. Currently there is no real estate appraisal law that would require application of internationally accepted appraisal standards and ethics. As a result, there is a lack of a good, independent appraisal process for the valuation of real estate collateral for loans.

**5 Privatization and Post-Privatization**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Privatization and Post-Privatization</b>	<b>Goal</b>	<b>Result</b>
Accelerate the Sale of State Shares in Companies and Banks	5	4.5
Resolve Restitution Claims	5	2
Resolve Bankruptcy Companies and Liabilities to the State	5	3
Program for Restructuring of Companies and Support to Institution Development	5	3
Capital Market Institutions	5	5
Protection of Ownership Rights and Economic Freedoms Development	5	4
Economic Regulation	5	4



**TOP ACHIEVEMENTS**

1. Privatization of Montenegrobank and Telecom
2. Hotel privatization
3. Adoption of the Law on Restitution and Compensation of the Taken away Property Rights
4. Capital markets turnover
5. Establishment of the Commission for Economic Freedoms

**TOP PROBLEMS**

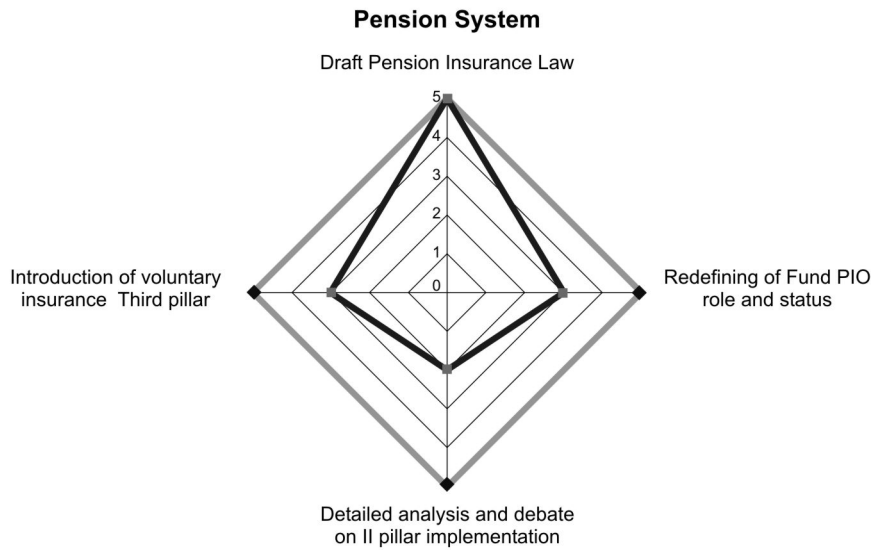
1. Poor application of the Law on Insolvency
2. Slow implementation of the program for restructuring of companies
3. Slow implementation of the Law on Restitution and Compensation of the Taken away Property Rights
4. Slow court procedure for protection of ownership rights
5. Slow sale of shares of state funds in companies privatized through MVP

**6 Pension Reform**

Assessment of Activities Based on Economic Reform Agenda Indicators

Pension System	Goal	Result
Development of the Draft Pension Insurance Law	5	5
Redefining of the Fund PIO role and status	5	3
Detailed analysis and debate on the Second Pillar implementation	5	2
Introduction of voluntary insurance – Third Pillar	5	3





#### TOP ACHIEVEMENTS

1. Reformed I pillar – Implemented new Law on Pension and Disability Insurance. Pension deficit reduced from 1.1% of GDP in 2002 to 0.9% in 2004<sup>1</sup>. From the psychological aspect this can be regarded as the most difficult task in the pension reform which is now behind us.
2. Lower contribution rate – In 2004 contribution rate was gradually reduced by 10%, or from 24% to 21.6%. On one side this move is deemed as incentive as it leads to creation of more favorable entrepreneurship environment. Also, control function of payment of contributions has been strengthened. As a result, revenues from Fund PIO contributions increased by 24% in 2004 compared to 2002.
3. Fund PIO reform – Initiated administrative and structural reform. In addition to its core activity, Fund PIO was in charge of control of collection of contributions, privatization and investment activities, hotel management etc. Presently, the role of Fund PIO is limited to pension administration and Tax Administration has legally become the central registry of insured persons.
4. The World Bank granted loan in the amount of about 6.5 million US\$. The loan is meant for Fund PIO reform in line with proposed reform program (1.6 million US\$) and preparations for introduction of II and III pillar. World Bank Expert Technical Support Office to support reform is set up.

#### TOP PROBLEMS

1. Contributions avoidance – Despite reduction of contribution rate and legal requirement to pay contributions on all labor related income, contribution avoidance represents significant problem particularly with younger generation of employees. Therefore, the system of defined contributions provides incentives for their regular payment.
2. High costs of state pension system. Pension system costs in 2004 were still high and amounted to 10.7% of GDP, representing significant expenses. Contributions still represent only 67% of overall revenues while the majority of the remaining part come from central budget transfers (38 mil €).
3. Public is insufficiently aware of the pension reform concept. Pension reform success largely depends on public awareness of its implementation and benefits for each individual, and one of the reform priorities should be public education campaign.

4. Conceptual problems in the reform of the Fund PIO. Certain foreign consulting and international institutions have a different opinion regarding the concept of the Fund PIO reforms. In 2004 World Bank has joined Fund PIO reform project supporting these reforms.
5. Payment of pension contributions on any income. Effects of contribution payments on all work based revenue and their impact on the Fund PIO budget, labor costs and its mobility should be analyzed.

## 7 Labor Market

### Assessment of Activities Based on Economic Reform Agenda Indicators

Labor Market Reform	Goal	Result
Drafting and adopting of set of regulations	5	4
Legalization of existing and creation of new work places	5	5
Number of employees	5	4



### TOP ACHIEVEMENTS

1. Reduction of tax and contribution rate paid by employer by 10%. Reduction of tax and contribution rates reduced labor cost in average for 6 percentage points.
2. Legalization of 42,000 jobs in the period April 2003-December 2004. Decree on tax relieves for newly employed employees was adopted in April 2003. As a result, 42,000 new jobs were legalized.
3. Adoption of set of laws in the labor market area. As anticipated by the Economic Reform Agenda, the set of seven laws in the area of labor market was enacted in the period from the Agenda adoption. Additionally, five new laws were adopted and secondary legislation promulgated.
4. Reduction of gray economy in seasonal employment. Pursuant to the Decree on Employment of Non-residents, in the period from April 2003 to December 2004, 50,526 non-residents were employed and revenues from fees amounted to 1.9 million €.

5. Reduction in number of registered unemployed persons. In the period from 2002 to the end of 2004, the average number of registered unemployed persons was reduced by 17,224 persons or 29.3%. These top achievements have resulted from the successful implementation of the project "Legalization of the existing jobs and creation of new jobs."
6. Establishing special methodology for determining the number of employees using the Health Fund and PIO Fund database for obtaining relevant data on the number of employed persons in Montenegro.

#### TOP PROBLEMS

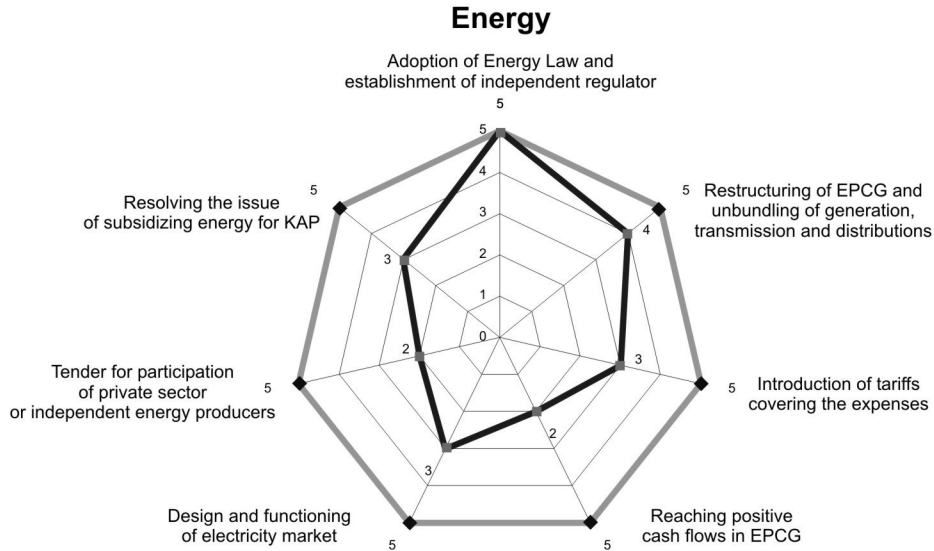
1. Labor legislation is not completely reconciled with market economy requirements. New Labor Law was adopted in 2003. Although some changes have already been adopted (reduction of maternity leave, reduction of severance payment to 6 average wages instead of 24), the Law is still not adapted to the needs of market economy. Degree of protection of employee rights is still high.
2. Sector collective agreements have still not been established for the public sector (education, health and social care, culture and IT activities)
3. Redundancies in state owned companies.

### 8 Sector Policies

#### 8a Energy

##### Assessment of Activities Based on Economic Reform Agenda Indicators

Energy	Goal	Result
Adoption of Energy Law and establishment of independent regulator	5	5
Restructuring of EPCG and unbundling of generation, transmission and distribution	5	4
Introduction of tariffs covering the expenses	5	3
Reaching positive cash flows in EPCG	5	2
Design and functioning of electricity market	5	3
Tender for participation of private sector or independent energy producers	5	2
Resolving the issue of subsidizing energy for KAP	5	3



### TOP ACHIEVEMENTS

1. New Energy Law, which is compliant with the EU Directive on Energy, was adopted by the Parliament of Montenegro in June 2003. Energy Policy was adopted in February 2005. The work on Energy Strategy is underway and it is expected to be completed by the end of 2005. The Government of the Republic of Montenegro is actively involved in Athens process. Signing of the Athens Agreement, which will be legally binding document, is expected in the middle of 2005. The Government of the Republic of Montenegro adopted the decision on opening the market in 2009.
2. Independent Energy Regulatory Agency was established in January 2004, and during 2004 it issued interim licenses, approved grid codes, and started working on tariff methodology. First tariff setting is expected by July 2005, which is the timing set by the Law. The Agency will issue permanent (long-term) licenses to EPCG by the end of 2005.
3. Functional unbundling of EPCG, which covers managerial, information and accounting separation is underway. The legal requirement was that EPCG functionally unbundled its operations by January 2005. Formally, the company complied with this requirement by adopting a new Charter at the end of December 2004, and appointing directors of new entities in January 2005. Separation of accounts has been completed, with the assistance of BearingPoint (funded by USAID) in December 2004. The new functionally unbundled EPCG consists of 4 functional units: generation, transmission, distribution, and supply; and 2 organizational units: "Elektrogradnja" (Construction) and the "Direkcija" (Head Office). Agency issued rules on unbundling of EPCG in the first half of December 2004, which prescribes, among other things, separation of accounts and introduction of separate tariffs.
4. The Strategy for Development and Privatization of EPCG should be finalized in October 2005. Energy sector privatization started with the sale of Government shares in Coal Mine AD Pljevlja and sale of assets of TPP Pljevlja through a tender for a strategic partner. If the development and privatization strategy for EPCG is adopted, privatization plans for EPCG shall be prepared during 2006.
5. The issue of subsidizing large consumers is partially resolved by privatization of Steel Plant and it will be for KAP, as well. The Decision that EPCG should supply only 2/3 of needs for electric energy the two largest consumers reduces EPCG encumbrance, but the low price, which does not suffice to cover expenses, remains unresolved problem.

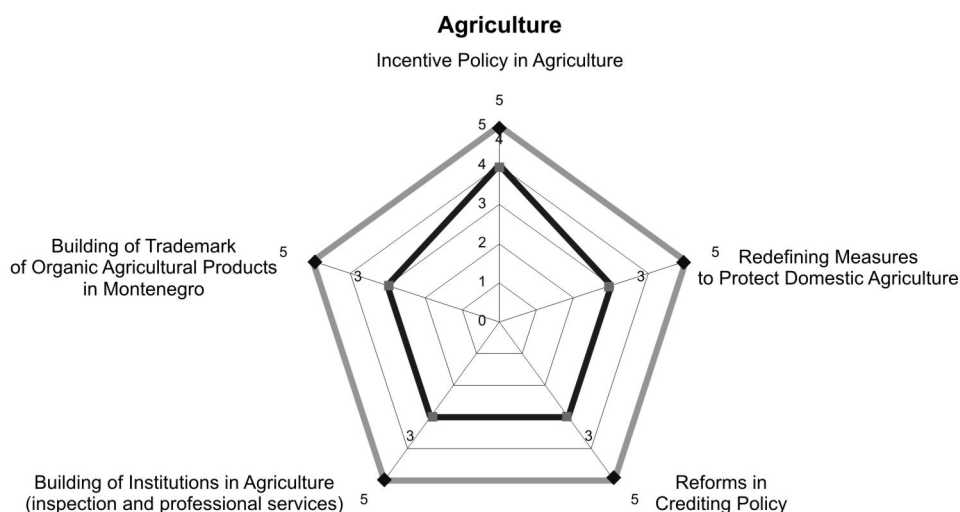
**TOP PROBLEMS**

1. Difficulties in reaching positive cash flows in EPCG
2. Obsolete equipment and technology
3. Insufficient participation of private sector and independent energy producers
4. Problem of subsidizing electricity for KAP
5. Insufficiently designed and functional power market

**8b Agriculture**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Agriculture</b>	<b>Goal</b>	<b>Result</b>
Incentive Policy in Agriculture	5	4
Redefining Measures to Protect Domestic Agriculture	5	3
Reforms in Crediting Policy	5	3
Building of Institutions in Agriculture (inspection and professional services)	5	3
Building of Trademark of Organic Agricultural Products in Montenegro	5	3



**TOP ACHIEVEMENTS**

1. Rural infrastructure. 61.7 km of new roads have been built, 105 km of roads have been graveled, and 145.2 km of roads have been broadened. The amount of 782,092 € have been allocated from the funds of the Ministry of Agriculture, Forestry and Water Resources Management that are spent for construction of rural infrastructure, new water supply systems, atmospheric water collection reservoirs and wells.

2. Laboratories for Dairy Industry. Application of the Decree on Criteria and Manner of Payment of Crude Milk (adopted in January 2003) has improved crude milk quality. The share of extra class milk was increased from 12% to 22%, and of the first class from 18.8 to 22.5%, whereas the share of the worst quality milk was reduced from 46% to 30%. In addition to the analysis of crude milk, the Laboratory has started, thanks to the new equipment, the analyses of final products. During 2004, the procedure for accreditation in accordance with the international standard JUS ISO/IEC 17025 has been initiated.
3. Veterinary Service. EU sets severe requirements in the veterinary area that must be fully complied with along the accession path. In February 2004, the Law on Veterinary Practice was adopted. The Law has created preconditions for consumers to get health-safe products of animal origin through following up and securing the entire chain "from the farm to the table." In September 2004, the construction of new building for vet laboratory, financed by EU through EAR (500,000 €) and the Ministry (200,000 €) within the project "Strengthening of Veterinary and Phyto-Sanitary Practice in Montenegro" was finalized.
4. Crediting Policy. The most important credit support to agriculture and food industry has been realized through the program "Legalization of the Existing and Creation of New Jobs." Within the 5 credit lines (family farms in cattle raising, plant production, industrially produced chickens and production of poultry meat, blue fish fishing, and modernization of the existing and building of new capacities in agro-industry) 154 requests were selected, and banks approved the credit in the amount of 3,070.650 €. 280 new jobs were created through these programs. Through the Directorate for Development of Small and Medium Enterprises, credit support was approved for 5 entities in the amount of 2.29 million €. Also, some Montenegrin commercial banks have started to provide credit lines.
5. Affirmation of Organic Agriculture Organic agriculture represents a big challenge and development chance, which fits entirely the concept of Montenegro as Ecological State. Education of producers has started, as well as capacity building of domestic experts for future inspectors in the area of organic agriculture. The new Law on Organic Agriculture has been adopted, and drafting of sub-normative regulations is just about to be finalized, which creates a legal framework for production in accordance with international standards.

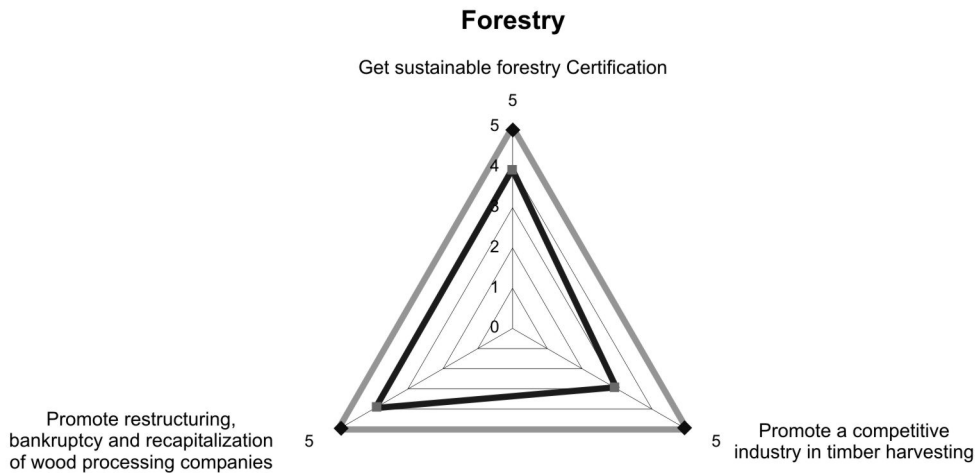
#### TOP PROBLEMS

1. Fragmentation of agricultural households;
2. Bad infrastructure;
3. Knowledge – Montenegro lacks professional specialized knowledge. The situations has improved recently, but more investments in education are required;
4. Old mechanization, lack of processing capacities, especially in the area of fruits and vegetables;
5. High general transaction costs caused by inefficient state bureaucracy. It is necessary to reduce all of the bureaucratic obstacles and develop transparent procedures based on elimination of discretionary right of public servants. This especially relates to licensing and issuance of permits and quality control. Also, it is necessary to change laws representing legacy of the previous period that make impossible to import certain seeds and sorts for a longer period of time.

**8c Forestry**

Assessment of Activities Based on Economic Reform Agenda Indicators

Forestry	Goal	Result
Get sustainable forestry certification	5	4
Promote competitiveness in forestry (timber harvesting)	5	3
Promote restructuring, bankruptcy and recapitalization of wood processing companies	5	4



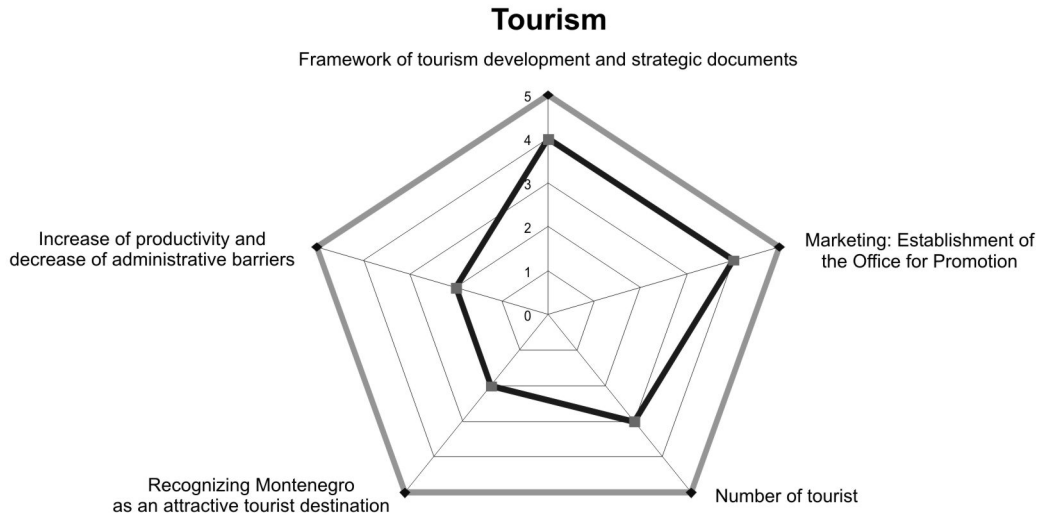
<b>TOP ACHIEVEMENTS</b>
<ol style="list-style-type: none"> <li>1. Production in primary and final production increased 2.2 times in comparison to 2003.</li> <li>2. Increasing trend of export of final products of wood industry.</li> <li>3. Increase state revenue by 2.5 mil € from concessions for the use of forests with the same harvest volume.</li> <li>4. Volume of forest growing activities increased by 70% with afforesting 1,300,000 nursery plants per year.</li> <li>5. Illegal harvesting trend decreased by around 1/3.</li> </ol>

<b>TOP PROBLEMS</b>
<ol style="list-style-type: none"> <li>1. Non-functional and cost burdened non-transformed companies in the area of forestry and wood processing industry.</li> <li>2. Inadequate support to export programs to final wood processing companies.</li> <li>3. Disruption of concessionaries in forest usage due to blockades of forest roads by citizens.</li> <li>4. Slow privatization process in non-restructured forestry and wood industry companies.</li> <li>5. Personnel limitations.</li> </ol>

**8d Tourism**

Assessment of Activities Based on Economic Reform Agenda Indicators

Tourism	Goal	Result
Framework of tourism development and strategic documents	5	4
Marketing: Establishment of the Office for Promotion	5	4
Number of tourists	5	3
Recognizing Montenegro as an attractive tourist destination	5	2
Increase of productivity and decrease of administrative barriers	5	2



TOP ACHIEVEMENTS
<ol style="list-style-type: none"> <li>1. Implementation of the new Law on Tourism and numerous rulebooks.</li> <li>2. Privatization and resulting capital investments for modernization of hotel industry.</li> <li>3. Categorization of tourist capacities in compliance with international standards.</li> <li>4. Increase of share of tourism sector in GDP to 14.8% (result based on TSA method, source: WTTC) and in employment, revenue increase and the increase of the number of tourists.</li> <li>5. Introduction of Satellite calculation of tourism effects, in cooperation with WTTC (World Travel and Tourism Council), to provide comparison of economic results with 180 countries and accurate data for potential foreign investors.</li> </ol>

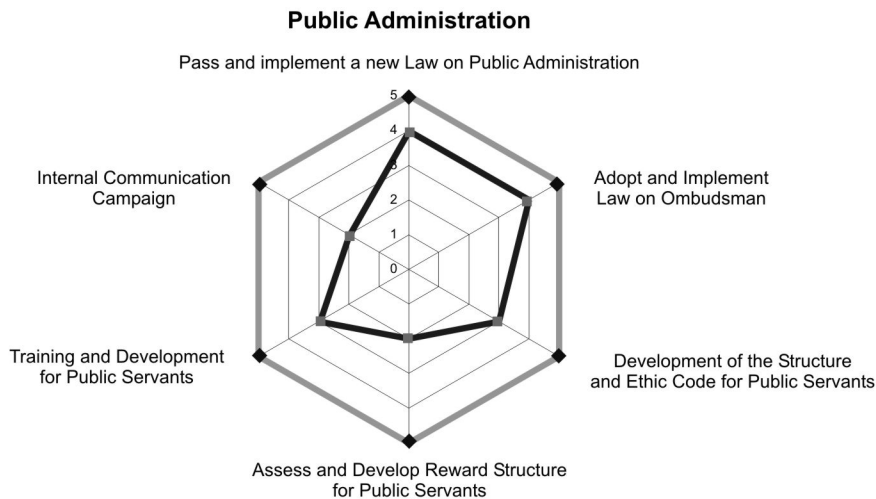
TOP PROBLEMS
<ol style="list-style-type: none"> <li>1. Poor transportation infrastructure</li> <li>2. Negative impact of VAT, tourism is not treated as export sector as it is in competitive countries</li> <li>3. Illegal construction and waste disposal areas – inadequate approach to environmental protection</li> <li>4. Lack of qualified and trained personnel in tourism</li> <li>5. Inadequate statistical system of collecting data in tourism</li> </ol>



## 9 Public Administration

### Assessment of Activities Based on Economic Reform Agenda Indicators

Public Administration	Goal	Result
Pass and implement a new Law on Public Administration	5	4
Adopt and Implement Law on Ombudsman	5	4
Development of the Ethic Code for Public Servants	5	3
Develop Reward Structure for Public Servants	5	2
Training and Education for Public Servants	5	3
Internal Communication Campaign	5	2



### TOP ACHIEVEMENTS

1. Adoption of the Law on Public Servants and Appointees and beginning of its implementation.
2. Establishment of Human Resources Administration and beginning of its work with the objective of developing Human Resources management functions and development of Human Resources in the state administration (activities on the development of general training program of civil servants and state employees has already started).
3. Formal adoption of the Law on Salaries of Public Servants and Appointees and introduction of the new IT system, where the Ministry of Finance will have a central position (and linking that system with Human Resources Administration, or its IT system).
4. Adoption of the Law on Inspection Control and other relevant supporting regulations.
5. Efficient and functional web site of the Government of Montenegro and other state agencies, which provides timely information to the public and other interested parties (domestically and internationally).

**TOP PROBLEMS**

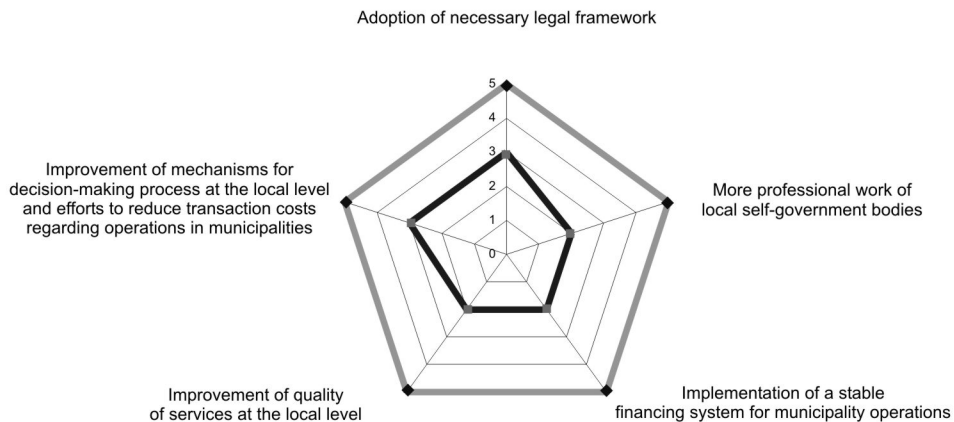
1. Poor motivation of civil servants and state employees.
2. Delays in implementation of the Law on Salaries of Public Servants and Appointees
3. Human Resources Administration is facing difficulties in providing funds for its efficient work (premises, staffing, etc.).
4. Functional analysis of the work and structure of public administration system has not been completed yet. It is necessary to pass some remaining laws in the field of administration (e.g. Law on Public Agencies, Law on Public Funds, etc.)
5. Inefficient communication and information within the Government and between individual Government agencies

**10 Local Government**

Assessment of Activities Based on Economic Reform Agenda Indicators

Reform of Local Government	Goal	Result
Adoption of necessary legal framework	5	3
Professionalization of the work of local government bodies	5	2
Implementation of a stable financing system for municipality operations	5	2
Improvement of quality of services at the local level	5	2
Improvement of mechanisms for decision-making process at the local level and efforts to reduce transaction costs regarding operations in municipalities	5	3

**Local Government**



**TOP ACHIEVEMENTS**

1. Adoption of the Law on Local Self Government and Law on the Financing of Local Self Government
2. Adoption of the Law on Real Estate Tax
3. Installation of basic IT packages and training in 21 municipalities
4. Installation of temporary system for treasury management and training in 21 municipalities
5. Establishment of an equalization fund and establishment of the Coordination Body for the Financing of Local Self Government

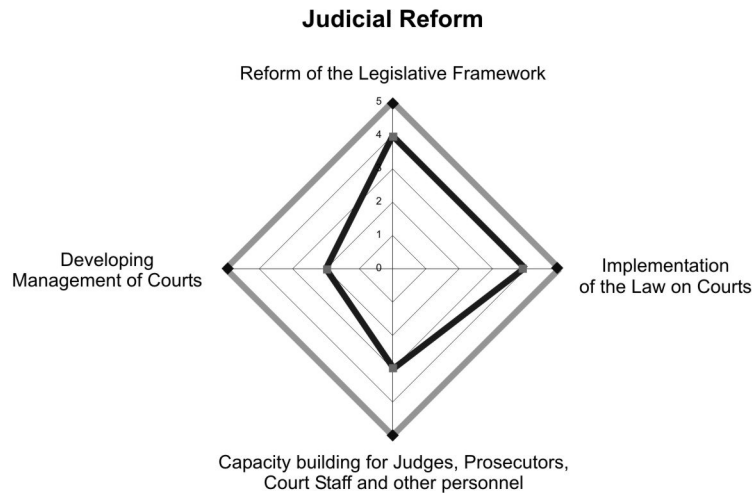
**TOP PROBLEMS**

1. No implementation of important municipal own-source revenues (forestry concession fees, beverage tax, tax on games of chance, tourism tax)
2. Lack of Government decentralization policy and legislative agenda, as well as of a process and institutional arrangements (Inter-Ministerial Council) for developing and implementing such a policy and agenda
3. Very slow enactment by municipalities of ordinances required by Law on Local Self-Government to implement decentralization.
4. Complex procedures and detailed documentation required by local government that may represent an obstacle for the start of a small and medium-sized business
5. Poor information sharing between Government and municipalities

**11 Judicial Reform**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Judicial Reform</b>	<b>Goal</b>	<b>Result</b>
Reform of the Legislative System	5	4
Implementation of the Law on Courts	5	4
Improvement of Operation of Courts, Prosecutors and other court functions	5	3
Improvement of Courts Management	5	2



### TOP ACHIEVEMENTS

1. Adoption of the Law on Civil Procedure and the Law on Executive Procedure introduces in the civil procedure in Montenegro mechanisms that enable faster and more efficient court procedure and reduction in the case backlog. Reform of criminal legislation started with the enactment of the Law on State Prosecutor, Criminal Code, Code on Criminal Procedure, Amending Law of the Law on Execution of Criminal Sanctions and the Law on Witness Protection Program.
2. The greatest success in implementation of the Law on Courts is the establishment of the new Administrative Court and Appellate Court. The importance of these courts is reflected by their competencies, which is evaluation of legality of state body decisions. The establishment of these courts will disburden the Supreme Court, in other words, the Supreme Court will be what it should be in the first place, meaning the supreme instance of judicial power, and not a first instance court for this area (administrative dispute). For example, the annual inflow of cases in the Supreme Court was 1000, and it is to be expected that the number will increase.
3. Continuing improvement and upgrading of knowledge of institutions in charge of judicial functions represent one of the most important reform tasks. Commission for Testing the Knowledge of Bankruptcy Administrators has been established and several seminars were held. The examination for obtaining bankruptcy administrator licenses was held from March 19-24, 2004. Law on Qualifying Examination for Judges has been enacted.
4. EAR has started the judicial IT system for courts (Basic Courts - Podgorica, Bijelo Polje, Niksic, Kolasin, Danilovgrad and Zabljak and Commercial Courts in Podgorica and Bijelo Polje), USAID/Checchi has continued with the project and provided another four basic courts with computers (Herceg Novi, Cetinje, Rozaje and Plav), which have rapidly created preconditions for completing this system.
5. In addition to the establishment of the Administrative and Appellate Courts and the initial grounds for creation of the Administrative Office and the establishment of the Ombudsman, a significant contribution to creation of new institutions in the area of judicial capacity building is provided by the establishment of the Center for Judicial Training. The Judicial Council has been established.
6. Improvement of court administration operations. Court administration is recognized as an important segment for the overall efficiency of court operations, but also for the full impression the public has regarding the execution of judicial power, i.e. protection of threatened or violated interest of citizens and legal entities.

**TOP PROBLEMS**

1. Large number of case backlog and unsolved cases
2. Administrative Office Administrative Office is a very important body in the judicial system, which should facilitate and accelerate the judicial reform activities, primarily through its professional capacities. Although three years have passed from the adoption of the Law on Courts, this Office has not been established.
3. Human resource issues in judiciary
4. Weak motivation of bearers of judiciary functions
5. Permanent training of judges

**12 NGO Sector Development**

Assessment of Activities Based on Economic Reform Agenda Indicators

Civil Society	Goal	Result
International practice to exempt from taxation a part of income donated to individuals and NGO's	5	3
International practice to exempt NGO from taxation	5	3
International practice of developing competition between NGO	5	4
International practice of NGO development	5	3

**Civil Society**



**TOP ACHIEVEMENTS**

1. A review of existing laws regulating NGOs operations was performed by ICNL in December 2003
2. The tax laws are generally favorable to NGOs

3. The recently adopted Lottery Act may provide significant source of funding for NGOs
4. There is a significant number of sources of funding NGOs operations available through different grants at both Republic and municipal levels
5. There is a certain level of cooperation between NGOs and specific ministries and local governments

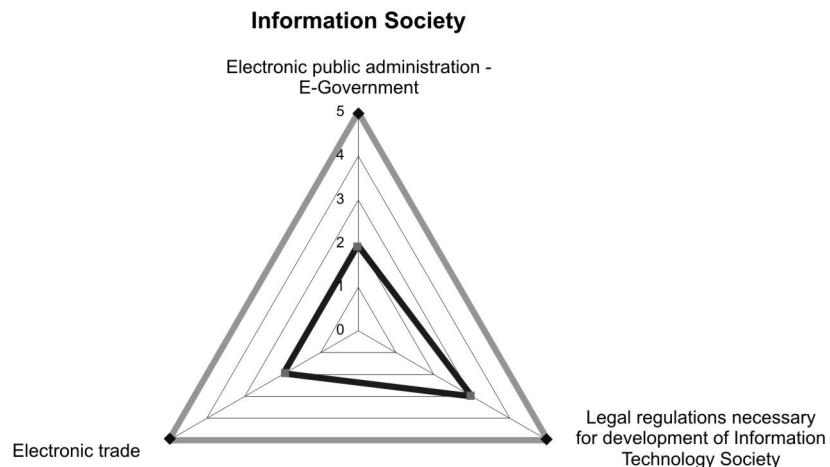
**TOP PROBLEMS**

1. The current NGO Law has overly broad definitions of NGO economic activities, which is routinely abused in practice
2. Delays in procedure for the disbursement of public funds to NGOs by the Parliament
3. The Lottery Act defines only that “organizations” may be financed from lottery revenue, however it does not define which are those organizations, which enables wrong allocation of funds to government or semi-government institutions. Moreover, there is no decree that defines elements of the procedures for financing activities of public interest, such as criteria for admission and selection, bodies responsible for distribution, etc.
4. Financial and accounting rules are too complex and expensive to be followed by NGOs
5. There is no formal Memorandum of Understanding between Government and the NGO sector, therefore limiting the ability of NGOs to impact public policy making

**13 Information Society**

Assessment of Activities Based on Economic Reform Agenda Indicators

Information Society	Goal	Result
Electronic public administration - e-Government	5	2
Legal regulations necessary for development of Information Society	5	3
E-Commerce	5	2



**TOP ACHIEVEMENTS**

1. Council for IT Society was established by the Government's Decision
2. Information Society Development Strategy has been developed and adopted
3. Action Plan for implementation of the Strategy has been defined
4. Law on e-Signature has been adopted and all 3 rulebooks on application of the Law on e-Signature have been prepared, of which 2 have already been published; preparations have been carried out for training a team, especially inspectors, for IT society
5. Law on e-Commerce has been adopted

**TOP PROBLEMS**

1. Delays in the implementation of the Information Society Development Strategy
2. Insufficient IT support in public administration, small number of software supported operations
3. Undeveloped institutional infrastructure and inadequate position of the IT sector in the Government
4. Small number of IT companies, insufficient support to entrepreneurship in this area
5. Legalization of software

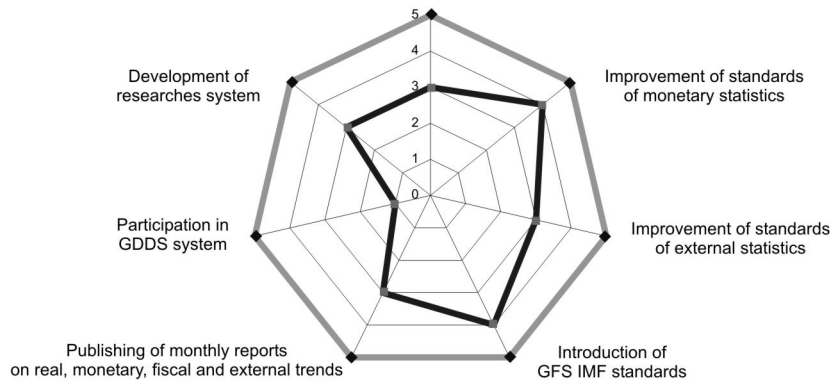
**14 Macroeconomics and Statistics**

Assessment of Activities Based on Economic Reform Agenda Indicators

<b>Macroeconomics and Statistics</b>	<b>Goal</b>	<b>Results</b>
Introduction of the System of National Accounts standards (SNA 1993)	5	3
Improvement of standards in monetary statistics	5	4
Improvement of standards in external statistics	5	3
Introduction of GFS IMF standards	5	4
Publishing of monthly reports on real, monetary, fiscal and external trends	5	3
Participation in GDDS system	5	1
Development of research system	5	3

**Macroeconomics and statistics**

Introduction of standard for System of National Accounts (SNA 1993)



**TOP ACHIEVEMENTS**

1. Development of the concept of statistical information system in Montenegro. The concept is based on methodological, information and legal linkage among all statistical data producers in Montenegro. The realization of the concept will provide high quality of statistical data while production costs will be lower.
2. Gross Domestic Product calculation in accordance with the SNA system. GDP was calculated using production and expenditure methods for the period 2000-2002.
3. GFS standards in fiscal accounting have been implemented and provide regular monitoring of fiscal transactions and enable reliable and timely analysis of the fiscal policy in Montenegro.
4. Regular monthly issuance of reports on fiscal trends provide timely and accurate information on the specific set of macroeconomic indicators, especially regarding fiscal trends, monetary tendencies, real sector aggregates (industrial output, prices and wages) and international developments.
5. Customs Administration has been equipped and trained to monitor foreign trade statistics. The Customs Administration has taken responsibility to monitor and process statistical data on international trade of goods.

**TOP PROBLEMS**

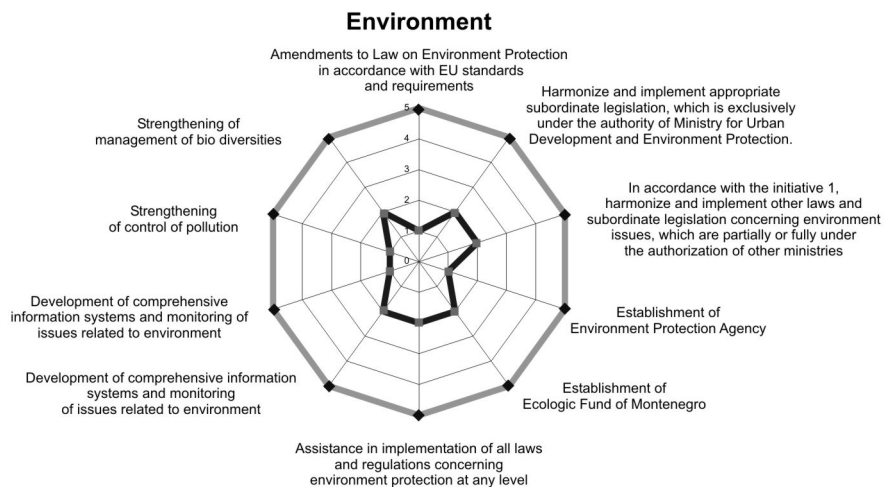
1. Insufficient level of expertise of statistical agencies staff.
2. Poor statistics of labor market – data on labor market are still dominantly collected from administrative sources, which gives an incomplete picture of the real situation. More organized research of labor market will improve the quality of statistics.
3. Insufficient coordination between subjects in the system – participants in the system are dominantly working independently and trying to resolve problems at the level of individual institutions.
4. Undeveloped statistical culture – among institutions and business organizations.



## 15 Environmental Protection

### Assessment of Activities Based on Economic Reform Agenda Indicators

Environmental Protection	Goal	Result
Amendments to Law on Environmental Protection in accordance with EU standards and requirements	5	1
Harmonize and implement appropriate legislation, which is exclusively under the authority of Ministry of Environmental Protection and Urban Development	5	2
Establishment of Environmental Protection Agency	5	1
Establishment of Ecologic Fund of Montenegro	5	2
Assistance in implementation of all laws and regulations concerning environment protection at municipal level	5	2
Dissemination of information and assistance for public participation in decision making related to protection of environment at all levels	5	2
Development of comprehensive information systems and monitoring of issues related to environment	5	1
Strengthening of pollution controls	5	1



### TOP ACHIEVEMENTS

1. Preparation of important legal and institutional reforms (laws for EIA, SEA, IPPC, waste and air, Agency and Fund for Environment).
2. Preparation and adoption of strategic documents (waste waters, waste, Physical Plan of Montenegro, integral management of the coastal area).
3. Beginning of the implementation of several investment projects that will have favorable effects on environment (waste landfills at the coast, interventions in the area of water supply and sewerage system).
4. Strengthening of awareness of environmental protection and participation of public in developmental decision-making.

**TOP PROBLEMS**

1. Lack of substantial progress in implementing reforms in this sector - too slow pace of reforms (e.g. important laws are still not adopted, new institutions are still not created, environmental financing is not improved).
2. Capacity and resources (human) of the Ministry of Environmental Protection and Urban Development were not increased over the past period in a way that would enable it to carry out complex reforms - more attention must be paid to overcome this constraint in the future.
3. Inter-sector cooperation and integration of ecological problems in other sector policies are far from satisfactory.
4. Progress achieved in the areas of decentralization, monitoring and information systems, public participation and access to information is insufficient.

## **II ACTIVITIES AND NEW INITIATIVES**

**This part covers activities and new initiatives classified in 3 parts:**

**0. Tasks that cut across the entire Agenda**

**A. Macroeconomic stability and development of new institutions of integral market**

**B. Economic growth and development**



## 0. Tasks that Cut Across the Entire Agenda

Four tasks pertain to all others in the Economic Reform Agenda. These are:

- 1) **Monitoring and reporting on the activities and outcomes of the economic reforms on the EU accession path of Montenegro;**
- 2) **European integration process;**
- 3) **Communication with citizens of Montenegro on the progress and impact of economic reforms on economic growth as well as on the dynamics of accession process**
- 4) **Full participation of the Civil Society in policymaking and process of preparing laws.**

These four tasks will be carried out over the entire timeframe, and relate to all tasks in the Economic Reform Agenda.

In addition to the fact that accession to the European Union is a topic and task cutting across all activities set in the Economic Reform Agenda, it is also a strategic implementation goal of the Agenda. Comprehensiveness of this process includes intensive horizontal coordination of all government bodies.

### 1. Monitoring of implementation of the Economic Reform Agenda and macroeconomic policy

#### Goals

Monitoring, evaluating and reporting on activities and impacts of the Economic Reform Agenda, as essential elements of success.

#### Specific Initiatives

#### Monitoring of Performance

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

Goals and tasks need to be clearly defined at the outset. Regular monitoring and reporting of performance against pre-determined milestones makes it easy to reinforce success and to take quick, effective corrective action when needed.

a) Define goals and tasks

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Define key performance indicators

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Establish monitoring and reporting system

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Responsible Institutions

Ministries and responsible institutions

#### Donor Support Committed

EU, OECD, USAID

### 2. Accession to the European Union

#### Goals

Establish and continuously strengthen the institutional relationship between Montenegro and the European Union – joining political, security and economic European and Euro-Atlantic integrations.

#### Key parameters

- Pre-accession strategy: a skilled negotiation team of the Government; negotiation and signing of the Stabilization and Association Agreement;

- Implementation of the Action Plan for the Implementation of Priorities from the European Partnership document;
- Communication strategy for informing the public on the EU accession process for Montenegro;
- Further development and dispersion of positive impact of the double-track approach on the overall EU accession process for Montenegro;
- WTO membership;
- Financial support from the EU for strengthening European integration processes in Montenegro and institutional capacity building for

the process of EU accession for Montenegro using CARDS and various EU pre-accession programs (TWINING, TAIEX, NEIGHBORHOOD, ERASMUS, IPA).

**Overview**

The Stabilization and Association Agreement, as a new generation of European agreements offered to SEE countries, was defined in 2000. However, it is only realistic that the negotiations within the EU stabilization and association processes may begin in Montenegro in 2005. The negotiations about the future EU Stabilization and Association Agreement will start within the current institutional arrangement (S&M), upon obtaining favorable Feasibility Study. The Agreement will delineate general principles, political dialogue, regional cooperation, free movement of goods, movement of labor, establishment of legal entities, provision of services, movement of capital, harmonization of domestic legislation with the EU legal system, implementation of laws and market competition rules, judiciary and internal affairs, policy of cooperation and financial cooperation with the EU.

The Agreement aims to: develop political dialogue between the EU and Agreement signatory state, start gradual harmonization of national legislation of the signatory state with the EU legal system, encourage economic relations between the two sides, gradually develop free trade zone between the two sides, and foster regional cooperation within the stabilization and association processes. The Agreement gives the signatory country a status of a potential candidate for EU membership.

The stabilization and association process, the EU strategy towards the West Balkan countries, includes six elements:

- (1) Stabilization and Association Agreement, as a new type of contractual relationship (the so-called third generation association agreement);
- (2) development of existing economic and trade relations with and within the region;
- (3) development, or partial reallocation of current economic and financial assistance (CARDS – Community Assistance for Reconstruction, Development and Stabilization);

- (4) increased assistance for democratization, civil society development, education and institutional development;
- (5) using the possibilities for cooperation in various areas, including judiciary and internal affairs;
- (6) development of political dialogue, including political dialogue on a regional basis.

**Specific Initiatives**

**1.Action Plan for Implementation of European Partnership Recommendations (2005-2006)**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The Action Plan includes the adoption of new laws, institutional adjustment, training of employees and implementation of new legislation and procedures in accordance with the EU recommendations in the following areas:

a) Democracy and rule of law

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Human and minority rights

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Regional and international cooperation / obligations

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) Economic situation (market economy, situation on goods and services, labor and capital markets, structural reforms, public finance management)

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

e) Internal market and trade

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

f) Cooperation in judiciary and internal affairs

**Responsible Institutions**

Ministry for Foreign Economic Relations that coordinates the process via the Government

Commission for Coordination of European Integration Processes

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Donor Support Committed**  
EAR, EU

**2. Communication Strategy for Informing the Public on the EU Accession Process of Montenegro**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In September 2004 the Government of the Republic of Montenegro adopted communication strategy as a medium-term framework for dissemination of the idea of European integration process to the citizens of Montenegro. During 2004, a significant segment of promotional activities was carried out and the Action Plan for the Implementation of Communication Strategy in 2005 was developed. The Action Plan will be annually adopted and implemented, in cooperation with all local partners, primarily NGO sector.

a) Keeping the public regularly informed on the EU integration process in Montenegro

The Euromont bulletin, promotion of the logo and slogan of European integration process, roundtables, participative process in Montenegrin municipalities, cooperation with educational institutions, particularly the University, cooperation with NGOs, roundtables, website of the Government and NGO sector about the process of European integrations in Montenegro, study visits to EU institutions, TV spots, TV debates, billboards, etc.

b) Public opinion survey

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

Analyses, research, TV shows, publishing of surveys

**Responsible Institutions**

Ministry for Foreign Economic Relations and European Integrations in cooperation with NGO sector

**Donor Support Committed**

EAR, FOSI, KAS, FES.

**3. Educating the Public about Economic Reforms**

**Goals**

Build citizens trust in economic reforms through better informing the public on the goals, implementation and effects of the Economic Reform Agenda

- Illustrate how people can benefit from reforms and demonstrate positive examples
- Encourage market-based way of thinking
- Reward initiative
- Improve image of the Government and Montenegro as business environment.

**Key parameters**

- Public trust and support (citizens, business community, investors, NGO) for economic reforms
- Efficient and cheaper public administration
- Responsible and open Government
- Better image of Montenegro as stable business environment

**Overview**

The Government of Montenegro has undertaken an ambitious plan of economic reforms. Many reforms and laws have already been adopted and more will be introduced and implemented in the coming months and years. In order for the reforms to be effective, it is imperative that citizens of Montenegro and all stakeholders (business community, investors, employees, unemployed, NGO sector, media, international partners etc.) have high level of awareness about the reforms and understanding of how the people benefit from them in a short and long term. It is equally critical for the success of the reforms for the Government to prepare and implement an internal communications plan for its staff; and this is where the government communication plays the key role. That is why public education and information were given an important role in the Economic Reform Agenda.

Many preconditions have been already met, including the establishment of the Government Bureau for Public Relations, a new Government Press Center, new website, etc. In addition, a majority of ministries have appointed spokespersons. However, there is still a lot to be done. A new approach in government communications is required and it must include defining the vision, strategy, plan of activities with designated people in charge, their responsibilities and timeline, proofs and success stories, monitoring of the realization, appealing messengers, appointment of a full time Agenda Communication Director. Such a new, broader, two-way and proactive approach in government communications is required to ensure more coordinated and efficient communications, before, during and after the realization of each program and regulation in order to increase public awareness and understanding, build confidence, participation and support for the Economic Reform Agenda.

**Specific Initiatives**

**1. Establish the system for more efficient Government communication**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

- a) Internal communication (horizontal and vertical)
- b) External communication (citizens, media and interest groups)
- c) Build capacity of the Bureau and Ministries
  - Restructure and build capacity (technical and staff improvements) of the Government Bureau for Public Relations, and build capacity of spokespersons offices within ministries to improve coordination and communication at the Government level.
  - Define communication and coordination procedures within the Government and with target groups.
  - Define a uniform name and hierarchy of the position, scope of work, and precise job description with responsibilities for all GOM/public administration spokespersons.
  - Adopt policies and procedures that shall be mandatory for all Government officials and spokespersons, in order to ensure consistency, coordination and efficiency.

- Define policy, procedures and communication tools/channels within the public administration, so that officers and appointees can be regularly informed on reforms and their role in the implementation of the reforms, as well as to provide their support, since it is more likely for officers to support reforms and have a positive attitude, if they feel they are part of the process.
- Organize regular training practice for employees in the public administration regarding business etiquette, correspondence and ethics.
- Actively promote a consumer service environment, standards and code of ethics within the government and reward individual initiative directed to communication improvement.
- Make a mandatory for every new law, program or regulation to be accompanied with a communication plan to be submitted to the Government prior to the adoption of a law. The plan should anticipate reactions of the public and media, which enables that adequate changes are timely incorporated and right answers timely prepared, which leads to the control over the entire process.
- Establish rules and procedures for a direct cooperation and communication with stakeholder groups that are affected by the economic reforms, before, during and after adoption of regulations and/or programs. This is critical as stakeholder groups (associations and similar) would be more likely to support and advocate for it, and less likely to criticize, if they are involved and feel to be a part of the process. Their input should be sought prior to the finalization of laws and stakeholder representatives should be included in the communication plans for specific announcement.
- Define a cooperation model with young people in order to include them in both planning and implementation of reforms.
- Define a cooperation model with experts and prominent Montenegrin citizens working and studying abroad as a communication channel to promote economic reforms and investment opportunities, and to improve the image of Montenegro abroad.
- Build an infrastructure (rules and procedures) that would open the state administration for ideas, suggestions, critiques and initiatives from citizens and interest groups, which would be useful for the Government as a valuable source of information.



**Responsible Institutions**

Government Public Relations Bureau and ministries

**Donor Support Committed**

USAID, EU and other multilateral and bilateral support programs

**2. Establish Communication Strategy for the Agenda**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

a) Develop and adopt a simple and clear message on economic reforms that resonates with ordinary people and ensure that it is used repeatedly and consistently by all government officials in announcements, speeches, interviews, news releases, TV appearances, etc. It is critical here to demonstrate examples/proofs for such message.

b) Appoint a full-time Agenda Communication Director to be responsible and in charge for overall communications related to Agenda (whether it be a GOM or an outsourced person).

c) Implement a public administration-wide communication plan on the Agenda that will be coordinated by the Bureau for Public Relations and implemented in coordination with ministry spokespersons. The plan envisages an expansion of media events to include not only announcement of new laws, but also to preset their successful implementation and how the reforms will help improve the standard of living, engaging stakeholders to advocate these reforms for the Government.

**Responsible Institutions**

GOM Bureau for Public Relations and ministries

**Donor Support Committed**

USAID, EU and other multilateral and bilateral support programs.

**4. Participation of Civil Society in Economic Policy Making and Preparation of Laws**

**Specific Initiatives**

Develop a model for civil society to participate in the policy making and process of preparing laws

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

A working group comprised of representatives of the Civil Sector and the Government will work together to develop models for regulating Civil Society participation in both drafting and implementation of policy and legislation. Once the model is adopted, Civil Society participants

will define the roles and responsibilities of key Civil Society stakeholders.

Strengthen the Economic-Social Council to include the government, business and the civil sector to promote cooperation in policy formulation and broad based implementation, making the Economic-Social Council a powerful tool for engaging citizens and key stakeholders in the reform process.

**Responsible Institutions**

GOM Commission for Political System and Internal Policy, GOM Bureau for Public Relations

**Donor Support Committed**

USAID, EU



**A. Macroeconomic Stability and Development  
of Institutions as Support to Integral Market**



## 1. Business Environment

### Goals

Create a business environment suitable for maximum possible economic development increase of trade and economic activity, which ensures protection of property rights and the rule of law

### Key parameters

- Internal harmonization of the existing laws and regulations
- Harmonization with European Union standards
- Implementation of the existing laws and regulations

### Overview

Business regulatory environment is the framework within which private sector activity takes place. Since mid-2001, a wide range of new business regulatory legislation has been adopted. In the following period the attention will be focused on: (a) harmonizing and refining existing legislation, and implementing regulations to improve the business environment for private sector development and improve overall competitiveness of the Montenegrin economy (b) drafting, passage and implementation of new laws and economic legislation (c) harmonizing legislation with EU directives and internal harmonization of regulations, and (d) improving the mechanisms for alternative dispute resolution so that cases are decided in a fair and timely manner.

### Specific Initiatives

#### 1. Ensure Internal Harmonization of Regulations and their Harmonization with EU Standards – permanent assignment

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

Within the EU stabilization and association process during implementation of the Agreement Montenegro shall be obliged to define the National Program for Harmonization of Legislation with the EU legislation (Acquis Communautaire). In November 2004, in accordance with this task, Montenegro adopted amendments to the Rules of Procedure of the Government introducing the

obligation to prepare the “Statement of Harmonization” with the EU legislation for every draft legislation (laws and subsidiary legislation). Furthermore, during 2005, “Statements of Harmonization” for all key systemic laws Montenegro adopted during the last few years will be prepared through the Government Commission for Coordination of the EU Accession Process. Thus, an overview of the harmonization degree with EU standards and regulations for the most important legislations in our legislative system will be obtained, as well as of needs for further harmonization in the future period. These activities are especially important for fulfilling the Action Plan for the implementation of the European Partnership Recommendations adopted by the Government in December 2004.

#### Responsible Institutions

Ministry of Justice, Ministry for Foreign Economic Relations and European Integrations, respective ministries, Secretariat of Legislation

#### Donor Support Committed

USAID, EU, UNCTAD and other relevant multi-lateral and bilateral institutions

### 2. Implement existing laws and their amendments

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

During the last two years, a number of new laws were adopted by the Parliament. However, new laws have not been completely implemented yet, and in some critical areas such as concessions, the enabling regulations have not been drafted. Attention needs to be given to full implementation of laws, primarily to fine-tuning of new registries, developing forms and instructions, and training officials and the business stakeholders.

Implementation of the Law on Insolvency of Business Organizations has been improving steadily but not completely satisfactorily. A number of privatizations have occurred through the bankruptcy process, which is very good progress. Development of the website with a com-

prehensive database on bankruptcy proceedings should be considered.

Amendments to the Business Organization Law have been drafted. Then, implementation of the Law should be carried out.

Amendments to the Public Procurement Law have been in process for over a year. The new amendments should be adopted this year and should improve the overall understanding of the Law and improve its compliance with EU standards. A whole set of subsidiary regulations regarding public procurement have been adopted. Intensive efforts are made on improving regulations regarding concessions, partly because of problems in their implementation, and partly in order to provide greater linguistic clarity and make the Law more compliant with EU standards.

The Secured Transactions Law has been implemented very successfully. Further development would be amendments to enabling regulations for an even more efficient implementation of the Law.

Amendments to the Law on Securities should provide additional compliance with international standards. Seminars on the implementation of the amended Law should be organized.

The implementation of the VAT Law has been very successful. Results of the application of VAT are: a decrease in black market activity reflected through increased share of VAT revenues in budget revenues (around 36% in 2004); equalization of prices of goods and establishment of fair competition; undisturbed flow of goods and services within the State Union and removal of double taxation. Due to the successful implementation of this Law, it is not necessary to amend this Law during 2005, but to start with serious analysis of the overall effectiveness of the Law and determine how it can be improved. The issues which must be taken into consideration are: rate of 17%; administrative barriers; business transactions which are exempted from VAT regime; payment deadlines, taxpayer education.

### Specific Initiatives

1. Law on Insolvency of Business Organizations (implementation)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2001						

2. Business Organization Law (implementation and amendments)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2001						

3. Public Procurement Law (implementation and amendments)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2001						

4. Regulations on concessions

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2002						

5. Secured Transactions Law (implementation)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2002						

6. Foreign Investment Law (implementation and amendments)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2000						

7. Securities Law (implementation and amendments)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2000						

8. Law on Electronic Signature (implementation)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2003						

9. Law on Electronic Commerce (implementation)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2004						

10. Mortgage Law (implementation)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen	2004						

11. Law on Public Utilities (amendments)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Usvojen							

### Responsible Institutions

Ministry of Finance, Ministry of Economy, Securities Commission, Agency for Promotion of Investments (MIPA) and Secretariat of Development

### Donor Support Committed

USAID, EU, WB-MIGA, OECD/Investment Compact

### 3. Develop and implement new laws

#### Summary and Sub-tasks

New legislation is needed to complete the basic legislative framework for a modern market economy in Montenegro.

#### 1. Law on Protection of Competition

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2004						

#### 2. Law on Contracts and Torts

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Bez nacrt	2005						

#### 3. Law on Application of Regulations on Protection of Intellectual Property Rights

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2005						

#### 4. Law on Licensing

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2004						

#### 5. Law on Ownership and Property Relations

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Bez nacrt	2005						

#### 6. Civil Code (optional)

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Bez nacrt	2005						

#### 7. Law on Financial Leasing

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2004						

#### 8. Law on Bill of Exchange

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2005						

#### 9. Law on Check

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Bez nacrt	2005						

#### 10. Law on Consumer Protection

Status	Start	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
Nacrt	2002						

#### Responsible Institutions

Ministry for Foreign Economic Relations and European Integrations, Ministry of Economy, Ministry of Finance, Ministry of Justice, Ministry

of Culture and Media, Ministry of Health, Ministry of Tourism, Directorate for Development of Small and Medium Enterprises

#### Donor Support Committed

USAID, EU, relevant international institutions for expert support in the process for EU harmonization

### 4. Deregulation and reduction of transaction costs

#### Summary and Sub-tasks

Since Economic Reform Agenda was adopted, more than 20 business laws were passed by the Parliament of the Republic of Montenegro. The new laws are in line with EU best practices and most of them aim to liberalize regulatory framework and decrease transaction costs. However, support of administration and judicial system is inadequate and, in some cases, there is a lack of institutional capacity.

The **Business Organization Law**, adopted in 2001, has significantly simplified procedure for registration of business organizations and removed some of the barriers for business entry. Nowadays, registration procedures for a business organization can be completed within 4 days and the founding capital is just 1 € for a limited liability company. Montenegro thus has the lowest barriers for initial registration of business organizations in the region. OECD recognized Montenegro as a leading country in the region regarding business organization registration process (for more details see: Enterprise Policy Performance Assessment EPPA – 2003). However, transaction costs related to the registration are still high, since problems occur at the local level when businesses try to get operational licenses. Adoption of the Law on Licensing, that prescribes faster and more efficient registration procedures at the municipality level, should be one of the legislation priorities in the current year.

The new **Law on Insolvency of Business Organizations**, adopted in 2001, has simplified the procedure for company insolvency and cut the length of the bankruptcy process. Still, a significant number of companies have entered the bankruptcy procedure under the old Bankruptcy Law, which leads to inefficient procedure and unresolved bankruptcy cases that can last for

years. Two challenges remain: 1) to speed up bankruptcy procedures and 2) to strengthen knowledge and improve the skills of judges.

A number of **tax laws** were implemented in 2003, including the Law on Value Added Tax (17%). Personal income tax and contributions on wages were twice reduced by 5%. In December 2004, amendments to the Law on Corporate Profit Tax were adopted, introducing flat tax rate, which was decreased from 20% to 9%. According to the new Law, Montenegro now has the lowest corporate profit tax rate in the region, which should provide significant incentive for foreign investments. However, there is a room for further improvement in this area, which shall be the subject of analyses in the following period.

The **Customs Law** was adopted in 2002, but its implementation started in April 2003. This Law was drafted in cooperation with international experts. Its provisions are based on the European Union Directives (European Customs Law) and relevant WTO agreements (GATT, Agreement on Customs Evaluation and Rules on Goods Origin).

**Law on Secured Transactions** allows for on-line registration of pledges that can be based on movable assets and securities. A very important aspect of the Law is that it also allows for extrajudicial foreclosure of pledges.

The new **Law on Electronic Commerce** was adopted in 2004, introducing the Internet and electronic transfer of data in every day work. The Law establishes the framework for electronic trading and contract execution and provides for more efficient ways of doing business. This Law also represents one step forward towards establishing e-government.

a) Create conditions for full implementation of new laws

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- Adoption of accompanying regulations and procedures for the implementation of new laws
- Proceeding with reform of the judicial system and overall institutional capacity building

should be in place in order to insure effective legal framework.

- Comprehensive training programs for administration officers in charge of laws implementation in order to increase key institutions capacities.
- Consider the introduction of new tax reliefs for investors (domestic and foreign), in order to stimulate investments in new tourist capacities that will, on the other side, improve quality of employment opportunities.

**Responsible Institutions**

Line ministries and Human Resources Administration

**Donor Support Committed**

USAID, EAR

b) Amend some of the existing laws to make them more liberal and to decrease transaction costs

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- Labor Law – consider possibilities to improve a labor market flexibility
- Law on Corporate Profit Tax – consider possibilities of additional incentives for foreign partners
- Foreign Investment Law – consider the possibility of its actualization

**Responsible Institutions**

Ministry of Finance, Ministry for Foreign Economic Relations and European Integrations, Ministry of Labor and Social Welfare, Montenegrin Investment Promotion Agency (MIPA)

**Donor Support Committed**

USAID, EAR

c) Test the possibility of introducing flat corporate profit taxation system

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Finance, Commission for Economic Freedoms

**Donor Support Committed**

USAID, EAR, UNDP



## 2. Trade and Regional Economic Cooperation

### Goals

Adopt WTO standards in domestic and foreign trade, develop customs system in accordance with EU and WTO recommendations, strengthen a regional economic cooperation and increase competitiveness of domestic producers

### Key parameters

- WTO Accession
- Harmonization with European Union regulations
- Increase export/decrease goods deficit
- Free Trade Agreement implementation - harmonization with neighboring countries, especially in sectors with strong potential to attract foreign investment to Montenegro

### Overview

WTO accession is one of necessary and strategically important steps on the path to the European integrations and quality inclusion of Montenegro into matrix of regional economic cooperation. Creation of a free trade zone of the West Balkans is a good message to investors, thus they can plan their investment projects for the whole region and use benefits of canceling reciprocal customs and non-customs limitations. Realization of the overall Stability Pact initiative envisages not only free flow of goods, but also free flow of services, labor and capital.

### Specific Initiatives

#### WTO Accession Process for Montenegro

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

On February 1, 2005, the WTO General Council has opened negotiation process for full WTO membership for Montenegro. WTO accession is a necessary and very important step on the path to the European integrations of the Balkan countries, thus this shall be a strategic activity in the months to come. Good-quality negotiations on future membership envisage a whole set of activities requiring a clear plan and close coordination of different ministries, both in the area of goods and services offer and the area of protection of intellectual property rights regulation.

a) Adoption of a set of laws in the area of intellectual property rights at the level of Serbia and Montenegro enables Montenegro to start the following:

- Defining and implementing the Law on Implementation of Regulations in the Area of Protection of Intellectual Property Rights

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- Adoption of the Decree on Customs Authority Activities Border Measures for Protection of Intellectual Property Rights

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- Adoption of amendments to the Criminal Code

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- Adoption of the Law on Optical Disks

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Responding to questions based on the submitted Memorandum of Foreign Trade Regime in Montenegro

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Preparing all other necessary reports for WTO Accession Process (ACC4 - agro-budget, ACC5 - services, ACC8 - technical regulations and standards, ACC9 - report on protection of intellectual property rights, offers for goods, offers for services) and with respect to the aforementioned adopt a new Law on Customs Tariffs (HS 2002)

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) Establishing a working group for Montenegro within the WTO Accession Directorate in Geneva, and coordinating preparatory activities for meetings of working groups with participation of the Negotiation Team of the Government of the Republic of Montenegro

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- e) Organizing training program and study tour to WTO for implementation of regulations in the area of protection of intellectual property rights (Customs Administration of Montenegro, Ministry of Economy – market inspections, Ministry of Culture and Media)

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- f) Sending representatives of the negotiating team to WTO courses in Geneva on a regular basis

H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Responsible Institutions

Ministry for Foreign Economic Relations and European Integrations, Ministry of Economy, Ministry of Agriculture, Forestry and Water Resources Management, Ministry of Finance, Customs Administration (coordination through the Government Commission for WTO Accession)

#### Donor Support Committed

USAID (until April 2006)

### 3. Fiscal system

#### Fiscal Reform

##### Goals

In five years, a balanced budget shall be achieved through adequate economic policy and setting basic development goals during the budget planning, tight financial management and tight accounting control in budget execution, and a competitive tax structure, as well as stimulating monetary policy that will facilitate dynamic private sector growth.

##### Key parameters

- Consistency of fiscal and monetary policy with IMF and World Bank framework and targets
- Harmonization with EU directives

##### Overview

The fiscal situation in Montenegro is characterized by: planned budget deficit (2.17% of GDP projected for 2005); improving budget analysis; a new, but still incomplete, budget execution system; a foreign debt burden estimated at 502 million € (according to data from the Ministry of Finance); anticipated improvement in revenue collection with the introduction of new corporate profit tax, personal income tax, and value added tax (VAT). Policies are needed to broaden the tax base and decrease the tax burden. The goal of tax policy is to achieve fiscal balance while maintaining a broad-based, competitive tax structure that allows for vigorous private sector growth. During the past implementation of the Agenda, key parameters of fiscal and monetary policy were successfully

harmonized with policies and goals of the World Bank and IMF.

In addition to broadening the tax base, covering the budget deficit will require a greater discipline on the expenditure side, particularly in the wage policy, direct and indirect transfers to commercial enterprises and the high cost of pension, health and unemployment funds. For the success of the reform it is necessary to improve efficiency and reduce costs in these institutions. An efficient budget planning and execution will enable Government institutions to better plan and manage the way they use scarce budget funds. An Internal Audit Unit within the Ministry of Finance has been established as an organizational unit to drive accountability and more efficient financial management of public funds. A fully functioning system for the efficient planning and management of government debt is critical to achieving fiscal balance. The Ministry of Finance has implemented notable reforms over the past three years with good results, including a new tax regime, a new Public Procurement Law, a new expenditure management system and a new Budget Law. Over the next four years the tax regime will need to be fully implemented, the Public Procurement Law needs to be fully institutionalized, the treasury system needs to be completed and the Budget Law will need to be fully implemented.

**Specific Initiatives**

**1. Expenditure management and control**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Fiscal balance will require greater budget discipline in the following areas:

- a) Establish and enforce efficient wage and employment policy for each spending unit

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

During 2004 the centralized payroll system was established in the Ministry of Finance, in order to improve control over costs for salaries of public servants. It is necessary to insist on a strengthening of the centralized payroll system in order to have comprehensive coverage of all expenses generated in respect to this issue. The completion of the implementation of the system is expected at the beginning of 2005. The Law on Salaries of Civil Servants and State Employees has been adopted to provide efficient monitoring of costs for civil servants' salaries, and equalization of salaries paid from the Budget. A further work needs to be undertaken in setting staffing targets based on international ratios and measuring and reporting staffing outcomes. Actual staffing against staffing targets should be outlined in both Annual Reports and the Ministry of Finance's Annual Budget Execution Report to the Parliament.

- b) All enterprises that receive direct or indirect Budget subsidies will have to submit annual operating plans with monthly revenue and expenditure plans. These enterprises should be obliged to report on actual performance against the projected one on a monthly, quarterly and annual basis. Performance should be monitored and corrective action required, including replacing of the management, when the performance of an enterprise does not meet the plan. A target should be defined for these enterprises to achieve profitability without direct or indirect subsidies by a pre-determined date and eliminate subsidies after that date. In consultation with ministries responsible for monitoring and subsidizing state enterprises,

Ministry of Finance should initiate activities on preparation and submission of annual operating plans and regular reports of operating performance. All responsible ministries should provide the Ministry of Finance with quarterly reports on the performance of state enterprises under their oversight that include any action taken to manage the performance. Ministries in charge of state enterprises should include a brief statement of activities in the Annual Report. In order to facilitate the reporting system, the Ministry of Finance should consider the implementation of international system of "Uniform Accounts" (USALI) for hotel industry.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- c) Establish the capacity within the Ministry of Finance, Budget Department, to monitor the financial performance and key performance indicators for any entity (organization) that receives public funds through either direct budget transfers, or indirectly, through controlled or subsidized prices and loans. This would include: extra-budgetary funds, public entities and commercial enterprises with state ownership. The Monitoring Unit will be responsible for publishing quarterly and annual financial updates on each organization to provide information on decisions on budget allocation and transparent use of public funds.

In order to improve monitoring of public resources it is necessary to continue with activities on implementation of program budgeting, with strengthening of the activities related to analyses of efficiency in the use of subsidies transferred to public enterprises.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- d) Reorganization of the Tax Administration is almost completed. Introduction of unified collection is being finalized, and various procedures and processes are incorporated in the growing IT system. A unit should be established and trained to detect and look for non-filers.

The functions of collection of taxpayers' services and audit have been analyzed and adjustments have commenced. The Ministry of Finance and the Tax Administration should

develop a framework and a clear set of delegated authorities for the regime of enforced collection. In order to improve recording and collecting of public revenues, in accordance with the World Bank recommendations, Draft Law on Unified Collection and Registration of Public Revenues has been prepared and forwarded for further consideration. The managing of delegated authorities requires continued monitoring to ensure their effective application, management and implementation. Further measures should be undertaken to establish meaningful and achievable performance objectives for the Tax Administration. The measures should target the rate of recovery of declared liabilities, timeliness of arrears recovery and rate of detection of non-filers. There should be a clear understanding that targets for each tax type forecasted by the Ministry of Finance for macro-analysis and budgetary purposes are not appropriate for assessing the performance of the Tax Administration.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Responsible Institutions**

Ministry of Finance, Customs Administration, Tax Administration, Fund PIO and extra budgetary funds

**Donor Support Committed**

USAID, EAR, US Treasury, World Bank, EU

**2.Improve budget planning and execution**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Summary and Sub-tasks**

A rigorous control of public revenues and expenditures is critical for shifting from chronic deficits to a fiscal balance. Four processes need to be established to achieve rigorous control of public revenues and expenditures:

- a) Establish medium-term framework of expenditures

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
---------	---------	---------	---------	---------	---------	---------	---------

Three-year revenue and expenditure forecasts are fundamental to good planning. Known as a "Medium-Term Expenditure Framework," a three-year planning horizon uses key macro-economic indicators, revenue forecasts, and spending plans to achieve an integrated sys-

tem of planning of expenditures, capital spending and revenue forecasting. The outcome is a more effective use of funds, a more predictable investment environment, and cost rationalization. A medium-term expenditure framework for the period 2005-2007 was developed within the Budget for 2005. The structure of the projection comprises all budget items. Further development of the MTEF is required to better integrate the use of key macroeconomic indicators, revenue forecasting and spending plans and to further align the plan with the Government's program of economic reforms.

Further work is required to enhance, formalize and institutionalize the process, which includes: 1) more rigorous system procedures in producing macroeconomic indicators used for budget preparation; 2) harmonization of the Ministry of Finance and Central Bank economic analyses to increase accuracy; 3) revenue estimation models to accurately forecast revenues and analyze the impact of different taxes, rates and policies on economic growth and fiscal balance; 4) ministries and Government agencies submission of three year forecasts of major expenditures and revenues to the Government and the Parliament; 5) formalization of a process for making periodic adjustments and incorporating the impact of major changes in policy and/or economic conditions.

- b) Strengthening the capacity for Budget planning and monitoring

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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The basic principle of a sound fiscal management is the Budget linked to the Government policy. In order to keep this principle operational, a frequent reassessment of the activities of each Government unit is required. One methodology for achieving this objective and for increasing transparency in the budget process is "activity based budget" (ABB), or program budgeting. Implementing ABB requires adoption of a standard budget classification system throughout the public sector, and training public employees on the principles and application of the methodology. The key benefit of the ABB methodology is the ability to closely monitor the impact of spending programs. Practical steps for implementing

ABB include establishing a set of objective performance indicators for budget programs and activities at the time they are defined. By monitoring indicators, it is possible to quickly assess the cost and benefits of each program in a simple and transparent manner. Monitoring and control activities are most often done by a "general controller's office" within the Ministry of Finance. In 2004, program budgeting was developed for the Ministry of Tourism and Ministry of Transport. Budget for 2005 comprises additional spending units (Bureau for Execution of Criminal Sanctions, Tourist Organization of Montenegro and Ministry of Education and Science). In 2006 three additional spending units are planned to become a part of program budgeting system. In 2007 the entire Budget should be developed according to rules of program budgeting. The Treasury SAP system needs to be further developed to support Program Budgeting. Program performance against targets should be reported in Annual Reports of ministries.

c) Controlling public revenues and extra-budgetary funds

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

Most revenues and expenditures for majority of spending units have already been brought on the budget and centralized in the Republic's Treasury in 2002. This reform eliminated uncontrolled collection and use of revenues and led to tighter financial control over the public funds. The sources and uses of public funds managed by extra-budgetary Funds like the Fund PIO, Health and Unemployment also need to be brought on Budget. All public revenues and expenditures need to be accounted for, either through the budget system or through transparent financial reporting. More transparent financial reporting has been achieved through the introduction of a requirement that spending units and EBFs prepare annual financial statements using IFAC's international accounting standards. A future task should be the preparation of accrual based consolidated financial statements for the Government to complement the consolidated cash based GFS reports and achieve greater transparency level of current and non current liabilities and the costs of holding surplus state assets.

A review needs to be completed on the public benefits of bringing the funds managed by extra-budgetary funds (PIO, Health Fund and Unemployment Fund) on Budget. New revenue accounting systems within the Treasury and the use of key performance indicators to monitor results of individual revenue collection agencies significantly enhance the level of accountability over public revenues.

d) Revenue Control

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

As a result of closure of ZOP on January 1, 2005, the Treasury developed and implemented a new revenue management system to process and disburse shared revenues and extra budgetary funds contributions and to record and reconcile revenue receipts paid into Treasury bank accounts. From January 1, 2005 the three main contributors that account for over 98% of budget revenues, Tax Administration, Customs Administration and Ministry for Interior Affairs commenced providing Treasury with a daily detailed accounting statement generated from in-house accounting system of collected and reconciled public revenues. For an interim period (not exceeding 2005) the Treasury will prepare a daily receiver's statement for the remaining revenue collection agencies until the necessary IT systems and procedures are developed or for the collection and accounting functions to be outsourced to a competent body able to collect and process public revenues more efficiently. Future development of the system shall be directed to implementation of revenue module functions into Treasury SAP system.

In accordance with IMF requirements all government budget related funds have been deposited in new accounts established within the Central Bank. As part of the implementation of the inter-bank payment system, Ministry of Finance, Tax Administration and Customs Administration were established as direct participants in the inter-bank payment system. The Treasury is operating the inter-bank payment system gateway on behalf of all the state revenue collection agencies, except for settlement accounts of Tax Administration and Customs Administration, for receiving and sending

payments and obtaining statements and reports through the inter-bank payment system. To improve access to information on collected revenues for revenue agencies, municipalities and extra budgetary funds, web portal within the Treasury will be established in 2005.

e) Integrated Budget Management System

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

A permanent expenditure management system has recently been implemented in the Treasury Department. The SAP system is operating at less than full design capacity and further development is essential if full value and effectiveness are to be obtained from the system. A strategic development plan has been prepared to link future work to the business priorities and objectives of the Ministry of Finance. Additional functionalities for debt and asset management, procurement and reporting need to be developed and implemented to establish a fully integrated budget management system that is able to exercise tight financial and accounting control over public funds and assets. An asset management system must include share capital, with unified records from the CDA and Agency for Restructuring of Economy and Foreign Investments to contribute to the liquidity of the budget. During 2004 SAP commenced processing budget revenues. Currently the system is being developed to function effectively in the post-ZOP environment for the processing of payments and revenues. Further measures need to be taken to reduce the very high annual running costs of the SAP system and increase the quality of on-site maintenance support.

f) Public Debt Management

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

Montenegro's foreign debt is estimated at 502 million € (according to the Ministry of Finance). An interim debt management system has been introduced for the recording of public debt. Consolidation of "old" foreign debt was carried out under the agreement with foreign creditors. Activities were also initiated for the resolution of claims taken over from Montenegrobank and Yugobank. During 2004

international agency for credit rating Standard and Poor's, for the first time, has assessed and published credit rating of Montenegro, which is among the highest in the region. Long-term credit rating is "BB" and short-term one is at the level of "B." New evaluation is expected by the end of 2005. Further work is required to strengthen cash management processes and practices.

It is necessary to determine the true amount of domestic public debt, with the exception of those which are already known, and are related to repayment of debt in respect to frozen foreign exchange savings, state bonds and debt in respect to borrowings from domestic banks. Also it is necessary to work on development of the secondary short-term state bonds market for the purpose of increasing their liquidity.

Laws regulating public debt management and frozen foreign exchange savings were passed.

g) Internal Audit

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

Trained, fully functional Internal Audit Department was established within the Ministry of Finance in 2004. A three-year Strategic Audit Plan has been approved, supported by annual audit plans that will drive greater efficiencies in state institutions, tighter revenue and expenditure control, greater transparency and full compliance with the Budget Law. The Plan provides a risk-based framework for scheduling audits in key areas of Budget expenditure, salary processing in several large ministries and the administration of revenue collection procedures. To date audits have been conducted on revenue collection procedures in Tax Administration and the expenditure processes in a number of ministries. The following initiatives would improve the overall capability and effectiveness of internal audit: establishment of central harmonization activities (CHU) in the Department for Internal Audit of the Ministry of Finance to coordinate and promote the development of internal audit in the public sector and assist the large spending units to develop their own internal audit capacity; provide internal auditors with ongoing education and professional development

that would enable them to meet international audit certification requirements.

It is necessary to define the obligations and responsibilities of heads of spending units in establishing risk based systems of financial internal control that contribute to the prevention of fraud and corruption, ensure business continuity and increase the level of accountability in the use of public funds.

**Responsible Institutions**

Ministry of Finance, extra budgetary funds

**Donor Support Committed**

EU, USAID, US Treasury

**3. Tax System Reform**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The laws on the personal income tax, corporate profit tax, excises and VAT were successfully implemented. Restructuring of the Tax Administration has been completed and implementation of an integrated IT system is underway. The new IT system will create conditions for efficient monitoring, control and collection of tax revenues. After full implementation of the new laws, in the first quarter of 2004, the achieved impact and effects were analyzed, and laws were refined accordingly, except for the Law on VAT, which will be refined during 2006. In order to constantly improve laws, the following future activities should be undertaken:

a) Law on Personal Income Tax

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The core objectives, to keep taxes low and broaden the tax base, were achieved through amendments to the Law on Personal Income Tax. The amendments introduced a two-stage decrease in personal income tax rates to achieve an overall reduction of 10%. The amount of lump sum taxation for the self-employed has been reduced as well. Further policy revisions needed to achieve these objectives include: (1) Taxing all fringe benefits including loans at reduced interest rates and other personal incomes from employment on

top of the minimum amount set by General Collective Agreement. (2) Taking in consideration the trend in transitional and expanding economies to establish proportional taxation, as well as positive impact of this taxation form on economic efficiency and transparency, consider the need for introduction of proportional taxation in the area regulated by the Law on Personal Income Tax as well as the current zero-tax threshold. (3) Gradually reducing mandatory social insurance (pension, health) contribution rates. PIO contribution rates will be treated with particular attention because of the fiscal sustainability of the system.

b) Excise Tax

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The tax policy has been revised and shall be implemented in the first quarter of 2005. Methodology of calculation of excise on cigarettes shall be harmonized with EU practices while reduction of excise shall be considered for the purpose of controlling gray economy. The revision of the tax policy in respect to other excise goods is underway.

c) Corporate Profit Tax

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The Corporate Profit Tax rate has been reduced to 9%, in order to create better conditions for starting new businesses and investments. Further consideration should be given to possibility of reduction of tax on dividends and interests, as to create better prerequisites for starting new businesses and investments.

d) Value Added Tax

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The key segment of the tax reform in Montenegro is a very successful implementation of the Value Added Tax (VAT). Current results of the implementation of VAT are: significant decrease of black market reflected through increased participation of VAT revenues in budget revenues (around 36% in 2004); equalization of prices of goods and establishment of fair competition; undisturbed flow of

goods and services within Serbia and Montenegro and removal of double taxation. After successful implementation of the VAT Law, during 2005 analysis of the Law shall be performed. The issues which must be taken into consideration during refining of the Law are: (not) to keep single rate of 17%; introduction of reduced tax rates for basic products; specific treatment of some economic activities (e.g. tourism); administrative problems (long period for VAT refund); relatively large number of transactions exempted from VAT for which right on deduction has not been used, which has a negative impact on VAT system and complicates procedures of its calculation; short-term payments of VAT on products in case of import insufficient education of taxpayers regarding application of VAT.

e) Expand tax relief for investors, entrepreneurs and new employment

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

In order to create favorable conditions for more active employment and transfer of "black market" labor to legal economy, examine the existing levels of tax burden and tax relieves.

f) System of Games of Chance

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

In order to eliminate a number of deviations in the system of games of chance, to protect public interest, and to increase revenues to the public budget, a new Law on Games of Chance was adopted in 2004. The Law is based on best practices and is developed with the active participation of the non-governmental sector.

g) Revenue Collection

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The principles of self-assessment for tax calculation are gradually being introduced, with Registration, Declaration Filing and Payment being made easier with more intensive use of IT. As commented earlier, the first duty of a tax collection regime is to collect 100% of the declared liability at the right time. If self-

assessment and reporting of taxes is the goal, the Tax Administration must continue to work on changing its priority from trying to meet the Ministry of Finance Budget estimates, to monitoring and controlling the filing of returns and declared liability. This is something to work on in the coming years and is a whole new area for target setting of registration and gray economy identification is opened up. Those taxpayers that have complied must not be penalized for others' failures with over enthusiastic collection procedures.

**Responsible Institutions**

Ministry of Finance, Tax Administration, Customs Administration, Ministry of Labor and Social Welfare, PIO Fund, Health Fund and Employment Fund

**Donor Support Committed**

USAID, EAR, World Bank

**4. Public annual review of tax policy to stimulate economic growth**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

During 2004 there were numerous review activities. Six new laws were adopted, and three laws are before the Parliament of the Republic of Montenegro. Additionally, eight decisions on various taxes were passed. Ministry of Finance signed international agreements on cooperation as to share and benefit from other countries' experience related to successful implementation of tax policies that create favorable climate for business activities.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Finance, Ministry of Labor and Social Welfare

**Donor Support Committed**

USAID provides technical assistance to Ministry of Finance, Tax Administration and PIO Fund



## 5. Supreme Audit Institution

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Summary and Sub-tasks

A Supreme Audit Institution is one of the key instruments of contemporary democracies for promotion of both transparency and accountability in the sector of public finances. By the law, Montenegro has already established a state body, independent from the executive power, which audits the financial statement and examines the regularity, effectiveness and efficiency of the business operations of all users of public funds.

Projected goals until the end of 2007 are:

- The Supreme Audit Institution has been established with adequately trained staff.
- The audit activities and the audit results have met the criteria of international standards.
- The Parliament is responsible for parliamentary budget control.
- According to law, the Supreme Audit Institution is in fact independent from the executive power.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Responsible Institutions

Supreme Audit Institution

### Donor Support Committed

GTZ (the project has started in July 2002 and will carry on until December 2007)

## 4. Financial System

### Goals

Development of a stable, privately owned financial system that is fully integrated into international structures offering safe and stable returns for depositors and fair prices of capital to borrowers as well as alternative funding sources through development of money market and bonds market as well.

### Key parameters

- International Banking Standards

### Overview

The financial sector and particularly the banking system are fragmented. In view of meeting legal requirements it is supervised by the Central Bank. The banking system has low level of income generating assets, an inadequate deposit structure that results in capital being over weighted as a source of loan funds; relatively high interest rates; a high level of legal reserves; low diversification of assets; high operating expenses; poor profitability; insufficiently developed systems of internal control and audit (relatively weak management); and a low level of foreign exchange and interest rates risks. Historical events and the lack of deposit insurance have led to low level of deposits. An unreformed payment system has led to high transactions costs and inexistence of well-developed non-cash payments instruments. Finally, the

market for securities, particularly short-term securities, is not well regulated. Although certain improvement has been made for removal of basic causes of these problems, there is still much to be done and particularly credit and monetary policies are needed to stimulate the investment cycle.

### Specific Initiatives

#### 1. Regulation and Resolution of Conditions in the Banks According to Basel Principles and EU Directives

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Summary and Sub-tasks

A sound banking sector requires careful licensing, good oversight and the efficient and timely resolution of problem banks. Depositor confidence in the banking system stems from knowing that licensed banks are well managed to minimize risk and that problem banks are resolved quickly and fairly. Laws and practices for regulating the sector must be continually improved in accordance with emerging standards. Cooperation with foreign regulatory authorities was achieved through agreements that were signed in two cases (Agreements signed with Bank of Slovenia and National Bank of Serbia). Agreement with National Bank of Albania was

prepared and reconciled. Membership in BSCEE was achieved. Cooperation with National Bank of Austria, National Bank of Poland and National Bank of Switzerland was achieved without signing particular agreements. It will be necessary in the following period to sign the agreements with regulatory authorities of the countries of strategic partners or foreign banks that will open branches here. Amendments to the Law on Banks should be adopted at the beginning of 2005 for gradual transition to Basel II and further improvement of risk based bank supervision. Regulatory Credit Bureau should be developed in 2005 and amendments to the Law on Bank Bankruptcy and Liquidation should be adopted as well as amendments to the Law on Central Bank. The Law on Leasing should also be adopted as a law that opens the possibility of developing activities related to securitization in banks. Regulatory Credit Bureau should provide development of stress testing of the system, better monitoring of credit risk at banking industry level, calculation of average weighted interest rates and creation of grounds for implementation of model of centralized rating in order to move to advanced approaches within Basel II. Regulatory Credit Bureau will be established within CBM. Specific additional actions include:

- a) Completing the secondary legislation

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Developing cooperation with banking regulatory bodies from other countries

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- c) Strengthening the licensing process

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- d) Adopting new legislation to meet new market demands (mortgage bonds, credit unions)

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Central Bank of Montenegro, Ministry of Finance

**Donor Support Committed**

USAID, DFID, World Bank, EAR, UNDP

**2.Privatization of State Banks**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Privatization of the banking sector is leading to consolidation of banks, which will increase stability in the sector. Privatization of Podgoricka Bank is in progress. Strategy of privatization of banking industry was adopted. Banks privatization should be realized in accordance with adopted strategy.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Privatization Council, Ministry of Finance, Central Bank of Montenegro

**Donor Support Committed**

DFID, EU

**3.Assess Policies to Reduce Interest Rates**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Developing the private sector requires the availability of credits at acceptable interest rates over long term. Interest rates reflect some combination of underlying Euro rates outside of the control of Montenegro and internal risk and transaction cost factors. Interest rates should be adjusted through a comprehensive and coordinated effort in order to stimulate private sector. In coordination with the Central Bank, the Government will assess instruments necessary for reducing and equalizing interest rates. Develop additional measures from economic policy to further eliminate gray economy. Judicial system and particularly commercial court procedures need to be reformed. Commencing and conducting bankruptcy proceedings should be resolved faster. The Law on Bill of Exchange needs to be passed. Further develop implementation of IAS and financial reporting standards and quality of audit. Synchronize implementation of measures for strengthening the liquidity of economy. This area is connected with almost all parts of the Agenda. Institutionalize and develop promotion of foreign investments. Develop system of measures for promoting corporate governance. Pass the Law on Standards for Valuation of Real

Estates that Serve as Collateral. Stimulate establishment of rating by business organizations and presence of rating agencies in Montenegro. Encourage associations of related parties in credit unions from areas of agriculture, trade, etc. Within the program of donor engagement, increase availability of funds for guaranteeing loans by guarantee institutions from donor countries. It is necessary to adopt laws regulating monopoly areas of insurance and pension system, which will also influence strengthening of cash supply.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Central Bank of Montenegro, Ministry of Finance, Securities Commission, Privatization Council

**Donor Support Committed**

EU

**4. Effective Regulation of Insurance Industry**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Damage compensation from insurance is essential to a society built on private property and property rights. It is necessary to pass a new Law on Insurance. A well-regulated insurance sector can increase the confidence of business owners and creditors to take more risk, which would result in a more intensive use of capital.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Finance, Ministry For Foreign Economic Relations and European Integrations

**Donor Support Committed**

USAID, EU, as well as international programs of technical assistance in process of WTO accession

**5. Introduction of Deposit Insurance System**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Ongoing weaknesses (lack of confidence in the banking system, fragmented banking sector, high interest rates, high operating costs, etc.) in the banking sector discourage depositors. There is no credible scheme to protect them from potential losses. A well-designed deposit insurance scheme can give depositors security and reduce risk. An increase in deposits would provide additional capital for lending. Amendments to Law on Deposit Protection. One of priorities is KFW donation.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Finance

**Donor Support Committed**

USAID for draft law

**6. Complete Closure of ZOP and Payment System Reforms**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Following the payment system reform and closing of ZOP, the Central Bank will provide necessary guarantees for efficient payment system operations in the part of collection and registry of public revenues. Migrating payments services to commercial banks will allow significant benefits for the banking sector to engage in profitable activities, bearing in mind setting the preconditions for slow growth of deposits, high reserve requirements, and risky capital investments.

It is expected that commercialization of the payment system will introduce competition into the system, reduce tariffs, improve inter-bank payments, and improve overall liquidity. At the same time, greater integration into regional and European payment systems should bring significant benefits. Liberalizing the payments market requires passage of the Law on Payment Operations and appropriate decisions that will create preconditions for significant investments. New legislation in this area was implemented.

**Responsible Institutions**

Ministry of Finance in cooperation with the Central Bank of Montenegro

**Donor Support Committed**

USAID, EU

**Responsible Institutions**

Securities Commission, Ministry of Finance, Central Bank of Montenegro

**7. Effective regulation of money market**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Develop money and short-term securities (with a maturity of up to one year) market to increase liquidity of the economic system, finance short-term liquidity gaps, and create investment opportunities for commercial entities. Short-term securities are especially important for improving liquidity management at the Republic and municipal level. The money market should be regulated by the Central Bank. The first step is for the Central Bank and the Securities Commission to adopt appropriate regulations. The second step is to draft a new law on short-term securities. Appropriate legislation should be adopted. Develop retail market for Treasury Bills and Bonds. Develop secondary market for money market instruments. Develop primary and secondary market for REPO products.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Donor Support Committed**

EU, USAID

**8. Regulation of Foreign Payment Operations**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Adopt a law to regulate foreign payments in order to regulate this area and capital flows. This law must be compatible with Foreign Investment Law and Law on Foreign Trade that is to be prepared using the basic principles of free flow of goods, services, people and capital. This area needs to be regulated due to open system and large volume of foreign exchange of goods, services and capital.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Finance, Ministry for Foreign Economic Relations and European Integrations, Central Bank of Montenegro

**Donor Support Committed**

EU

**5. Capital Markets**

**Goals**

Development of capital markets, which will be reflected in easier creation of capital and reduction of costs of capital, promotion of economic growth and thereby increase of private and public revenues.

**Key parameters**

- Improvement of regulatory and institutional framework for functioning of the market
- Strengthening of market infrastructure, increase of quality and efficiency of market
- Reduction of operational costs in relation to other markets or in relation to previous period
- Broadening of market
- IOSCO membership

**Overview**

Past several years of creation of institutions and infrastructure for the domestic capital markets was conducted with the aim of creation of such legislation and institutional environment that would contribute to efficient and fast implementation of privatization process and development of secondary market trade.

Montenegrin experience indicates that it is possible to develop market infrastructure and regulatory framework in relatively short timeframe. Conceptual framework for further development of the capital markets relates to increase of the competitiveness of the market, as well as to reduction of operational costs. Competitiveness of the market does not need to presume reduction of regulation standards, but their formulation in

a manner that will enable investors to achieve their needs in the best possible manner. Further activities will be directed to: 1) Completion of regulatory framework for efficient functioning of the market; 2) Strengthening of market infrastructure, and 3) Broadening of the market.

**1.Improvement of the regulatory framework for efficient functioning of the capital markets**

**Summary and Sub-tasks**

a) Adoption of changes and additions to the Law on Securities. Up-to-date practice has indicated that some of the provisions set in the Law should be improved, and in particular, following areas should be regulated: a) Issuing and trade in short-term securities; b) Private placement of shares. It is possible to simplify and to reduce costs for procedures for issuing shares in case when a buyer is known party.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Adoption of the Law on Takeover of Joint Stock Companies. Two sets of questions are important for regulation of this procedure: the first one deals with the market development, and the second one with market integrity. The first set of questions discusses whether regulatory framework for takeover and merging of companies disables the activity of takeover and merging to the extent, which is necessary for development of the economy and adjustment to structural changes. Second group of questions is focused on discussions whether the regulatory framework enables the activity of takeover and merging, which has as a consequence "fair result" regarding division of premium for control acquisition.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Concept of operation of private pension funds needs to be defined (so called III pillar of the pension reform) taking into account that the State is not a sponsor of such manner of saving, and therefore is not a guarantor for operation of private pension funds. One of basic questions will be how to use tax policy to provide incentives for savings and payments

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

into private pension funds, and define concept for investment of funds.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) It is necessary to maintain the legal framework in a manner that will support creation of trust into stability of the system and integrity of the market. It is necessary to identify and reduce limitations to development of the market, which are not necessary for investor's protection.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Economy, Securities Commission, Commission for Economic Freedoms

**Donor Support Committed**

**2.Market infrastructure strengthening and reduction of operational costs at the capital markets**

**Summary and Sub-tasks**

a) Strengthening of market infrastructure is necessary due to expected increase in number of transactions, which would require higher speed and efficiency in performing operation of all transaction participants. Custody function is performed by neither of banks in Montenegro. Considering importance of custody banks for foreign investors in terms of trust, as well as possibility to overcome some of the barriers of cross border trading in such manner, it is necessary to expedite implementation of this function.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) One important question, in relation to operation at domestic and international market, is reduction of costs of operation. It is necessary to analyze all administrative procedures and costs associated with operations at the capital markets and in particular costs linked with the execution of the transaction itself. It is important to continue with started reduction of administrative fees in this area, as well as to encourage implementation of netting.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Securities Commission, Central Bank of Montenegro

**Donor Support Committed**

**3. Regional trade incentives**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

One of the most important projects, which has already been implemented, is a project of IT connectivity of stock exchanges in Southeast Europe. An independent web portal has been established [www.sem-on.net](http://www.sem-on.net) where it is possible to monitor, in parallel and in real time, activities at seven stock exchanges. In order to remove regulatory barriers for mutual trade and investment, it is necessary to strengthen cooperation with regulatory institutions in other neighboring countries.

**Responsible Institutions**

Securities Commission, Ministry of Finance

**Donor Support Committed**

**4. Development of regular publishing of data and operating reports**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Beside implementation of international disclosure standards and international accounting standards it is necessary to develop practice of publishing information on major business developments and corporate activities of issuers, year end accounts, initiated activities.

- a) Obeying rules on publishing of interest, which requires that key participants, owners, directors and board of directors members, and other insiders publicly publish their ownership and trading with securities above certain level;
- b) Obeying obligation not to publish wrong or incorrect information in public documents (prospectus, advertisement, communications, interviews, etc.);
- c) Review volume and content of financial reporting and other data that companies and funds listed at the stock exchange publish.

**Responsible Institutions**

Securities Commission, Commission for Economic Freedoms

**Donor Support Committed**

**6. Reform of the Pension System**

**Goals**

A multi-pillar pension system that is established and financed primarily from contributions, providing adequate pensions and contributing to economic growth and development through capital markets.

**Key parameters**

- Reorganization of the pension administration according to the best international practice
- Focusing on demographic and economic reality

**Overview**

High number of pensioners and poor economic conditions have led to a chronic structural deficit in the pension system. Currently, 1.3 workers

(working in the formal economy) provide for pension for one pensioner. Government budget transfers to the PIO Fund in 2002 for paying entitlements were 48 million € or 30% of the PIO Fund total revenues. In the long run, without reforms, as the population constantly ages and the number of working age population decreases, (the ratio of the number of potential workers to pensioners will be 3 to 1 in ten years and 2 to 1 in twenty years), the deficit (contributions plus central budget transfers minus total expenditure of the pension system) will increase to 10% of GDP.

Creating a pension system that provides sufficient income for pensioners over the longer term requires more than just reforming the current

pension administration system: it requires introduction of private pension insurance and/or a so-called second pillar, or mandatory fully funded individual pension savings. Benefit of the second pillar is a potential for higher pensions without drawing on Budget funds. Risks are that earnings depend on the performance of domestic and world financial markets. Good investment guidelines and sound regulations can limit these risks. Advantages of a multi-pillar pension system include the ability to release a substantial portion of the budget to fund economic growth, development and employment; increasing formal sector labor participation; developing financial markets and generating investment capital.

**Specific Initiatives**

**1. Law on Pension and Disability Insurance – implementation**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The reformed first pillar has been implemented since January 2004 through the new Law on Pension and Disability Insurance. The main measures of the reform are: (1) gradual increase of retirement age to 60 for women and 65 for men; (2) new pension formula based on personal points that include increased number of years of service; (3) SWISS method for pension indexation; (4) wider base for paying contributions; (5) restrictive conditions for disability, survivor and other special entitlements; and (6) change of the PIO Fund role in direction of pension administration only. However, legal changes alone will not bring fiscal sustainability to the pension system. High-level of non-compliance by employers, self-employed and employees who are due to pay social insurance contributions continues to plague the system. This problem is exacerbated by weak state institutional capacity to control and collect all contributions due. Labor inspection has strengthened the control and collection of contributions over the past period. Irrespective of whether or not there is a multi-pillar pension system the non-compliance problem will have to be solved. However, each new inspection means a new cost item in the budget and the basic means to stimulate collection of contributions would be to reduce contribution rate and broaden the base for their collection.

Further to this, the Government of the Republic of Montenegro gradually reduced contribution rate by 10% during 2004 to the level of 21.6%. Considering those changes during 2004, the PIO Fund expenditures took 10.7% of GDP with deficit at the level of 0.9% of GDP ((7% less than in 2003). Government budget transfers to the PIO Fund were 22% of the Fund’s revenues in 2004 (€38 million) or 6.2% more compared to 2003. Demographic changes show trend of aging population in Montenegro, with old age dependency ratio still at the level of 1.3, which does not provide sufficient number of contributors to support increasing number of pensioners. The following activities in the first pillar should be accorded with the new Law and forthcoming regulations regarding the second pillar.

**Responsible Institutions**

Minister of Finance, Minister of Labor and Social Welfare

**Donor Support Committed**

USAID, World Bank

**2. Redefining of the Role and Structure of the PIO Fund - Implementation of the strategic reform plan of the PIO Fund**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Pursuant to the new Law on Pension and Disability Insurance, a number of enabling regulations was adopted that regulated in details certain issues necessary for its implementation. All regulations under the competence of the PIO Fund were adopted: Charter, Regulation on the Establishment and Operation of the First Degree Disability Commission etc. In accordance with recommendations and World Bank standards and with purpose to improve efficiency of the PIO Fund, reorganization of the Central Office of the PIO Fund has started and improvement of technical-technological work process. Further to this, at the beginning of 2004, the Program of Rationalization of the PIO Fund Central Office was prepared and adopted by the Government. This program will enable PIO Fund to solely focus on pension and benefits processing; change of the organizational structure and remaining business processes of the PIO Fund; more significant investments in training and development of new technologies, reduction of

employee costs etc. The World Bank granted loan for the PIO Fund restructuring in the amount of \$1.6 million. Use of the loan has already started by selection of foreign consultants who are working on defining the new business process and IT strategy. The Government, in cooperation with the World Bank, initiated activities on defining the Project of Unified Registration and Reporting System of Tax and Contribution Collection. Implementation of this project will enable integration and transfer of the contribution and data collection functions from all Extra-Budgetary Funds to the Tax Administration. The basic elements of this project are: registration of contributors and insured persons / data collection/ matching/collection. The institution in charge of this project is Tax Administration and the PIO Fund has active role in its implementation.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Ministry of Finance, Fund PIO, Tax Administration

**Donor Support Committed**

USAID, World Bank

**3. Detailed Analysis and Debate on Introduction of the Second Pillar**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The present institutional capacity to efficiently administer pensions is still weak. However, considering (1) stabilizing macroeconomic situation and more active capital market in Montenegro, (2) starting point of other countries from the region that introduced second pillar (Croatia, Macedonia, Bulgaria) and (3) multiplicative effects of the private pension system implementation to the whole economy, the Government of the Republic of Montenegro should consider preparation for its implementation. The basic issue is the method of funding the transition cost and separating the current contribution rate to the first and second pillar. Its success depends on success of implementation of organizational and administrative changes. When the second pillar pensions are being considered there are likely to be structural problems relating to the size of the contributor base and the lack of developed capital markets in Montenegro and the region. Other issues will include possible creation of

adequate administrative capacities and education campaign to enable individuals to find personal interest in contribution payment. Thus, its introduction needs detailed financial and economical analyses (different scenarios based on actuarial model in the projected macroeconomic environment), which provide basis for the Law. Adequate and sound institutional framework that supports sustainability of this system considers initiation of the new functions (regulatory and supervisory body, central register, custody banks), public campaign and issue of licenses to pension investment funds. Regulatory and supervisory function should be served under the Security Commission. Neither banks nor other legal entities in Montenegro perform the function of custody bank, which is crucial in the second pillar implementation. Considering the significance of the custody bank for foreign investors in sense of credence and exceeding barriers of the international trade, it is needed to motivate commercial banks to incorporate this function and in development of its legislation involve all relevant financial institutions. It is also recommended that the second pillar should not be administered by the PIO, but instead given to a new organization. This will ensure a break with the old system and will facilitate the development of administrative capacity in the private sector.

**Responsible Institutions**

Ministry of Finance, Ministry of Labor and Social Welfare, Privatization Council, Securities Commission

**Donor Support Committed**

USAID, World Bank

**4. Introduce Voluntary Pension Funds - the Third Pillar**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Introduction of the third pillar will precede the introduction of the second pillar. As the first step in private pension insurance, voluntary capitalized individual savings accounts implementation could be a good base for introduction of the second pillar. It requires institutional framework for private pension funds functioning. The completed Proposal of the Law on Voluntary Pension



Funds requires establishment of rules of conduct on the market, defining guidelines for investment into low-risk securities and monitoring and supervising pension fund management. The Securities Commission may be in the best position to regulate voluntary pension funds. The introduction of the third pillar implies issue of licenses for investment managers in pension funds and public education campaign that is necessary for citizens of Montenegro in order to make them accept the new concept of capitalized pen-

sion savings. The State will thus create institutional framework for this type of savings but will not guarantee for operations of voluntary pension funds.

**Responsible Institutions**

Ministry of Finance, Securities Commission, Ministry of Labor and Social Welfare

**Donor Support Committed**

USAID, World Bank

**7. Labor Market**

**Labor Market and Reform of Labor Legislation**

**Goal**

Flexible and dynamic market compatible to market economy

**Key parameters**

- Labor legislation in accordance with International Labor Organization (ILO) standards and EU regulations
- Growth of employment

**Overview**

Several laws were updated in the area of labor legislation and the new Labor Law from 2003 regulated every type of labor regardless of its duration and place of work which is in compliance with conventions and ILO recommendations (in the future period, by 2007, this Law is to be reconciled with several more EU Directives referring to implementation of principles of equal treatment, employment approach, professional education, labor conditions, equal treatment in the process of vocation selection, protection of employees in case of change of employer, collective redundancies and protection of employees in case of bankruptcy of the employer).

**Specific Initiatives**

**1.Implementation and improvement of the adopted laws**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006
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- a) Labor Law
- b) Law on Inspection Control

c) Law on Labor Inspection

d) Law on Labor Records

e) Law on Employment

f) Law on Strike

g) Law on Protection at Work

**Summary**

All activities, such as adoption of laws that are specified in the Economic Reform Agenda, are implemented within the planned timeline. All types of labor, regardless of duration and place of work are regulated in the Labor Law in accordance with recommendations and conventions of the International Labor Organization. In addition to the planned activities, additional measures were implemented, Labor Law was subject to amendments and further amendments are planned to be carried out. Labor Law as one of the key regulations on the labor market did not bring needed liberalization on the labor market. Amendments to this legislation must consider the actual social situation.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Employment Fund and Ministry of Justice

**Donor Support Committed**

WB, USAID, ILO and EU

**2.Measures to stimulate transfer from informal to formal employment and opening of new jobs**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006
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**Summary**

Implementation of this initiative resulted in comprehensive project "Legalization of the Existing and Opening of New Jobs." This project includes different measures that stimulate employment. Implementation of the Program by applying tax relieves for newly employed persons yields excellent results—about 42,000 newly registered persons. On March 24, 2005, the Government adopted the Program "Incentives to New Employment" that represents the continuation of implementation of previous program with the focus on creation of new jobs.

**Responsible Institutions**

Ministry of Labor and Social Welfare and Employment Fund

**Donor Support Committed**

USAID, GTZ, EAR, EIB, WB, and local banks

**3. Ensure that labor market regulations do not make barriers to employment**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Regardless of the Labor Law adoption, there is still much to be done:

- a) Reduction of the level of employment protection in the Labor Law
- b) Further reduction of labor costs particularly in the part of taxes and contributions
- c) Modification of the minimum wage concept
- d) Definition of the procedure of peaceful resolution of labor disputes.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Employment Fund and Ministry of Finances

**Donor Support Committed**

**4. Employment Strategy in Montenegro**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Successful resolution of the unemployment problem requires adoption of the long-term strategy referring to labor market. Measures and activities should be primarily based on structural changes through which more favorable relations on the labor market would be established.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Employment Fund, Fund PIO, Development Fund

**Donor Support Committed**

**5. National Program of Protection at Work**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The area of protection at work should be further reformed, promoted and adapted to small and medium enterprises. In accordance with experiences and EU recommendations it is necessary to adopt the National Program of Protection at Work that would be guided by experience that higher level of protection at work means savings for employer.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Employment Fund, Health Insurance Fund, Ministry of Health and PIO Fund

**Donor Support Committed**

**8. Social and Child Care System**

**Goal**

Efficient system of social care both for vulnerable categories and citizens in need.

**Key parameters**

- Harmonization with international standards in areas of social and child care

**Overview**

It is needed to define national policies dealing with: protection of children without parental care, children with special needs, children that have broken the law, children and women victims of violence, care for elderly, care for disabled, as well as care for people in need. These areas will be regulated in accordance with international standards along with development of activities that are in the authority of: state, local community and NGO sector. Special attention will be given to resolving the status of displaced persons and refugees. In order to provide better and more precise allocation of social funds, a unified information system will be developed at the Ministry of Labor and Social Welfare. This will provide reliable system that will enable more adequate collection and processing of data for socially deprived groups, more precise allocation of social assistance and improvement of public services quality.

**Specific Initiatives**

**1. Implement the established National Strategies and Plans (2005-2006)**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**2. Develop strategic documents referring to development of social and child care system contributing to more adequate care for vulnerable categories of population (2005 – 2006)**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**3. Develop unified information system in the area of social and child care (2005 –2006).**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Labor and Social Welfare

**Donor Support Committed**

World Bank, UN Agencies and EU Agencies

**9. Administration Reform**

- 9a Public Administration
- 9b Local Governance
- 9c Judiciary
- 9d Economic Regulation
- 9e Information Society

**9a Public Administration**

**Goals**

Good governance through public administration that is apolitical, qualified, ethical, professional, selected on merit and accountable for performance of government activities. The Public Administration Reform Strategy in Montenegro sets goals, areas, directions and activities of reforms in this area.

**Key parameters**

- New Law on Public Administration establishing the framework for developing a new code and standards for public administration at the level of Montenegro

- Harmonization with EU standards

**Overview**

Good governance requires a Public Administration that is able to deliver good and reliable services to customer. The policies required to achieve these objectives include: transparency, merit based selection of staff; training and development; clear performance objectives; performance management; performance based compensation and rewards; and best management practices. Poor management practices blur accountability, constrain innovation and increase administrative costs. Good governance leads to high citizen and investor confidence

which spurs entrepreneurial activity. Donors are providing technical assistance for institutional and process reforms within various institutions, and the EAR is providing assistance for developing a public administration legal framework and training. For reforms to succeed the structure of public administration needs to be modernized and rationalized.

Civil service training and 'change management' programs are necessary to create, modern public administration of culture and also to implement the reforms.

**Specific Initiatives**

**1.Examination of the current public administration concept**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

The current concept of public administration is based on the concept from previous, socialist system. In the meantime there have been some significant changes in economic and political system. Also, the process of accession to EU requires new organization and concept of public administration. The number of regulatory bodies increases, so there is a danger that parallel administration might be created. It has to be taken into consideration that Montenegro is a small country and that it cannot have all the authorities, bodies and institutions as a large country since it would lead to increase in administration costs (taxes paid by business community and citizens). In that direction it is necessary to consider the concept of new organization of public administration which would be based on better work efficiency, better technical equipment; better motivated professional administration and all that with the goal of efficient realization of key state roles (citizens' security, protection of freedom and protection of ownership rights).

**Responsible Institutions**

Ministry of Justice and Human Resources Administration

**Donor Support Committed**

**2.Law on Civil Servants and State Employees**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The Montenegrin Parliament adopted the Law on Civil Servants and State Employees in April 2004 (Official Gazette of the Republic of Montenegro, No. 27/2004). The Law regulates separation between political and professional function, even though there are places within the Law where the principle of political and professional separation could be better regulated (e.g. change almost unrestricted discretion of the heads of ministries and other administrative authorities within the employment procedure). For the sake of rationalization of the size of civil service, there are some mechanisms determined by the Law that might be used: in case of need for a new employment the ministries and other state authorities are now expected to explore internal human resources, and only after that they can open new vacancies; new performance appraisal system may lead to dismissal of some civil servants and state employees who get negative performance evaluation (their tasks are determined in detailed job descriptions that are part of the internal organization and systematization scheme); the new Law has enacted the special procedure for rationalization of the number of public servants; and finally, the Government has established a new Committee which has the role to check and approve each internal organization and systematization scheme of all Ministries and other State Administration Authorities - which potentially means a possibility to cut down the number of civil servants. To conclude: there are numerous mechanisms for rationalization within the new Law. Common principles are valid and used also in case of local self government, although the Law on Civil Servants and State Employees does not directly and formally cover the local governments.

**Responsible Institutions**

Ministry of Justice and Human Resources Administration

**Donor Support Committed**

EAR Program of Good Governance and Institution Building (Strategy for Public Administration Reform in Montenegro for the Period 2003-2009)

**3.Further affirmation of the Ombudsman**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Ombudsman is a new institution in the legal system of Montenegro, which, in accordance with international standards, provides legal assistance for citizens to protect their rights in a consistent and efficient manner.

**Responsible Institutions**

Ministry of Justice

**Donor Support Committed**

EAR

**4. Development of the Structure and Code of Ethics for Civil Servants and State Employees**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Code of Ethics for civil servants is being prepared, taking into account that deadline for approval of this act is 1 year after the Law on Civil Servants and State Employees has taken effect (this means from May 5, 2004). As regards the review of structure and composition of Public Administration at all levels of the Government - some partial analyses were carried out during the past years, but there is a need to organize and execute a comprehensive Functional Analysis of this structure and functions in a systematic and over-reaching way. The basis to take further activities in this field could be provided only in this way. Rules of proceeding by state entities are now part of the Law on State Administration and Law on Civil Servants and State Employees. As regards a merit based recruitment and selection process, fair and objective performance-based evaluation, reward and progression (promotion) processes, and fair and objective dismissal policies, everything is included into the new Law on Civil Servants and State Employees, although some further improvements could be included (especially regarding selection process).

**Responsible Institutions**

Ministry of Justice

**Donor Support Committed**

EAR

**5. Assess and Develop Reward Structure for Civil Servants**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

New Law on Salaries of Civil Servants and State Employees (Official Gazette of the Republic of Montenegro, No. 27/04) has introduced some changes into the salary system and reward structure, but this seems to be far from expected reform in this field. Salary scale is quite high (36 salary grades in the pay scale), but the difference between grades is so limited that this system is not in line with the need to develop a performance-based structure. The only important contribution of the new salary system under the new Law will be some level of centralization and a better coordination in the field of salaries. The Government and Ministry of Finance shall prepare overview of what is the current state in this domain, and shall have a possibility to make better and more accurate policy planning in this field. Further important steps are required in this field - especially regarding the development of a salary system, which should be related to performance, ability, incentives, etc. As new financial means for this purpose probably shall not be secured within the Budget, the only logical solution would be to cut the number of civil servants and state employees in the coming years (i.e. to prevent new employments within the administration). The newly established Human Recourses Administration shall have the responsibility to develop a training program, which shall also include seminars and training courses regarding public finance, budget preparation and execution, salary system, etc.

**Responsible Institutions**

Minister for Finance, Ministry of Justice and Human Recourses Administration

**Donor Support Committed**

EAR

**6. Training and Development for Public Servants**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

One of the two main functions of the newly established HRM Administration within the Montenegrin State Administration, in accordance with the new Law on Civil Servants and State Employees, is function of development and execution of Program of Continuous Functional Training for civil servants and state employees at the horizontal level (the other function is HRM function). In order to be able to perform this function, the Human Resources Administration will need additional methodological, financial and other support from the Government as well as from international donor institutions. The "PARiM-2" project financed by the EAR shall support some preparatory steps in developing the Human Resources Administration and training function of the newly established Human Resources Administration during 2005 and 2006. However new financial and material inputs shall be needed in order to develop and fully implement horizontal training program and other functions of the Human Resources Administration which are determined in the Law on Civil Servants and State Employees. Appropriate coordination between all involved parties will be needed here. The Human Resources Administration should take responsibilities for coordination of all capacity building and training activities within the public administration and other state authorities.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Human Resource Administration, Ministry of Education and Science, municipalities, University of Montenegro, Ministry of Justice

**Donor Support Committed**

USAID, EAR, DFID, World Bank, UNDP and others

**7. Internal Communication Campaign**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Develop and launch a comprehensive internal communication campaign targeting civil servants and state employees with the aim to familiarize the employed in the Public Administration with core principles of Civil Service. Key messages include: the Mission, clients services, ethics,

code of conduct, efficiency, accountability, innovation, flexibility, merit based selection, performance management, management practices, etc. This action should be properly coordinated and at the same time other donors and projects should be informed about the plans of the USAID in this field in order to avoid overlapping. The coordination of working tasks should be assured through relevant Deputy Prime Ministers of the Government in accordance with their responsibilities and competencies.

**Responsible Institutions**

Deputy Prime Ministers, Ministry of Justice, GOM Bureau for Public Relations

**Donor Support Committed**

USAID, EAR

**8. Development and Implementation of the Regulatory Impact Analysis methodology**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Pursuant to paragraph 4, Article 45 of the Rules of Procedure of the Government of Montenegro, all legal acts that are adopted and that may have some material or financial consequences must be evaluated in a certain manner. In such a manner, it must be explained whether funds for implementation of those regulations causing material or financial consequences are provided in the State Budget. It can be concluded that the Rules of Procedure in fact envisage a certain type of "fiscal impact analysis" of new regulations, and that there is a need to consistently apply this provision. It is necessary to adopt certain (not too complex) methodology, as well as to train state employees regarding successful implementation of that methodology in practice. However, in addition to introduction of "only" "fiscal impact analysis" of new regulations, it is necessary to develop and implement the so-called regulatory impact analysis - RIA, or analysis of impacts of new regulations. The methodology is broader than the aforementioned methodology for determining fiscal consequences since such "fiscal methodology" is the integral part of RIA methodology (in addition to determining fiscal or financial consequences of new regulations, RIA methodology includes evaluation of consequences new regulations

may have on different social groups such as: women, children, disabled persons, elderly, etc.). The Strategy for Administration Reforms in Montenegro 2002-2009 (Republic of Montenegro, Government of the Republic of Montenegro, Ministry of Justice, Podgorica, March 2003) envisages introduction of RIA methodology. This methodology needs to be a) developed in adequate manner, and then b) implemented in adequate manner within new legal and institutional system. Adequate foreign experts should be included in development of the methodology. Implementation process of the methodology will be very significant since it is a complex tool whose goal will enable *ex ante* evaluation

of impact of new regulations (laws and subsidiary regulations) and not only the impact on State Budget, but also broader impact on a certain social groups' position (for example: women, children, disabled persons, etc.). Introduction of such mechanisms will require comprehensive capacity building of state employees in ministries and other state authorities.

**Responsible Institutions**

Respective ministries

**Donor Support Committed**

EAR, UNDP

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## 9b Local Governance

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**Goals**

To have a democratic, decentralized, transparent, accountable, effective and efficient system of local self-government that serves the needs of its citizens and provides opportunities for local economic development and a competitive business environment.

**Key parameters**

- Law on Local Self-Government and Law on the Financing of Local Self-Government,
- Participation in ratification procedure of the European Charter on Local Self-Government and European Framework Convention on Cross-Border Cooperation, with protocols,
- Implementation of the Law on Local Self-Government and Law on the Financing of Local Self-Government, and application of principles referred to in international documents (ECLSG and EFCCBC),
- Compliance with IMF/GFS accounting and reporting standards.

**Overview**

The Law on Local Self-Government and Law on the Financing of Local Self-Government, adopted in 2003, establish the legal framework that provides political, administrative and financial independence of local self-government (municipalities, administrative capital and historic capital). The Law on Local Self-Government determines activities that are within the scope of rights and responsibilities of local governments (municipalities, administrative capital and historic capital), which primarily means that they have the right to independently, by their regula-

tions in accordance with Law, regulate certain issues and carry out adopted regulations of interest for citizens who live and work on their territory. Adoption of this Law resulted in an obligation to harmonize sector laws with the Law on Local Self-Government and Law on the Financing of Local Self-Government. Although a significant step was made towards the establishment of local self-government in accordance with prescribed principles, the very adoption of laws is not enough to achieve full decentralization in practice. Primarily because sector laws are still not harmonized with systemic laws in the area of local self-government; Law on Local Self-Government is not fully followed by fiscal decentralization that would provide source funds to local self-government for financing activities within their competency. In addition, available human, material, organizational and financial resources are not sufficient for local self-governments to take over responsibilities envisaged by the law. To create conditions for implementation of the new local self-government system, the Government adopted the Program for Better Local Self-Government of the Republic of Montenegro on February 10, 2005, which defines key activities in all segments of local government.

**1. Legislative Framework**

- a) Complete legislative framework in the area of local self-government, by adoption of the following laws:

- Law on Administrative Capital (4<sup>th</sup> quarter of 2005)
- Law on Historic Capital (4<sup>th</sup> quarter of 2005)
- Law on Territorial Organization of the Republic (4<sup>th</sup> quarter 2005)

- b) Develop analysis of local self-government activities (1<sup>st</sup> half of 2005)
- c) Develop analysis of local self-government functioning (2<sup>nd</sup> half of 2005)
- d) Develop analysis of local self-government financing (2<sup>nd</sup> half of 2005)
- e) Adopt subsidiary legislation at the local self-government level (2<sup>nd</sup> half of 2006).
- f) Harmonize sector laws with the Law on Local Self-Government and Law on the Financing of Local Self-Government (2<sup>nd</sup> half of 2007)

#### **Responsible Institutions**

Ministry of Justice, Ministry of Finance, relevant ministries, municipalities and the Union of Municipalities of Montenegro.

#### **Donor Support Committed**

USAID/Urban Institute, Council of Europe, UNDP

## **2. Establish professional administration and standards at the municipal level**

#### **Summary and Sub-tasks**

Law on Local Self-Government prescribes that regulations governing the status of civil servants and state employees and Republic functionaries shall apply to legal status of local government civil servants and employees and local government functionaries. Bearing in mind the aforementioned, as well as the adoption of new regulations in the area of public administration that clearly separates political decision-making process from legislative drafting process, and that in addition to de-politicization, professionalism means creation of well-trained, accountable and efficient local government, for which it is necessary to provide, the same as at the State level, impartial and objective skill-based selection of personnel, continuous training of personnel during the entire working period, objective monitoring and evaluation of work, establishment of stimulating wage system, introduction of mechanisms for motivation and rewarding as

well as promotion, establishment of clear rules of conduct and relation towards civil service performed by local government civil servants and local government functionaries.

- a) Adopt subsidiary legislation and legal documents regarding internal organization at the local government level in accordance with the Law on Civil Servants and State Employees, Law on Salaries of Civil Servants and State Employees and Decree on Titles of Local Government Civil Servants (2<sup>nd</sup> half of 2006);
- b) Adopt the Code of Ethics for Civil Servants and State Employees that would be applied at the same time to local government civil servants (2<sup>nd</sup> half of 2005);
- c) Organize bodies and/or services at the local government level dealing with human resources issues (2<sup>nd</sup> half of 2006);
- d) Organize continuous training of local government civil servants in the initial phase through the Human Resources Administration until the institutional establishment of training for local government civil servants (permanent task).

#### **Responsible Institutions**

Ministry of Justice, Human Resources Administration, municipalities and the Union of Municipalities of Montenegro

#### **Donor Support Committed**

Council of Europe, EAR, Urban Institute

## **3. Define local self-government responsibilities**

#### **Summary and Sub-tasks**

New system of local self-government establishes a legal framework for accountable and capable local self-government that should meet the needs of direct and common interests of population. It envisages active relationship between citizens of local government and the self-government and partnership between local government and the State. In accordance with the provisions of the Law on Local Self-Government, legal framework creating conditions, encouraging and supporting participation of local population in creation of local self-government through different forms of their participation in expressing themselves and decision-making process regarding public works (initiative, citizens' initia-



tive, citizens' gathering, referendum, civil appeal, etc.) has been established. In the implementation of the aforementioned legal provisions, every municipality by its own regulation stipulates manner and procedure for participation of citizens in adoption of the most important legal documents at the municipal level - development program, urban development plans, budget and general acts determining citizens' rights and obligations. In such a manner, accountable and close relationship between local government and citizens is established.

- a) Adopt regulations at the level of municipality in accordance with the Law on Local Self-Government (2<sup>nd</sup> half of 2006);
- b) Organize work of local self-government bodies, local government bodies and public services that will enable public and transparent qualities of work and active participation of citizens in decision-making process regarding the issues of direct interest for local population (permanent task)
- c) Hold workshops, conferences, roundtables, etc. (permanent task).

#### **Responsible Institutions**

Ministry of Justice, relevant ministries, Union of Municipalities of Montenegro, municipalities

#### **Donor Support Committed**

USAID – Urban Institute

### **4. Implement a sustainable municipal finance system**

#### **Summary and Sub-tasks**

Municipalities should have sufficient revenues available to meet their obligations, including self-generated and shared funds, as well as general earmarked transfer payments. The Government of the Republic of Montenegro determines capacity for monitoring financial operations of municipalities, development of database on municipal finances and defines institutional framework for sustainable municipal capital investments.

- a) Develop and adopt Law on Utility Fees

b) Analyze and review municipal revenues with respect to the existing and proposed obligations regarding expenditures. Increase municipal revenues through: 1) improvement of surtax, printing and submission of decisions and revenue collection; 2) Decision on Stimulating Measures for Taxpayers, Collection and Enforced Collection Measures; 3) Unified Service for Revenue Collection; and 4) Harmonization of laws having impact on revenue sources. In addition, a transitional system should be prescribed in order to shift from a normative evaluation of real estate to the evaluation based on market value, and define arable and non-arable soil in order to enable real estate tax to be assessed for agricultural land. Establish a regular exchange and update of real estate data between the Real Estate Administration and municipalities.

c) Analyze and revise equalization formula, level of funds and distribution mechanisms to provide equal, adequate and timely distribution of funds. Provide a full capacity of the Commission for Local Self-Government Financing, so that it can perform all prescribed activities. Adopt rules and calculation for equalization subsidies defined by the Commission for Local Self-Government Financing in order to improve procedures for allocation of funds and increase the level of equalization and incentives for mobilization of local revenues.

d) Define legal and institutional framework for sustainable municipal capital investments.

e) Establish and keep precise, comprehensive and timely databases on municipal revenues and expenditures. Within the Ministry of Finance, the database on municipal revenues and expenditures for the entire Republic shall be established and kept.

f) Establish legal and regulatory framework for monitoring municipal budgets, financial control, borrowing and financial reporting. Introduce and start up a municipal treasury system in every municipality in accordance with the state Treasury. The Ministry of Finance adopts regulations and instructions and submits them to municipalities, defining the minimum standards and procedures for municipal budget development, as well as regulations and instructions defining the minimum requirements

for municipal financial reporting. The Union of Municipalities of Montenegro and the Ministry of Finance prepare mid-term strategy for reduction of expenditures, including (de)stimulating measures for municipalities. Define the system of internal financial control in municipalities. Supreme audit institution implements external audit for municipalities. The Ministry of Finance provides help to municipalities when initiating bases for program budget, starting with the municipality of Podgorica.

#### **Responsible Institutions**

Relevant ministries, Union of Municipalities of Montenegro, municipalities.

#### **Donor Support Committed**

BearingPoint (USAID), Urban Institute (USAID)

### **5. Foster local economic development and reduce business barriers at the municipal level**

#### **Summary and Sub-tasks**

Establish institutional framework for planning and implementing local economic development and improve work of the most important municipal administrative bodies in order to enable business investments, including physical planning, while at the same time improving quality and access to the Land Registry and other information at the municipal level.

a) Analyze local business environment (business environment assessments) to determine goals and take steps to minimize complexity, costs and bureaucracy of business licensing process and business operations in general. Adopt the Law on Licensing defining obligations of the Republic and municipalities. The municipalities implement "one-stop shop" function and concept of both, access to information and performance of administrative services related to obtaining business licenses permits, and registering in the records for companies and citizens. Municipalities analyze and rationalize taxes and fees for performing business activities recognizing and incorporating international best practices. Additionally, they analyze the need to amend the Law on Temporary Residence Fee and Law on Tourist Organization to reduce negative effects on municipalities and tourism economy related to

administrative and binding requirements. Work to improve professionalism of municipal inspection services, including clarification and application of standards at the national level; as well as to improve the quality and transparency of business practices between the Republic and municipal governments related to application of inspection standards and license issuance.

b) Improve administrative and economic planning that is key to investment and business operations. In this respect, define a local economic development (LED) policy and process by which public, business and non-governmental sector partners work together to improve conditions for municipal and regional growth. Build capacity of municipalities to enable better understanding of business needs, make better public investment decisions that support economic growth through the private sector and to plan realistically future investment.

c) Develop a modern urban and spatial planning function that will provide guidelines for communal services investment planning. Elaborate physical plan of the Republic to promote sustainable economic development and, in particular, to attract investments. Support preparation, adoption and implementation of municipal physical plans. Establishes integrated coastal zone management plan in compliance with existing coastal zone management laws and regulations, while taking into consideration impacts on municipal obligations and revenues and ensuring individual municipal representation.

d) Improve quality, quantity and update of cadastral data and ease access for municipalities, companies and citizens to rationally priced information. Develop an efficient public system for updating and keeping cadastre data among municipalities, Real Estate Administration and Courts.

e) Enforce obligations in the area of environmental monitoring and protection for which municipalities are responsible. Establish improved coordination of activities for environmental protection between municipal and Republic bodies and performance standards. Implement solid waste management strategy at local level.

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development, Ministry of Tourism, Ministry of Agriculture, Forestry and Water Resources Management, MBA and CEED

**Donor Support Committed**

EAR, GTZ, USAID, UNDP

**9c Judicial Reform**

**Goals**

A judicial system that is independent, impartial, transparent, efficient, flexible and guarantees the protection of rights of individuals and legal entities

**Key parameters**

- Consistent with constitutional and legislative framework
- Consistent with EU standards

**1.Reform the Constitutional and Legislative Framework and Implementation of Adopted Laws**

**Summary and Sub-tasks**

Drafting of amendments to the existing Constitution or drafting a new Constitution has not started yet. Laws that are adopted since the beginning of reform processes in the judicial system in Montenegro are the following: Law on Courts (2002); Law on State Prosecutor (2003); Criminal Code of Montenegro (2003); Code on Criminal Procedure (2003); Law on Administrative Dispute (2003); Law on Administrative Procedure (2003); Law on Amendments to the Law on Execution of Criminal Sanctions (2003 and 2004), Law on Civil Procedure (2004), Law on Executive Procedure (2004), Law on Bar Examination (2004), Law on Witness Protection Program (2004), Court Rules (2004), and Law on Court Experts (2004). This was a rather complex task for the Government, primarily the Ministry of Justice, to prepare a new legislative framework incorporating all modern principles and mechanisms promoting and protecting human rights. Foreign donors also have contributed to a modern and good-quality legislative framework of Montenegro (USAID/Checchi; OSCE; COE; EAR). However, a new Law on Police and Law on National Security Agency have not been adopted to date. By the adoption of those laws, the legislative process in the area of criminal

law, extremely important for human rights protection, would be almost completed.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

Propose changes to the Constitution of Montenegro that support the independence of the judiciary (e.g. appointment of judges, the appointment and immunity of prosecutors, and the development of the plan, budget, and annual balance sheet for the judiciary).

**Responsible Institutions**

Ministry of Justice, Ministry of Interior and Parliament of the Republic of Montenegro

**Donor Support Committed**

U.S. Agency for International Development (USAID), Council of Europe (COE), Organization for Security and Cooperation in Europe (OSCE), European Agency for Reconstruction (EAR), and Fund for Open Society Institute - Representative Office in Montenegro (FOSI - ROM).

**2.Implementation of the Law on Courts**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Under the new Law on Courts, two new courts, the Appellate Court and Administrative Court, will begin operations during 2005. Both courts are designed to relieve caseload pressure on the Supreme Court, which is currently required to handle all appeals from all courts in the system. The new Appellate Court will serve as an appeals court. The new Administrative Court will review final administrative actions from government agencies. An Administrative Office for the Judiciary will also be established under the direction of the Supreme Court, which will carry out common activities of interest for the judiciary. The Administrative Office will be responsible for material and financial tasks, information

systems development and support, statistics and analysis, and record keeping. The subsidiary legislation must be adopted until the end of 2005.

- a) Finalize the issues of space, human resources, computers, and equipment for the Appellate Court and Administrative Court.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Finalize the issues of space, human resources, computers, and equipment for the Administrative Office

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- c) Adopt all other secondary legislation

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Justice in cooperation with the Supreme Court and Judicial Council

**Donor Support Committed**

USAID will assist the Government of Montenegro implement the Law on Courts for three years, beginning 2003 to 2006

**3.Capacity building of Judges, Prosecutors, Court Staff, and other key personnel, including attorneys**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Strengthen institutions and associations engaged in training judges, prosecutors, court staff, other key personnel and attorneys on new laws and practical skills: including court management, caseload management, computer literacy, English language. A long-term Government and international donor support of the Judicial Training Center of Montenegro, is vital to the implementation of judicial reform.

Education of judges, prosecutors and attorneys about new legal solutions followed the adoption of very important reform laws. The participants defined this activity as necessary assistance for the purpose of a successful application of new regulations. In organizing this activity, successful cooperation has been established among the Ministry of Justice, Judicial Training Center,

OSCE, USAID/Checchi, Council of Europe and other foreign and domestic organizations, unfortunately without participation of the Association of Judges in this and many other reform activities.

After three years of a successful performance, the Judicial Training Center has faced the need to change the status of the Center, as well as the problem of financing operating costs. The Ministry of Justice, as one of the founders of the Center, realized the idea to locate Center within that Ministry. Through its activities, USAID/Checchi works on education of court personnel regarding the use of IT equipment, case management, financial operations of courts, and other.

At the Law Faculty of Podgorica, "Clinical Method" project has been initiated with the goal to provide students with the opportunity to acquire practical knowledge of application of law.

- a) Train judges, prosecutors, court staff, attorneys and other key personnel on: (1) newly adopted reform laws, EU legislation (2) laws currently being prepared by the Ministry of Justice (outlined under the item (1)) and (3) practical skills in court management, computer literacy, and English language.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Provide a long-term financial support to the Judicial Training Center of Montenegro for curricula development, operating costs, procurement of computers and equipment.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- c) Train commercial courts judges and courts administrators to adjudicate cases in the financial sector, financial market, bankruptcy and reorganizations of business organizations using sector and subject matter experts.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- d) Reform the curricula of the Law and Economics faculties to adequately prepare lawyers and economists in modern legal concepts and the new laws of Montenegro.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Justice, Judicial Training Center of Montenegro, the Supreme Court, commercial courts, Judicial Council, Judges Association of

Montenegro, Association of Prosecutors, Bar Association, Faculty of Law and Faculty of Economics.

**Donor Support Committed**

USAID, COE, OSCE, EAR, OSI, German Agency for Development (GTZ), German Ministry of Justice, Italian Government, Swedish Agency for Development (SIDA), UN agencies: UNICEF, UN High Commissioner for Human Rights, and the World Bank (Assistance from international organizations is ongoing.)

**4. Develop the Administration and Management of Courts**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Introduce procedures and processes to achieve effective administration and management of courts, to streamline caseload processing to reduce backlogs. Improve the physical infrastruc-

ture of the judiciary through renovations and upgrades in court security and enable public accessibility. Expand existing computerization to all courts. By adoption of the Court Rules in May 2004, preconditions for achieving the main judiciary principles are created, for example: the right to have a "natural" judge; proceedings within the reasonable timeframe, etc. In addition to well-designed provisions of the Court Rules, it is necessary that the Court IT system take a more significant place in operations of judges and court administration, in order to contribute to the overall efficiency of courts. At the beginning of this year, USAID/Checchi will finalize activities regarding the computerization of courts, initiated by EAR, after which all courts in Montenegro will be computerized.

**Responsible Institutions**

Ministry of Justice and Secretariat of Development in cooperation with the Supreme Court

**Donor Support Committed**

**9d Economic Regulation**

**Goal**

Increase efficiency and initiative of regulatory bodies and establish mechanisms for measuring achieved results in areas within the competency of regulatory agencies.

**Key parameters**

- Independence of regulatory bodies in decision-making
- Regulation costs and operating costs of agencies
- Coverage of areas to be stipulated by regulations
- Impact on inflow of foreign investments and free flow of goods, services, information

**Overview**

The system of regulation of infrastructure sectors is performed through independent regulatory agencies, institutions, commissions and bodies (Agency for Telecommunications, Energy Regulatory Agency, Broadcasting Agency, Central Bank, Securities Commission...). This raises the question of efficiency, transparency and costs. There is a need to make an analysis of the existing concept functioning.

**Specific Initiatives**

**1. Analyses of work, organization and efficiency of existing regulatory bodies**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Prepare analysis of work, organization and efficiency of the existing regulatory bodies (effects of agencies' work, operating costs, human resources, resources, etc.).

**Responsible Institutions**

Line ministries

**Donor Support Committed**

**2. Concepts of regulation of infrastructure activities**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Based on analysis of current status and concept of economic development, a conceptual document for development of regulatory system in Montenegro shall be developed.

**Responsible Institutions**

Ministry of Justice in cooperation with line ministries

**Donor Support Committed**

**9e Information Society**

**Goal**

A national vision for transition to an information society, to valorize generic effects of information and communication technologies (ICT), to achieve European standards in electronic Public Administration leading to an increase in the number and type of services provided by the state and local administrations to citizens electronically, an increase in number of electronic transactions in the areas of procurement and payments and an increase in the number of internet users.

**Key parameters**

- National strategy for the development of Information Society that is harmonized in accordance with the e-Europe and e-SEE initiatives
- Compliance with international ITC standards
- Number of Internet users in public administration and Montenegro in general
- Electronic commerce

**Overview**

Developed countries are basing transformation from industrial to information societies using information and communication technologies (ICT). Knowledge and access to information are cornerstones of developed economies. Application of these technologies, according to recommendations of EU (eEurope and eEurope+) and in accordance with the Agenda for Information Society signed by Montenegro in October 2002 together with other SEE countries (accession to European e-initiatives) Montenegro has to make technological advancement and provide fast and efficient way of achieving European integration. Governments of countries with intention to become full members of the EU, have committed to define strategy, create polices, set goals, establish institutional framework, prepare and adopt an action plan, and to define indicators that will serve to evaluate success of the undertaken measures. The basic areas defined in the Strategy adopted by the Government of the Re-

public of Montenegro are: e-Government, electronic infrastructure legislation in this area, standards, security and education. Council for Information Society has been established by the Decision of the Government; Strategy for Development of Information Society in Montenegro has been prepared and adopted; and the Action Plan for the Implementation of the Strategy has been defined.

As part of the normative activity:

- Law on Electronic Signature has been adopted and all three rulebooks on application of the Law on Electronic Signature have been prepared, two of them have been already published; and preparations for education of the team, especially inspectors for Information Society have been completed.
- Law on e-Commerce adopted
- Computer crime has been sanctioned by the provisions under the Chapter 28 - "Criminal Acts against security of computer data," of the Criminal Code of the Republic of Montenegro adopted in 2003
- Drafts of the laws that are going to be legal base for creation of unique register of citizens (Law on Citizenship, Law on Identification Card, Law on Civil Statuses, Law on Habitual Residence Records and Law on Asylum) have been prepared.

**Specific Initiatives**

**1. Development of e-Government**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

From technological point of view, the methodology for the development of the electronic Government needs to prescribe standards, architecture, activities and supporting documents that follow whole process of development or procurement of the solution for the system of the e-

Government. By designing the Methodology the following goals will be accomplished:

- Regulation in the field of e-Government system development;
- Promotion and encouragement of interactive communication of the Public Administration with citizens and business, and among specific Government bodies;
- Increase in efficiency, flexible approach to organization of Public Administration and support to reform processes;
- Connecting business processes by sharing information and improving level of protection;
- Improving level of readiness to implement best international practices;
- Implementation of world proven industrial standards;
- Increase in productivity of development by avoiding multiple development of main software components;
- Encourage use of ICT in the Government Sector.

**Responsible Institutions**

Secretariat for Development

**Donor Support Committed**

**2. Advanced Projects Management**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The methodology for electronic Government system development needs to stipulate the area of Project Management so that all aspects of project management are described in detail, from the stage of taking the initiative, approval, organization, definition of project budget, supervision, conduct, quality review, etc. Besides the documents (forms, templates) for each stage of realization of the project, the methodology for preparation of project documentation for bidding with the donors, World Bank and European Bank for Reconstruction and Development, will be especially processed.

**Responsible Institutions**

Secretariat for Development

**Donor Support Committed**

**3. Measuring Successfulness of Information Society Development**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Efficient performance measurement of investing and achieved level of development of Information Society, requires advance identification of set of indicators, way of collecting data, methodology for their analysis, and quantitative and qualitative comparison with results of the survey conducted by the countries members of the EU. The methodology should enable preparation of benchmarking analysis that will measure degree of sophisticated characteristics of basic on-line public services for citizens (G2C) and business (G2B), planned with the Strategy; enable analysis of progress and achieved level in development of Information Society within the Republic of Montenegro, i.e. enable comparison with initial status, or previous measurement, as well as comparison with the results accomplished in the countries members of the EU. The results of the survey obtained in such a manner should enable identification of "best practice examples" and their implementation.

**Responsible Institutions**

Secretariat for Development

**Donor Support Committed**

**4. Citizens Registry**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Completion of this project will provide successful realization of other project in the field of e-Government, e-Health and e-Education. Prior to this, the laws on Montenegrin Citizenship, Identification Card, Civil Status Registry, Habitual Residence Records and Asylum should be adopted. Considering institutional part the competency in keeping register of birth and register of citizens needs to be taken back from the local government, i.e. a separate civil statuses administration should be established from the part of the Ministry of Internal Affairs that deals with Civil Status Registry and municipal bodies keeping registers of birth. For Monte-

negro this project is difficult to be developed as well as for any other country, but in respect to its size it is very easy to apply it. Due to the need for references there is a possibility that project becomes subject of donation of world most important leaders in this area.

**Responsible Institutions**

Secretariat for Development

**Donor Support Committed**

**5. Education and development of ICT specialists**

**Summary and Sub-tasks**

In line with the need of permanent development of specialists in the area of ICT there is a need to review manner of support, education and training of state administration employees in at the University of Montenegro.

In that sense it is important to support realization of master studies at the University in the areas of: telecommunication, e-Health and e-Government.

In line with obligations set in the Agenda for development of information society signed in Belgrade in October 2002, that are not met, it is needed to intensify activities on preparation of the proposal of the Law on Application of Regulations Governing Protection of Intellectual Property Rights and Law on Protection of Personal Data in line with the frameworks of relevant EU directives.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Culture and Media, Secretariat for Development

**Donor Support Committed**

**10. NGO Sector Development**

**Goals**

A legal and regulatory framework that promotes effective partnerships between Government and the NGO sector in the provision of government funded services.

**Key parameters**

- International best practice for fiscal solutions concerning NGOs
- International best practice for open competition among NGOs to provide government-funded services
- International best practice for the development of the NGO sector

**Overview**

NGOs have an important role to play in creating an open and civil society. The success of the NGO sector is largely dependent on forming effective Government-NGO partnerships. The legislative and regulatory framework of Montenegro should be developed to enable NGOs to become full and effective partners with the Government. The current tax regulation anticipates tax exemptions for the largest portion of the program activities of NGOs, but additional improvements are possible.

**Specific Initiatives**

- a) Analyze the NGO Law with the objective of more clearly defining NGOs and separate their activities from profitable operations and other activities that international practice does not recognize as NGOs activities.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Analyze and redefine the existing system for distribution of grants to NGOs at the republic level. Define priorities, criteria for distribution of funds and control of consumption of assigned funds.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- c) Promote transparency, accountability and information flow between civil society and government/parliament/public institutions. Promotion of a truly effective partnership between Government and the NGO sector requires a real commitment of the Government to open itself up to cooperation and partnership through the adoption of the transparency measures. Define communication organization of the Government, individual government in-



stitutions and bodies (liaisons) for cooperation with NGOs.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

d) Consider signing of a Memorandum of Understanding (MoU) between Government and NGOs in order to regulate the relationships between the two sectors and setting out the basic principles for inter-sector cooperation. For example, Memorandum of Cooperation was signed between Ministry for EU Integration and 6 partners from NGO sector within development of Communication Strategy. Several mutual activities have been realized within Action Plan of this Strategy that promote cooperation between government of RM and NGO sector in the area of accession to the EU.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

e) Consider forming of a rolling policy group comprised of implementing agencies, international donors, private foundations, and local NGOs to reach consensus on the changes that need to be made to improve not only the legal framework for NGOs, but also the nature of

the working relationship between civil society actors and the Government

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

f) Adopt secondary legislation subject to the recently enacted the Law on Chance Games that defines clear and precise criteria for the distribution of revenues from concessions on chance games to the final users.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

g) Consider amending of the Labor Law to recognize volunteers. The Law currently only refers to student apprentices, that is, unpaid students seeking to complete certain degree at the faculties of Law or Medicine. As a result, NGOs may not arrange contracts with volunteers without fear that the state inspectorate might treat the volunteer as an employee and find the NGO in violation of the Law. Consider the need to amend the Labor Law to include a model of a short term labor contract that is more appropriate to be used by NGOs

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

## 11. Macroeconomics and Statistics

### Goals

Macroeconomic data collection, analysis and reporting system consistent with international standards, and optimized reserve levels

### Key parameters

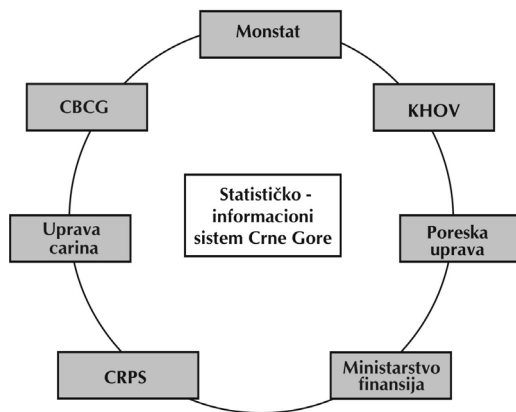
- Consistency with SNA methodology for calculation of output aggregates
- Consistency with IMF methodology for fiscal, monetary and external statistics

### Overview

High quality data is the basis for analysis and policy creation. Improving the statistical system in Montenegro will result in the ability to provide timely and accurate information that is methodologically sound and consistent. Current statistical system is featured by a large number of unreliable data, unclear responsibilities of bodies for quality of data, isolation and disconnec-

tion among the participants in the system and scarce expert resources. All system participants are trying to solve the problem independently and individually trying to improve their work and to reform it. For the purpose of solving problems, a new concept of statistical system in Montenegro has been created, which implies precise and clear delegation of responsibilities of primary statistical data producers (defined by legal framework of system functioning through the Law on Statistics and Statistical System), connecting all producers in a unique statistical/information system and implementation of international statistical standards. Responsibility for monitoring Montenegrin macroeconomic aggregates is delegated to a number of institutions. Monstat - Republic Bureau for Statistics is responsible for measuring and monitoring indicators of the real sector (production, consumption (personal and investment), production in-

dexes, price indexes, wages, demographic indicators, etc). The Central Bank of Montenegro is responsible for monetary and external statistics (monetary and financial account, net foreign assets, net domestic assets, loans, balance of payments, international investment position, foreign exchange reserves). The Customs Administration of Montenegro and Tax Administration are responsible for collection of data on foreign trade of goods and fiscal revenues. The Ministry of Finance is responsible for fiscal accounts



**Specific Initiatives**

**1. Introduction of the Methodology and Standards for the System of National Account (SNA 1993)**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Gross Domestic Product (GDP) is a basic output aggregate that is calculated by applying SNA standards for consistency and reliability. GDP data should initially be available annually, and later quarterly as well, with pre-determined dates for publication. Gross Domestic Product (GDP) in Montenegro for 2000, 2001 and 2002 was calculated in accordance with the System of National Accounts (SNA 93) and with the European System of National Accounts (ESA 95). GDP was calculated using production and expenditure method. For GDP calculation, various data from Monstat, tax authorities, balance of payments and year-end accounts were used. Estimation of non-observed economy is partially included. Basic problem Monstat encounters during GDP calculation is non-

processing of year-end accounts. To overcome this problem it is necessary to appoint an agency responsible for processing year-end accounts of companies.

**Responsible Institutions**

Monstat

**Donor Support Committed**

EAR

**2. Improvement of Standards of Monetary and External Statistics According to IMF and International Standards**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Adequate quantification and regular monitoring of changes in monetary aggregates and balance of payments accounts is a key requirement to the ability to formulate monetary and economic policy in Montenegro. The Central Bank has been applying IMF statistical standards in these areas since 2001. Monetary statistics - Central Bank of Montenegro produces following surveys on regular (monthly) basis: Central Bank Survey, Other Depository Corporations' Survey, Depository Corporation Survey, in accordance with IMF standards and methodology for monetary and financial statistics. Balance of payments statistics - is produced by CBM on regular basis, following IMF methodology (BOP Manual IV). Further steps will be to introduce upgraded practice (BOP Manual V), which will need further improvements of statistical data sources, especially in service section of balance of payments. Trade section has been compiled based on data regularly produced by the Customs Administration of Montenegro. The key areas to be focused on are:

a) Improvements in commercial bank reporting system needed for compiling monetary accounts, which provide information such as assets, claims, credits, etc.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Improvements in the reporting from the Customs Administration and Tax Administration for trade and public sector data

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Improvements in the reporting of foreign investment flows by the Agency for Reconstruction of Economy and Foreign Investments, Privatization Council and MIPA

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Central Bank of Montenegro, Monstat, Ministry of Finance, Customs Administration, Tax Administration, Privatization Council, Montenegrin Investment Promotion Agency (responsible for provision of data)

**Donor Support Committed**  
USAID

**3. Introduce Government Finance Statistics (GFS) IMF Standards for Fiscal Accounts and Publish on a Monthly Basis**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Fiscal policy, beside monetary policy, foreign trade policy and wage policy, is the key anchor of economic policy of Montenegro. In order to regularly monitor the situation and changes in the economy, it is necessary to provide timely and accurate data in accordance with the GFS methodology about budgets of extra-budgetary funds and municipalities (Central Government budget is in accordance with GFS methodology). In accordance with that, accounting systems of the Treasury and the Budget will be developed. This is crucial for control and monitoring economic policy and planning further measures. IMF published GFS method in 2001 and since then Government of Montenegro's Budget has been planned according to that method. Base for classification has not been changed since 2001. Every communication with the IMF was based on the request of IMF and complying with those standards. Revenue, expenditures, budget financing to make up the deficit, extra budgetary funds, consolidated public expenditure, are prepared according to that method. Further steps would be to introduce full GFS standards for fiscal accounts at the municipality level.

**Responsible Institutions**  
Ministry of Finance

**Donor Support Committed**  
USAID, EAR

**4. Publish Monthly Reports on Real, Monetary, Fiscal and External Indicators and Trends in Montenegro**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Availability of information on real, monetary, fiscal and external indicators and trends in Montenegro is critical for all economic policy makers. Data has to be publicly available (on-line accessible and in other forms) in precisely defined time intervals and their producers have to be responsible for their quality. Dissemination of statistical data should be organized to provide timely, qualitative and consistent data on economic aggregates and indicators in Montenegro. Central Bank of Montenegro produces Chief Economist Report on a monthly basis, with the most recent statistics from real, monetary, fiscal and external sector. Reports are available online. Ministry of Finance produces regular monthly report (by the 15<sup>th</sup> in the month for the previous month) for fiscal statistics. Reports are available on-line. Monstat produces regular monthly reports (the 16<sup>th</sup> of each month) on real sector statistics: production indexes, salaries and prices. Reports are available online.

**Responsible Institutions**

Monstat, Ministry of Finance, Central Bank of Montenegro

**Donor Support Committed**  
USAID, EAR

**5. Participation in IMF General Data Dissemination System (GDDS) and Statistical Data Dissemination System (SDDS)**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The General Data Dissemination System (GDDS) is the IMF framework for global dissemination of statistical indicators about a country. GDDS is the first layer and refers only to presentation of data on the level prices and

monetary units. The Government is to appoint a national coordinator. The Statistical Data Dissemination System (SDDS) is the next step and comprises very strict standards for quality of data. SDDS refers to indicators from real, fiscal, monetary, and external sectors. Data should be presented on monthly basis.

**Responsible Institutions**

National Coordinator for Montenegro to be appointed by Government in cooperation with the authorities competent for statistics of particular areas.

**Donor Support Committed**

**6. Develop a System of Reporting and Research**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Summary and Sub-tasks**

All of the data analyses described in this section are based on quantitative data collected from economic entities. Rigorous analyses require the responsible agencies to have access to data. Rigorous analysis similarly obliges reporting agencies to provide timely, reliable data of high quality. A new Law on Statistics and Statistical System is required to facilitate these objectives. Given the many problems of collecting primary data characteristic during the transitional period, research and sampling methodologies are needed in the interim period in order to obtain particular information. Responsible institutions should organize this research and consider the possibility of using non-governmental and private sector entities.

The Government of Montenegro has adopted draft Law on Statistics and Statistical System in March 2005. The Law is based on the concept of new statistical system adopted by the Government of Montenegro in November 2003. New statistical system is based on the following premises:

- a) Development of the system that consists of interrelated and conditioned elements (statistical agencies – data producers) that make a whole.
- b) Connecting all institutions-producers in the system **Methodological connection**. Full ap-

plication of international statistical standards and classifications. Any data that is a result of internal methodology and that is not in compliance with international standards and classifications cannot be entered in the system.

**Legal connection.** Law on statistics regulates complete legal structure of all data producers.

**IT connection.** Creating IT system that monitors the concept of statistical system. Data producer is responsible for formation of database that is within its competency and to make all data available to other participants, which is regulated by law. All other producers have a right and obligation to incorporate the source database into their database, in compliance with defined criteria and have no right to form own new databases produced already by other producers in the system.

**Activities of the statistics shall be implemented by:**

Monstat: (production, prices, wages, demographic statistics); Central Bank of Montenegro (monetary, financial, insurance statistics, balance of payments statistics, and foreign payments); Securities Commission (capital markets statistics); administration body responsible for customs affairs collects and controls data on international exchange of goods (customs fees and duties, import excise, with the exception of excise goods under the regime of deferred payment of excise, import VAT, road fees for transit of goods over Montenegrin territory, and administrative fees to be paid for goods under customs procedures); administration body responsible for tax system maintains fiscal revenues statistics; administration body responsible for financial affairs maintains statistics of fiscal expenditures and non-fiscal revenues; Central Registry of the Commercial Court: maintains statistics of commercial entities (business organizations, entrepreneurs) and administration body responsible for affairs of development maintains statistics of development and investments and publishes the list of macroeconomic indicators

**Responsible Institutions**

Monstat

**Donor Support Committed**

EAR, USAID

## 12. Relations with International Financial Institutions (IFI)

### Goals

Achieve highest possible effectiveness in programs in cooperation with international financial institutions, through precise definition of needs of Montenegro and insisting on coordination and harmonization of work of donors and international financial institutions.

### Key parameters

- Improving cooperation with IFIs
- Defining a uniform strategy of cooperation with IFIs
- Defining competences for coordination of cooperation with IFIs

### Overview

Since 2001, Montenegro has restored cooperation with international financial and other institutions. Up to now, international institutions have mostly guided the form and the tempo of cooperation. For the purpose of sustainable foreign debt, in line with EU directives, it is necessary to archive higher effectiveness in cooperation with and better coordination with international financial institutions.

#### a) Relations with the World Bank

Montenegro<sup>1</sup> has been a member of World Bank group since 1946, as part of former Yugoslavia. World Bank membership was interrupted from 1992 through 2001. In 2001, membership in the International Bank for Reconstruction and Development (IBRD), International Financial Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) was renewed. Condition for renewal of membership was reaching an agreement on past due liabilities based on loans drawn until 1992. All old loans were consolidated in three new loans, which are currently being serviced. Cooperation with the World Bank started in March 2001, when a special trust fund amounting to 30 million USD was created prior to formal renewal of membership. These funds are not being repaid, and the project

“Ecological Infrastructure” for regional water supply at the coastal area was financed in Montenegro. Formally, membership was renewed on May 8, 2001, once three-year Transition Support Strategy (TSS)<sup>2</sup> was approved, a financial package of 540 million USD according to modified IDA<sup>3</sup> conditions. Montenegro got 59 million USD for the financing of six projects (table 1). Only Structural Adjustment Credit 1 was completely drawn, while all others are still active.

Beside these projects within TSS, two projects in which Montenegro participates have been financed at the level of the state union: Support and Development of Export and Project for Regional Trade and Transport.

Current framework for cooperation with the World Bank is a three-year program Country Assistance Strategy (CAS) for fiscal 2005-2007. Program is based on two scenarios, and in both of them financial package consists of IDA and IBRD<sup>4</sup> funds. Basic scenario amounts to 400 million (225 IDA, 175 IBRD), and optimistic scenario amounts to 550 (225 IDA, 325 IBRD) million USD. Which scenario will be achieved will primarily depend on maintenance of relationships with IMF and meeting general conditions envisaged in the program<sup>5</sup>. Amount of available IDA funds drops with passage of time, and IBRD funds will be available from fiscal 2006, depending on the achievement and maintenance of credit rating. Overview of projects that will be financed is given in table 2.

Negotiations for Education Project have been completed, and should be approved by March

<sup>1</sup> Montenegro as a part of the State Union S&M is a member of international financial institutions, which politically and legally treat Serbia and Montenegro as one member. However, all programs are separate, there is only a joint framework.

<sup>2</sup> Three-year strategy referred to fiscal 2001-2004. Fiscal year in the World Bank begins on 1st July of a given year, and finishes on 30th June of the following year.

<sup>3</sup> IDA – International Development Agency is a part of the World Bank group, which approves loans to developing countries according to IDA conditions (interest-free for the period of 30 years). Countries that have GDP per capita less than 800 USD qualify for IDA funds. FRY and Montenegro as part of FRY has temporarily and under extraordinary terms got a modified IDA status (repayment period shortened).

<sup>4</sup> IBRD funds are repaid at interests based on LIBOR and certain addition, for repayment periods up to 20 years.

<sup>5</sup> Document available at [www.worldbank.org](http://www.worldbank.org)

31, 2005. Beside projects, expert studies were developed in area of public expenditures, environmental protection, poverty evaluation and influence. Economic Memorandum for Montenegro is being prepared currently. The Central Bank of Montenegro became fiscal agent at the World Bank since April 2003 and Montenegro has got the position of the Governor and representative in the World Bank in the name of the Union. State Union of Serbia and Montenegro is a member of Swiss constituency in the Management Board of the World Bank.

b) Relations with International Monetary Fund (IMF)

Montenegro, as part of the Federal Republic of Yugoslavia, has inherited membership from SFRY on December 14, 1992 with quota of 467 million SDR<sup>6</sup> for S&M. Cooperation with the Fund has been renewed in December of 2000 when post-conflict assistance has been approved by the IMF in amount of 151 million USD (for FRY). These funds were used to offset accrued liabilities originated prior to 1992. In May 2001, a two-year Stand-By Arrangement of 200 million SDR was signed. The Arrangement is based on Memorandum on Economic and Financial Policies giving a framework for economic policy measures. The Memorandum is updated every three to four months. As part of the Arrangement three regular revisions have been published, one each every six months. Meeting conditions set in the Memorandum is the basis for drawing IMF funds and basis for programs of cooperation with other international financial institutions. S&M drew all of 200 million SDR. In May 2003, a three-year Extended Arrangement with IMF was signed in the amount of 650 million SDR. Four revisions have been published up to now, and S&M drew 462 million SDR. Montenegro did not use funds from the Stand-By Arrangement nor from the Extended Arrangement with IMF.

Two basic reasons for that are: (1) specific legal situation of an IMF member with two

central banks and, (2) monetary system of Montenegro based on euro. Central banks are drawing IMF funds and using them to maintain foreign exchange rates and strengthen foreign exchange reserves. In monetary systems with foreign currency as domestic legal tender, use of IMF funds is very limited and it is put down to arbitrage on interest rates of SDR and deposits of central bank.

It is very important for Serbia and Montenegro to successfully meet requirements set by the Extended Arrangement, since it represents a condition for obtaining additional 15% write-off by the Paris Club (in 2002, 51% was approved). There is a possibility to have the existing arrangement with IMF extended. It is expected that a more certain agreement would be reached by mid April 2005.

Since April 2003, Montenegro has obtained, in the name of the state union, the position of alternate governor in the International Monetary Fund. The state union Serbia and Montenegro is a member of the Swiss Constituency in the Managing Board of the International Monetary Fund.

c) Relations with European Investment Bank (EIB)

Cooperation with EIB has been renewed in December 2001. S&M used to be a user of EIB loans within three financial protocols, but the third protocol for the period from 1991 to 1996 has not been realized due to the war in former Yugoslavia. Due outstanding liabilities based on previously used loans in the amount of 225 million € are re-financed by an EU loan (October 2001), for which the member states have issued guarantees for the respective part of obligations. After that, intensive investment activities in Serbia and Montenegro have started, primarily in the area of infrastructure (roads, railway, energy), but also a global loan for the private sector realized through several banks. EIB has defined a mid-term strategy for the West Balkans, envisaging investments in the infrastructure, energy, environmental protection, as well as several new sectors (private sector, human resources, health, basic infrastructure in municipalities). However, it is expected that the focus, in the future period, will also be on financing infrastructure projects, due to the emphasized need of the countries. EIB has financed or co-financed to date 5 pro-

<sup>6</sup> Special Drawing Rights (SDR) is an IMF calculation unit, and SDR value is calculated based on exchange rates of euro, dollar, yen, pound and ratio of share of countries issuing those currencies. 467 million of SDR are joint quota of S&M, whereas the division between Serbia and Montenegro has not yet occurred.

jects in Montenegro in the total amount of 78 million € (table 3 attached).

A successful preparation of these projects has been possible due to a good cooperation between EIB and EAR, which mainly approved financing of technical assistance and technical assistance for preparation of projects.

d) Relations with the European Bank for Reconstruction and Development (EBRD)

Montenegro as a part of the State Union of Serbia and Montenegro has renewed the membership in EBRD in January 2002. S&M has 93.5 million € in the total capital of the Bank. EBRD has intensified its activities in S&M since 2002, and the existing framework for cooperation is the Strategy approved in November 2004, defining priorities of cooperation in the area of economy (privatization and restructuring, real estates, greenfield investments with foreign partners), financial sector, energy and infrastructure. Until adoption of the new strategy, EBRD has financed or participated in financing 45 projects in S&M, in the form of loans or equity interests, in the amount of 582 million €, out of which 8 projects in Montenegro in the amount of 23.2 million €. In Montenegro, three projects in the public sector were financed (in the total amount of 16.7 million €), and another three projects are in preparation phase (in the amount of 22 million €) and 5 projects in the private sector. Serbia and Montenegro will be the host of the Annual Meeting of EBRD in May 2005 in Belgrade.

e) Relations with German Bank for Reconstruction "KfW"

It has been present in Montenegro since 2000 as a representative of German Government and its Ministry for International Cooperation and Development (BMZ). The projects that it has financed so far amounted to 55 million € and are divided by the following sectors:

- (1) Energy:
  - Rehabilitation of HPP Perućica in the amount of 8.6 million € (underway)
  - Construction of 400 kV long distance power line Tirana – Podgorica in the

territory of Montenegro in the amount of 10 million € (under preparation)

- "Energy Efficiency" - in the total amount of 8 million € as loans through domestic banks (under preparation)

- (2) Water supply and treatment of wastewaters at the coastal area that includes 6 coastal municipalities and Cetinje. 5 million € and 3.8 million € for technical assistance to institutional framework has been invested so far. In March 2005, a company "VODACOM" was founded. There are additional 13 million € for investments and 1 million € for technical assistance available. Master plan of water supply will be developed (1 million €) – detailed explanation is given in the section "Utility Infrastructure." BMZ will additionally provide donation of almost 9 million € for subsidized interest for a loan granted by KfW.

(3) Road Infrastructure:

- Donation of 7.5 million € for 4 projects on land planned for road construction Podgorica – Kosovo

(4) Banking Sector:

- "Revolving Fund" of 20 million €, for re-lending through domestic banks to small and medium size enterprises (17,000 loans in the amount of 35 million €)
- "Development Loan" for one commercial bank in the amount of 5 million €
- "Initial capital" in the amount of 3 million € for the Fund for Deposit Protection.

**Specific Initiatives**

**1. Defining policy of public indebtedness and role of IFIs**

**Summary and Sub-tasks**

In the last three years, foreign debt of Montenegro has increased, with indebtedness with IDA, EBRD, EIB and EU. There is a need for public investments, and current fiscal capacity for financing of these needs is limited, while financing at capital markets is still expensive. International donors and international financial institutions are still present in West Balkans.

With the goal of more efficient use of these funds, and in line with budget limitation and the limit of indebtedness of the Budget, a strategy for further indebtedness of Montenegro should be defined.

Starting from priority projects and budget limitations, develop a strategy of public debt to define which projects will be financed by international institutions or by donors.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Finance, Central Bank of Montenegro

**Donor Support Committed**

**2. Defining competencies for coordination of cooperation with IFIs**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

For the purpose of higher effectiveness and efficiency in cooperation with donors and international institutions, contacts and negotiations with IFIs should be centralized at one place (Ministry of Finance)

**Responsible Institutions**

Ministry of Finance

**Donor Support Committed**

**3. Provision of support of IFIs for development of more expert studies in areas of priority for Montenegro**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In addition to financing, international financial institutions offer services in the form of analytical work and expert assistance. These studies are identifying deficiencies and proposing measures for improvement of activities based on experience in other countries.

- a) Studies for improvement of sector policies  
Based on defined sector policies and indebtedness strategy, studies in specific areas such

as: pension system, health, transport, infrastructure, energy, environmental protection should be requested from international institutions.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- b) Financial Sector Assessment Program - FSAP  
Study jointly conducted with WB and IMF. International investors are very often quoting this study as one of the most relevant studies for the evaluation of financial system. Fiduciary assessment conducted for CBM represents a part of this study.

- c) Inclusion of Montenegro in international publications and studies  
System for submission of data about Montenegro to international institutions should be centralized and systematized. Further work should be done on inclusion in publications such as Doing Business, Index of Economic Freedom, Index of Transparency and others.

**Responsible Institutions**

Ministry of Finance, Central Bank of Montenegro, Monstat and Secretariat for Development

**Donor Support Committed**

**4. Training of human resources from Montenegro with international financial institutions**

**Summary and Sub-tasks**

In addition to training of human resources from Montenegro on the standardized programs of JVI and IMF Institute in Washington, training with WB, IMF, EBRD should be provided either as part of work in projects in preparation or in areas where lack of capacity has been identified. Furthermore, work should be done with small countries on memoranda on exchange of experience on a bilateral level. Potential group is new EU member countries.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Finance and Central Bank of Montenegro

**Donor Support Committed**



## 5. Opening of offices of the World Bank and IMF and other institutions in Montenegro

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Summary and Sub-tasks

Opening of IFIs offices in Montenegro increases international significance and provides grounds for better cooperation. At the moment everything is functioning through offices in Belgrade and lately the improvement in cooperation has been evident. The request can also be submitted to other donors such as DFID.

### Responsible Institutions

Ministry of Finance, Central Bank of Montenegro

### Donor Support Committed

## 6. Issue of membership of Montenegro in IFIs

### Summary and Sub-tasks

The process of Montenegro's getting independence imposes the need of independent membership in international institutions. Some of the issues should be discussed such as: should we stay in the same constituency, or find another; whether to have joint representative with any of the countries from the region, and so on.

### Responsible Institutions

Ministry of Finance

### Donor Support Committed

Table 1: Strategy of World Bank Transitional Assistance 2001-2004

Loan	Amount (mil. USD)
Structural Adjustment Credit 2	18
Credit for technical assistance to Pension Fund	5
Credit for Health Care System Improvement	7
Credit for Environmentally Sensitive Tourist Areas (wastewaters)	7
Structural Adjustment Credit 1	17
Credit for Stabilization of Electricity Supply	5
<b>Total</b>	<b>59</b>

Table 2: World Bank Assistance Strategy 2005-2007

Fiscal year	Basic scenario		Optimistic Scenario	
	Project	Amount (mil USD)	Project	Amount (mil USD)
2005	1. Education	5	1. Education	5
	2. Structural adjustment	18	2. Structural adjustment	18
2006	1. Tourism and agriculture	12	1. Tourism and agriculture	15
	2. Regional project: energy	3	2. Regional project: energy	3
2007	1. Development policies	10	1. Development policies	22
	<b>Total</b>	<b>30/48</b>	<b>Total</b>	<b>45/63</b>

Table 3: Projects financed by EIB

Loans / Project	Amount (mil €)	Year
Rehabilitation of Transport (for the Port of Bar 6 million €; for roads 10 million €)	16	2001
Rehabilitation of the Railways	15	2002
Reconstruction of the Energy Sector	11	2002
European Roads A	24	2002
Modernization of airports	12	2004
<b>Total</b>	<b>78</b>	

Table 4: Projects financed by EBRD

Project	Amount (mil €)
<b>Public Sector – approved loans</b>	<b>16.7</b>
Modernization of the airports in Podgorica and Tivat	11
KAP – Pre-privatization loan	3
Modernization of the Agency for Flight Control*	2.7
<b>Public Sector – projects in preparation</b>	<b>22</b>
Program for Rehabilitation of Roads	10
Infrastructure Development in Herceg Novi	2
Program for Managing Wastewaters in the Coastal Region	10
<b>Public Sector – Total – Approved and Projects in Preparation</b>	<b>38.7</b>
<b>Private Sector – Investment</b>	<b>1.4</b>
Euromarket Bank	1.4
<b>Private Sector – Loans</b>	<b>5.1</b>
Euromarket Bank	1.5
Opportunity Bank	2.7
Alter modus	0.9
<b>Private Sector – Total – Loans and Investments</b>	<b>6.5</b>

### 13. Environmental Protection

#### Goals

To establish a modern environmental protection system that provides the foundation for sustainable development of Montenegro as an 'Ecological State'.

- Active public information and participation measures
- Effective pollution control and management of natural resources
- Enhanced sustainability of protected areas

#### Key parameters

- Harmonization with the European Union environmental regulations and requirements
- Relevant international conventions and programs

#### Overview

The Government of Montenegro has long acknowledged the importance of the environment for its future development. This was accentuated by the declaration of Montenegro as an 'Ecological State' in the Constitution of the Republic of Montenegro. While some important elements of a national environmental management system are in place, the system has a number of deficiencies. Some of those deficiencies are: lack of availability of certain environmental data, lack of clearly defined monitoring responsibilities and poor information exchange among responsible institutes, low level of understanding of issues concerning environment, unsatisfactory hazardous waste management, fragmented environmental protection legal framework does not provide sufficient basis for biodiversity management, fulfillment of nature conservation goals and compliance with the European Union accession criteria; no clear policy and division of responsibilities exist to combat industrial pollution; Montenegro also suffers shortage of trained staff, Competencies and responsibilities are divided among various ministries and their relevant inspections. A new approach requires: integrated environmental protection management, harmonization of existing laws and adoption of new laws in line with EU environmental protection standards. On the basis of laws, efficient environmental management systems must be put in place at Republic and local-self government levels creating conditions for overall economic development. Specific objectives include:

- Implementation of the principle "polluter pays" through better application of economic instruments and financing mechanisms

#### 1. Amendments to the Law on Environmental Protection consistent with the European Union standards and requirements

##### Summary and Sub-tasks

After adoption of set of individual new laws will be necessary to amend the Law on Environmental Protection.

- a) Legal analyses of current environmental protection regulation

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- b) Amendments to the Law

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

##### Responsible Institutions

Ministry of Environmental Protection and Urban Development

##### Donor Support Committed

EU, WB, UNDP

#### 2. Harmonization and implementation of relevant regulations under the exclusive authority of the Ministry of Environmental Protection and Urban Development

##### Summary and Sub-tasks

Sub-task a), b) c):

EIA, SEA and IPPC draft laws are prepared and submitted for obtaining the opinion. These laws are in compliance with EU Directives. Further activities on this project include capacity building and training at the Republic and local level for their implementation.

Sub-task d):

The Draft Law on Waste Management was prepared and refers to all kinds of waste, including toxic waste.

Sub-task e):

The Draft Law on Protection from Ionizing Radiation and Radiation Safety is under preparation and it will regulate this issue in accordance with Montenegro needs, including elements established by EU Directives for this area.

Sub-task f):

Feasibility Study on Regulatory Mechanisms for Privatization of Utility Companies will be developed, proposing to the propose Government of Montenegro approach to the privatization of utility companies.

Sub-task h):

Environmental taxes and charges are dealt with through the Draft Law on Environmental Protection Fund. Work on strengthening the role of economic instruments, through improvement the capacity of environmental protection administration needs to be continued.

Sub-task i):

Upon the adoption of the Law on Air Quality, regulations/secondary regulations should be adopted on minimum and maximum values of the air quality and exhaust gases.

Sub-task j):

Development of the regulation concerning biodiversity and nature protection should be initiated as soon as possible.

Sub-task k):

Recommendations of European Parliament on minimum criteria of ecological inspection should be implemented.

Sub-task m):

This initiative includes adoption of the Law on Urban Planning and Development; drafting and adoption of Spatial Plan of the Republic; resolution of illegal construction problems; development and adoption of local plans in accordance with the new law and Spatial Plan; institutional strengthening

Sub-task n):

Amendments to the Law on Coastal Area are drafted. Draft of the Spatial Plan for the areas intended for special purposes is under public discussion. The Project of Integral Management of Coastal Area is under development.

a) Environment Influence Analysis (EIA)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Strategic Environment Assessment (SEA)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Integrated Pollution Prevention and Control (IPPC)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) Waste management (all types of solid waste, including toxic waste)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

e) Radiation

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

f) Companies for providing utility services

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

g) Labeling for environmental protection purposes

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

h) Taxes and contributions for environment

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

i) Air quality

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

j) Biodiversity and protection of nature

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

k) Rights and procedures of inspection

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

l) Chemicals

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

m) Spatial planning and development system

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

n) Management of coastal area

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development, local self-government units, Union of Municipalities of Montenegro

**Donor Support Committed**

EU, USAID, World Bank, UNDP, GTZ.

**3. Establishment of the Agency for Environmental Protection (AEP)**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Relevant scientific and technical institutions to be combined into new Agency for Environmental Protection, which would be general agency under the Ministry of Environmental Protection and Urban Development

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development, Ministry of Culture and Media

**Donor Support Committed**

EU, USAID (selectively)

**4. Founding of the Montenegro Ecological Fund (MEF)**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Montenegro Ecological Fund needs to be established to manage all revenues from economic

instruments related to environment (eco-fees) and financing/co-financing of priority environmental projects.

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development and Ministry of Finance

**Donor Support Committed**

EU, bilateral donors

**5. Support to implementation of all environmental protection laws and regulations at the municipal level**

**Summary and Sub-tasks**

Sub-task a):

The set of new laws (Initiative 1, sub-tasks a, b and c on EIA, SEA and IPPC and radiation) will bring about decentralization of competencies related to environmental assessment and pollution prevention and control at municipal level.

Sub-task b):

Capacity building should be high priority, particularly for donors.

Sub-task c):

EAR provided funds and strategic master plans for waste water management were developed: Master Plan for Removing and Clearing Wastewaters from the Coastal Area of Montenegro and Cetinje municipality, which was adopted by the Government, and Strategic Master Plan for Sewage and Wastewaters in the Central and North Region of Montenegro, which was developed and will be soon in the adoption procedures

Sub-task d):

EAR funded the Strategic Master Plan for Waste Management at the Republic Level, which was adopted by the Government.

a) Implementation of environmental services for which municipalities are responsible, including transfer of Republic responsibilities

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Capacity building for the relevant competencies at municipal level

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Adoption and implementation of strategic master plans for wastewater management

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) Implementation of the Strategic Master Plan for Solid Waste Management at the Republic Level

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development, Union of Municipalities of Montenegro, local self-government units, local business organizations

**Donor Support Committed**

USAID, EU, World Bank, bilateral donors

**6. Information dissemination and support to public participation in environmental protection decision-making at all levels**

**Summary and Sub-tasks**

Joint development of the program for exchange of information and dissemination thereof to administrative bodies of the Republic and municipalities, nongovernmental organizations and other local organizations, with the purpose of encouraging and giving incentives to public participation in decision-making related to environment, particularly at local level.

a) Development of annual reports on status of the environment and public information

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Implementation of EIA, SEA and IPPC Laws

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development

**Donor Support Committed**

USAID, EU, UNDP

**7. Development of comprehensive environmental information and monitoring system**

**Summary and Sub-tasks**

**Develop strategy for monitoring issues related to environment**

a) Revision of State Environmental Monitoring Program and its methodology based on internationally accepted criteria, making it compatible with other countries' data

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Elaboration of internationally based quality observation, sampling, analytical work and data processing standards

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) Revision of environmental monitoring stations' locations, assessment of equipment status, elaboration of criteria for the location of environmental monitoring stations, preparation of plans for equipment replacement and network improvement

**Implementation of the strategy for monitoring environment related issues**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) Improvements in co-ordination between the Ministry of Environmental Protection and Urban Development structural units and other institutions responsible for republic environmental monitoring, particularly in data transmission and processing.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

e) New equipment for field observation, lab analysis of samples, technologies for data processing and software

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

f) Implementation of the revised State Environmental Monitoring Program and its methodology based on internationally accepted criteria, making comparisons with data from other countries

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

g) Elaboration of special monitoring programs for protected territories (state nature reserves, national and regional parks, strictly managed nature reserves, etc.)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

h) Introduce GIS related to environment

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development, Ministry of Agriculture, Forestry and Water Economy

**Donor Support Committed**

EU, GTZ, UNDP

**8. Strengthening of pollution control**

**Summary and Sub-tasks**

Key issues are inter-sector cooperation and enforcement, and both of these are linked to the need for institutional and legal reforms and capacity building. Implementation of the IPPC is of the outmost importance. Sector strategies and policies are crucial here in the next couple of years (energy, industry, transport, forestry, tourism, water economy, agriculture, health care, etc.)

a) **Energy Sector:** Promotion of energy saving, use of self-recovering energy resources, reduction of pollution from electric and thermal power plants through combustion processes' improvement and change for cleaner fuels, also, promotion of other specific pollution prevention measures. Improvements through implementation of the principle "polluter pays."

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) **Industry:** Promotion of low-waste and cleaner technologies, saving of natural and energy resources and environmentally friendly production. Promotion of the production and use of multiple-use packaging and materials, the use of secondary raw materials and waste management, particularly hazardous wastes man-

agement. Improvements through implementation of the principle "polluter pays."

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c) **Agriculture:** Improvement of land use, soil fertility preservation, combination of intensive and extensive agriculture, promotion of environmentally clean agricultural production, introduction of sustainable and bio-organic agriculture, primarily in the karst region. Revision of acceptability of the further use of some agricultural objects located in environmentally sensitive areas. To ensure safe use of plant protection measures, fertilizers and other chemicals.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d) **Forestry:** Ensure a rational use of timber, aiming at wood products export, to gradually refuse raw materials export; increase the Republic's forested area by green-planting in territories not suitable for agriculture, primarily in those that are not suitable for agriculture or represent natural border among territories.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

e) **Transport:** Gradual shifting to fuels meeting the EU standards, development of an independent fuel quality control system, implementation of exhaust gases neutralizing systems, phasing out of ethylated gasoline, promotion of alternative fuel use, development of public transport, rationalization of road and street systems with simultaneous implementation of environmental measures, introduction of rational traffic and its control systems and other.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

f) **Municipal sector:** Implementation of the EIA, SEA and IPPC Laws at local level. Improvement of communal services for citizens and ensuring environmental compliance of business organizations and industry. Improving environmental permitting process at the municipal level. As for the provision of municipal services, priorities include improvements in wastewater and solid waste management (including waste collection, separation and recycling, improvement in design and

operation of waste disposal sites, improvements in sewage systems and wastewater treatment) as well as further application of 'polluter pays' principle.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**g) Tourism:** Ensure that tourism development will not have significant impact on ecological resources particularly in the coastal region. Eco-labeling in tourism (Blue Flag beaches, Green Hotels, Energy savings campaigns) to be promoted. Development of mass tourism has to be limited to the certain areas. Eco-tourism should to be promoted, particularly in relation to national parks. The existing budget for international tourism marketing is limited to displaying at international tourist fairs and development of tourist pamphlets. Montenegro does not have sale and representative offices on main markets nor funds for effective marketing of a particular destination and campaign for public relations. Even with the small budget, the Ministry of Tourism and National Tourist Organization managed to reach a sustainable increase of arrivals and consumption. WTTC has identified Montenegro as a country with the largest potential for development at the Mediterranean area. The future growth depends on development of new hotel capacities and tourist resources.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**h) Coastal region:** Activities related to identification of operational coordination mechanisms for control, monitoring and reduction of pollution of the sea and coastal zone, including review of practices and rules of Mediterranean countries and EU legislations as well as analysis of national legislation and practice in Montenegro. Also, included is the analysis of obligations arising from implementation of Convention from Barcelona and complementary, relevant Protocols, as well as international regulations and standards, particularly EU legislation.

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Economy, Ministry of Maritime and Traffic, Ministry of Agriculture, Forestry and Water Economy, Ministry of Tourism, Ministry of

Environmental Protection and Urban Development, local self-government.

**Donor Support Committed**

EU, GTZ, UNDP

**9.Improvement of Protected Areas Management and Biodiversity Conservation**

**Summary and Sub-tasks**

The existing protected areas, as well as planned ones will be under special attention through the implementation of EU directives in this area and conventions on biodiversity, and through raising awareness on biodiversity conservation as well, after which Montenegro is recognizable.

a) Development of the biodiversity strategy

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b)Conformance with Convention on Biodiversity (CBD) and other international conventions

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

c)Revise and complete Red List, habitats characterization and other records, and reconcile them with previous revisions

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

d)Revise laws and regulations in accordance with the previous activities

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

e)Elaborate network of protected areas in accordance with the previous activities, with regular review and revision based on monitoring

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

f) Revise management plans for protected areas to ensure participation of local stakeholders

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Ministry of Environmental Protection and Urban Development

**Donor Support Committed**

EU, World Bank, UNDP, GTZ, bilateral donors



## 14. Anti-Corruption Initiatives

### Goals

Create adequate conditions for full implementation of standards contained in international documents of the Council of Europe and European Union in the area of anti-corruption, conflict of interest and prevention of money laundering.

### Key parameters

- Harmonization with the Council of Europe and European Union Directives
- Membership in EGMONT group – international network of financial intelligence units

### Overview

An effective struggle against corruption and organized crime requires harmonized efforts and activities of the Government and citizens, as well as of each individual sector of public life. National consensus is the fact that can only encourage already considerable struggle against these phenomena. Membership of the Administration for Prevention of Money Laundering in the EGMONT Group, in accordance with already stated opinion of the World Bank, will considerably improve credibility of Montenegro, i.e. enable Montenegro to obtain earmarked credits from this institution.

### 1.Strategy for Struggle Against Corruption and Organized Crime

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

The strategy is prepared within the program activities of the Government in cooperation with the non-governmental sector with the goal to become a part of the general social plan and widely accepted system of measures and activities for restraining corruption and organized crime whose long-term goal is to restrain and limit, to the extent possible, these criminal phenomena having destructive consequences on the society.

- a) Adoption of the Strategy for Struggle Against Corruption

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- b) Drafting and Implementation of the Action Plan for Implementation of the Strategy for Struggle Against Corruption

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Responsible Institutions

Ministry of Internal Affairs, Administration for Anti-Corruption Initiative

### Donor Support Committed

### 2.Prevention of Conflict of Interest

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

The Law on Conflict of Interest was adopted in 2004. Pursuant to the Law, the Commission for Determining Conflict of Interest, which has started to operate, is established. However, at the very beginning of practical application of the existing Law, some of its flaws have surfaced. The truth is that the Parliamentary discussion also pointed out its flaws, which resulted in adoption of the Law, but also the conclusion to undertake a serious review of the concept of the Law.

Law on Conflict of Interest – implementation and improvements

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Responsible Institutions

Ministry of Finance, Commission for Determining Conflict of Interest

### Donor Support Committed

### 3.Prevention of Money Laundering and Terrorism Financing

#### Summary and Sub-tasks

Inclusion in international payment systems and international inter-banking correspondent accounts requires the existence of measures for

prevention of money laundering in accordance with FATF recommendations. The existing Law is harmonized with FATF recommendations regarding terrorism financing. Amendments to the Law on Prevention of Money Laundering were adopted. Such amendments enable the admission to the EGMONT group. Application for membership in EGMONT Group was submitted. By this act, the Administration for Prevention of Money Laundering becomes internationally recognized financial intelligence unit. By admission to the EGMONT group, we acquire the right to access "safety network," which provides faster and more efficient exchange of data and information with other financial intelligence units.

- a) Implementation of the Amended Law on Prevention of Money Laundering in accordance with FATF recommendations

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- b) Membership in the EGMONT Group

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- c) Conduct training, including training of persons employed in the Administration and obligors engaged in preparing and submitting data to the Administration

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- d) Adopt special strategy necessary for development of comprehensive and permanent training regarding monitoring and reporting on activities dealing with prevention of money laundering

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- e) Upgrade database due to the needs for standardization in accordance with recommendations and directives that will be implemented by amendments to the Law. This includes improvement of the methods for using the database, through continuing upgrading activities in "Case Management."

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Responsible Institutions**

Administration for Prevention of Money Laundering

**Donor Support Committed**

USAID, CAFAO

**4. Establish coordinating body for monitoring and harmonization of activities in the area of prevention of money laundering and terrorism financing and corruption as a part of organized crime**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

It is necessary to establish a coordinating body consisting of the representatives from the following institutions: Administration for Prevention of Money Laundering, Ministry of Internal Affairs, Customs Administration, Tax Administration, Central Bank of Montenegro and Special Prosecutor. The competency and tasks of this body will be determined taking into consideration complexity of the topic and obligations of each of the aforementioned body in implementation of the Law. Operative functioning of this body would improve efficiency level (rapidity and comprehensiveness) in realization of the aforementioned task. For the purpose of faster and more comprehensive exchange of data, access to databases of the Ministry of Internal Affairs, Customs Administration and Tax Administration should be provided, which would, with already available access to the database of the Central Registry of the Commercial Court, create a full informational basis for monitoring this area. It would also lead to a greater level of professionalism and it would significantly save time and budget funds.

**Responsible Institutions**

Administration for Prevention of Money Laundering, Ministry of Internal Affairs, Customs Administration, Tax Administration, Administration for Anti-Corruption Initiative, Central Bank of Montenegro and Special Prosecutor

**Donor Support Committed**

USAID, CAFAO

## **B. Economic Growth and Development**



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## 15. Incentives for Growth and Development

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### 15a Regional development

### 15b Development of small and medium size enterprises and of entrepreneurship

### 15c Investments

### 15d Research, innovation and technology

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## 15a Regional Development

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### Goal

Adjustment of spatial-economic (regional) and macroeconomic development policy and, in accordance with that, establishment of balanced regional development of the Republic as a factor of acceleration of overall economic growth.

### Key parameters

- International standards in shaping systemic incentives to faster development of under-developed regions;
- Use of structural funds for regional development;
- Degree of integration of economic space of under-developed regions into the overall economic corps;
- Valorization of natural, economic and human resources potentials;
- Demographic parameters.

### Overview

Regional development of Montenegro is characterized with long-term and complex structural phenomenon, with regional disproportions in the level of development and significant negative effects on overall Republic development. Geneses of the reasons for such a condition are specific social-historical circumstances, which caused some traditional activities in specific regions to become unattractive, which then caused the devastation of resources with unfavorable demographic processes and desertion of rural areas. In the transition period and transformation of economic system, the problem of general development level of specific regions expressed itself in a more severe reform.

The objective of the Strategy for Regional Development of Montenegro, adopted by the Government of the Republic of Montenegro in February 2005 is to enable faster development of under-developed sub-regions, establishment of

permanent policy for reduction of regional differences in the development level with preservation and equalization of population in jeopardized areas and application of the principle of sustainable development and perseverance of ecological balance. The document is compatible with strategic development documents within which the regional component of development becomes mandatory criterion and development aspect.

Goals and directions of Montenegro development are adjusted to EU principles. This assumes: incentives to development of regional policies through inter-municipal cooperation with decentralized stimulation of social and economic development of specific regions, partnership among local communities, gradual territorial decentralization, harmonization with regulations in EU, WTO and other international subjects, harmonization of regional strategy and policy with the strategy for economic development and financing development programs and projects in cooperation with local communities.

The basic method for realization of regional policy is polycentric development with decentralization of economic activities with relying on enterprises as development carriers.

For the purpose of realization of the policy of balanced and uniform regional development and reduction of differences in the level of development, the economic policy shall further develop strategic commitments. This primarily refers to investment policy and other measures for encouraging development of under-developed areas. Stimulation of investment activities in the function of equalization of regional differences shall be done through programs: of continuing support to employment and entrepreneurship, development and strengthening free zones and

construction of specific infrastructure facilities financed from own resources. Realization of capital infrastructure development projects is in the function of reduction of regional disproportions and realization of better connections and integration of regions.

Sector priorities of regional development are compliant with general development commitments and objectively respectable resources in the area of under-developed regions.

The Strategy envisages a developed system of incentive measures for implementation on several levels.

### Regional Strategy Development Implementation

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

#### Summary and Sub-tasks

Goals and priorities of regional development policy shall be supported through activities on republic, local and municipal level.

- Regional Development Strategy shall be harmonized with Spatial Plan of the Republic by 2020;
- The implementation of economic policy according to sectors shall continue with existing sources of funds for encouragement of development. Within that framework, the policy of faster development of small and medium size enterprises shall be implemented in the area of under-developed regions;

- The resolution of issues of transport, technical, utilities and other infrastructure is an important prerequisite for regional and overall development. That's why the project of building regional roads, provision of security in electricity supply, water supply, waste management and other shall be realized;
- The tax policy measures are focused on provision of more favorable conditions for development of activities in under-developed area. In that respect, new businesses and new employees shall be exempted from tax for a specific period of time, and also the possibility to give a part of revenues realized from VAT to the local self-government, in which territory the revenues are realized, to use them will be considered.
- Credit-monetary policy shall support the employment and entrepreneurship plans in under-developed regions;
- International economic relations policy shall provide the inclusion of Montenegro in the flows for accession to EU. Within that framework, mechanisms for regional development support shall be realized;
- Separate Fund for Regional Development shall be established;
- Local government reform is to enable decentralization of responsibilities in specific segments of development and implementation of regional development policy.

#### Responsible Institutions

Secretariat for Development, relevant ministries and local government

#### Donor Support Committed

USAID, EU and other

## 15b Development of Small and Medium Size Enterprises and Entrepreneurship

### Goal

Increase of private sector participation in GDP

### Key parameters

- Increase of the number of registered small and medium size enterprises
- Increase of small and medium enterprises share in overall import and export
- Growth of private sector participation in GDP
- Increase of employment and growth of employment share in private sector in comparison to overall employment

- Increase of small and medium size enterprises share in the overall structure of enterprises in comparison to micro-enterprises

### Overview

During recent several years the environment for business development in Montenegro has been significantly improved. Still, the level of entrepreneurship activities is low in comparison to developed market economies. During the following period the emphasis should be on further creation of stable and stimulating environment for development of entrepreneurship, i.e.: (1)

work on eliminating regulatory and administrative barriers for development of entrepreneurship and business, (2) provide business education (3) ensure loyal and fair competition (4) improve access to business information (5) improve delivery of business services (6) facilitate access to available financial resources (7) increase competitiveness of small and medium enterprises (8) ensure coordination of activities of all stakeholders when development of entrepreneurship is concerned.

**Specific Initiatives**

**1. Research on Business Barriers with the Action Plan for Their Reduction**

**Overview**

For the purpose of creating entrepreneurship development policy it is necessary to identify key impediments to more rapid private sector development. Additionally, it is necessary to prepare action plan for removal of business barriers with the method for their removal, time-frame and responsible institutions.

**Responsible Institutions**

Directorate for Development of Small and Medium Enterprises, Commission for Economic Freedoms

**Donor Support Committed**

USAID, EAR, World Bank

**2. Training Program for Entrepreneurs**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Formal Education

**Overview**

Competitive sector of small and medium enterprises requires development and implementation of contemporary business skills in areas like management, finances and accounting, marketing and human resources capacity building as well as specialist skills and knowledge. Formal education must play a key role in development of these skills. Furnishing people with business concepts and techniques that may be implemented and developed in practice. In the process of education system reform special attention should be paid to entrepreneurship on all levels from children's nursery to university. It is par-

ticularly important do examine the possibility to organize Master of Business Administration (MBA) studies and/or correspondent forms with foreign universities that would encourage Montenegrin students in acquiring internationally recognized qualifications.

**Responsible Institutions**

Ministry of Education and Science and University of Montenegro

b) Informal education (business knowledge)

**Overview**

Provide basic business education and training for business beginners, entrepreneurs that are entering business sphere and the current entrepreneurs in development and strengthening of business functions. Influence development of entrepreneurship with the youngest population.

**Responsible Institutions**

Directorate for Development of Small and Medium Enterprises

c) Informal Education (specialist knowledge)

Important element of active employment policy is education targeted at gaining of qualifications, retraining and additional training for work occupations. For that reason it is necessary to develop different forms of education that will impact increase of expertise.

**Responsible Institutions**

Employment Fund of the Republic of Montenegro

d) Informal Education

The developed enterprises are facing problems that follow their growth and development. For that reason, it is necessary to provide constant training for managers in order to improve knowledge and skills to resolve problems that are encountered in the market.

**Responsible Institutions**

Development Fund of the Republic of Montenegro

**Donor Support Committed**

USAID, EAR

### 3. Improve Access to Available Financing

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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#### Overview

Insufficient access to finances is an impediment for small and medium enterprises, which want to invest and grow, especially for those newly established or in the phase of initial business activities, which need borrowings over one year. During the transition to market economy, the key role of the state is to facilitate financing from professional institutions (banks, guarantee funds, micro funds...) rather than from the state. In accordance with that it is necessary to:

- Continue development of competition and increase the number and quality of loans given to domestic small and medium enterprises
- Cooperate with international credit institutions willing to open new credit lines in Montenegro
- Research the possibility for establishing new forms of funding small and medium enterprises. In the beginning, the efforts shall be directed to search the possibilities for establishment of private guarantee funds and public guarantee institutions, as mechanisms for encouraging enhancement of credits for small and medium enterprises through commercial-banking sector

#### Responsible Institutions

Ministry of Finance, Directorate for Development of Small and Medium Enterprises, Development Fund

#### Donor Support Committed

EU, USAID, other bilateral donors, EIB, World Bank and EBRD

### 4. Program "Incentives for New Employment"

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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#### Overview

The Program is the updated program "Legalization of the Existing and Creation of New Jobs." The Program continues implementation of defined goals and tasks referring to opening of new jobs, economic growth under decisive influence of private sector, valorization of Montenegrin

potential and elimination of gray economy in the employment sector. Implementation of this Program provides for creation of additional individual and collective motivations for new employment, opening of new business organizations, incentives for growth of the existing companies, increase of competitiveness of domestic production, increase of export, substitution of import and legalization of informal sector. This Program, through interrelated, individual projects impacts the incentives for entrepreneurship development.

#### Responsible Institutions

Directorate for Development of Small and Medium Enterprises, Employment Fund, Coordination Body for Realization of the Program

#### Donor Support Committed

USAID, GTZ, EAR, other donors

### 5. Improve Access to Business Information

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
---------	---------	---------	---------	---------	---------

Trends of developed market economies signal that access to information (on new products and processes, competition, trends, new markets and clients) is becoming increasingly important in establishing competitiveness. In order to support businesses in this process, it is necessary to: continue activities on establishing network of Regional Local Business Centers (RLBC), improve conditions for work of Euro Info Correspondence Center (EICC), examine possibility for establishing other institutions to support small and medium enterprises such as business incubators, technological parks, innovation centers.

#### Responsible Institutions

Directorate for Development of Small and Medium Enterprises

#### Donor Support Committed

USAID, GTZ, EAR, other donors

### 6. Improve Access to Business Services

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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In comparison to developed market economies, delivering of business services in Montenegro is very limited. Services such as accounting, tax



planning, legal advice, information technologies and consulting management are always necessary assistance on the occasion of business establishing and growth of operations and at the same time very important sources of economic activities and employment within the scope of its activities. It is necessary to continue support to training programs supported by international donor organizations with the objective to train professors and experts for delivery of business services in the private sector.

**Responsible Institutions**

Directorate for Development of Small and Medium Enterprises

**Donor Support Committed**

USAID, GTZ, EAR, other donors

**7. Promotion of Entrepreneurship**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

Level of entrepreneurship activities in Montenegro is currently low according to international standards due to lack of tradition, previous economic system and war environment and economic sanctions. In order to enable Montenegro to become competitive in the international market economy, it is necessary to undertake all steps to support development of entrepreneurship. In addition to implementation of measures that would facilitate citizens to start up and conduct business, it is necessary to closely cooperate with media and other 'opinion creators' to emphasize useful sides of entrepreneurship and private initiative as alternatives to employment in state bodies and to create positive 'sample model' for entrepreneurs.

**Responsible Institutions**

Directorate for Development of Small and Medium enterprises

**Donor Support Committed**

USAID, GTZ, EAR, other donors

**8. Development of Cooperation with Private Business Associations**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

In developed market economies, business associations have important role in presenting needs of small and medium enterprises and have impact on state bodies to adopt changes. Sector business associations must also play important role in communicating information to its members, providing specialized education, promoting internationalization, establishing and maintaining quality standards, constantly reducing the need for regulations. In order to promote development of entrepreneurs associations it is necessary to:

- Improve cooperation with the current business associations and support development of new business associations that may provide reasonable guarantees to represent interests of companies in their sectors and /or areas.

**Responsible Institutions**

Directorate for Development of Small and Medium Enterprises, Business Associations, Business Unions

**Donor Support Committed**

USAID, GTZ, EAR, other donors

**15c Investments**

**Goal**

Increase of scope of investments in Montenegro as to accelerate economic development, encourage free trade and increase employment.

**Key parameters**

- Increase of foreign direct investments in Montenegro (150 million € 2005 and 180 million € in 2006.)
- Increase of GDP

- Growth of employment through new investments
- Increase in budget revenues in respect of new investments (taxes, contributions, customs fees) for 1-3%
- Improvement of Montenegro image through increase of the level of economic freedoms

**Overview**

Framework for investments has been established. During the period from 2001 to date

numerous laws have been adopted which improved the conditions for investments. Agreements on free trade have been signed what ensured the admission to the market of 55 million people. In the next two years the focus will be on: 1) Development of strategy for attraction of foreign investments; 2) Further opening of Montenegro and development of the concept of national treatment of foreigners; 3) Fine-tuning of the laws that will strengthen competitiveness of specific sectors in Montenegrin economy; 4) Liberalization of trade and reduction of customs fees

**Specific Initiatives**

**1. Development of the strategy for attraction of foreign investments**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Overview**

Experiences of countries that managed to attract significant foreign investments show that it is necessary to provide consensus with regard to important issues related to investments, such as: which sectors are important for rapid economic development? What are the multiplying effects of investments in specific sectors? Should we and in what extent try to attract the diaspora interests? What resources do we have available? What laws should be amended? Which institutions should be strengthened? The lack of clear vision of the mentioned and other issues may bring to overlapping in work of specific government institutions and absence of focus on potential investors. The goal of the strategy is to provide a clear picture (vision) of the directions to be followed as to make Montenegro attractive for investors.

**Responsible Institutions**

Ministry for Foreign Economic Relations and Economic Integrations, Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Forestry and Water Supply, Ministry of Tourism, Ministry for Environment and Urban Development, Ministry of Transport, Ministry of Foreign Affairs Directorate for Development of Small and Medium Enterprises, Agency for Restructuring of Economy and Foreign Investments

**Donor Support Committed**

USAID, EAR, OECD, WTO, World Bank

**2. Montenegro Investment Climate Assessment (ICA)**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Overview**

The goal of Investment Climate Assessment (ICA) is to present the empiric analysis of the climate for investing in Montenegro, to present the analysis to the Government, expert public, donors and others as to consider the solutions that would contribute to creation of better environment for development of private sector, and accordingly increase productivity, efficiency, profitability and development. The study is in line with the intentions of the World Bank and Investment Climate Unit of the Investment Climate Department (CICIC), and as such it can be its constituent part. The study, inter alia, should record problems encountered by the current investors in Montenegro, the manner for overcoming the identified problems and converting the current investors into promoters of new investments in Montenegro.

**Responsible Institutions**

Agency for promotion of foreign investments in Montenegro, Directorate for Development of small and medium enterprises, Development Fund of the Republic of Montenegro

**Donor Support Committed**

USAID, EAR, World Bank

**3. Development of Promotion Strategy (web site, various promotional materials)**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Overview**

Comments can be frequently heard that there is little knowledge about Montenegro in general, economic reforms, investment potentials... The goal of the promotion strategy is to focus on target markets (niche) and in accordance with that to define the possible ways of promotion. The establishment of long-term cooperation with promoters of investment potentials in Montenegro should be a constituent part of the strategy.

**Responsible Institutions**

Ministry for Foreign Economic Relations and European Integrations, Agency for Promotion of

Foreign Investments in Montenegro, Government Bureau for Public Relations

**Donor Support Committed**

USAID, EAR, international donors

**4. Legislation Improvement**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Overview**

Labor Law did not contribute to necessary flexibility of labor force market. It is a serious obstacle for investors. The contracting freedom has been disrupted. Law on Concessions – is an extremely important law for promotion of investments. Law on Foreign Investments – requires fine-tuning in accordance with already implemented economic reforms in Montenegro. The mentioned requirements, in addition to the package of fiscal laws regulating taxes and customs fees, have strong effect on investment climate.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Ministry of Finance, Commission for Economic Freedoms, Agency for Promotion of Foreign Investments in Montenegro

**Donor Support Committed**

USAID, EAR, WTO

**5. Development of Reliable Analytical Base for Monitoring Investment Movements**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Overview**

As to be able to analyze and design multiplying effects of investments, it is necessary to create, maintain and improve databases. Reliable analytical base, which would be gradually developed, would be a significant contribution to monitoring of implementation of overall economic reforms in Montenegro. Various researches conducted by MIPA would be the base for collection of reliable analytical base.

**Responsible Institutions**

Ministry for Foreign Economic Relations and European Integrations, Agency for Promotion of Foreign Investments in Montenegro, Commission for Economic Freedoms, Monstat, Secretariat for Development

**Donor Support Committed**

USAID, EAR, other donors

**15d Research, Innovation and Technology**

**Goal**

Establish legal and institutional infrastructure that will encourage further development of Montenegro toward the knowledge-based state.

**Key parameters**

- Adopted laws in this area
- Adopted strategies
- Registered and implemented patents and innovations
- Investment of the public sector in the research and development
- Investment of private sector

**Overview**

The present society, its research and development depend on dynamics of innovations and development of technologies. Within globalization trends, competitiveness of our products is not possible on the global market if not accom-

panied by the development of science and technology and creation of conditions for investments in products and services either being produced or that can be produced in Montenegro and matched against buyers in a broader market.

**Specific Initiatives**

**Strategy for Development of Research, Innovation and Technology**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The Strategy should be a base for development in this area. It is to define the framework for realization of development in the area of research, innovations and technology, as well as institutional infrastructure and funding sources.

**Responsible Institutions**

Ministry of Education and Science, Ministry of Economy, Secretariat for Development

**Donor Support Committed**

World Bank

**16. Structural Policies in the Function of Growth and Development**

**16a Restructuring of Enterprises**

**16b Privatization and Post-Privatization**

**16a Restructuring of Enterprises**

**Goals**

Foster entrepreneurship and create a strong and self-reliant enterprise sector, capable of generating growth and employment

**Key parameters**

- Increase number of enterprises implementing restructuring programs
- Strengthen institutional framework for enterprise support and entrepreneurship development
- Reform and strengthen public institutions involved in development of enterprises

**Overview**

Recent progress achieved in macro-economic stabilization and establishment of legal framework for private sector development has improved the business climate in Montenegro. Nonetheless, the level of entrepreneurial activity compared to the developed market economies is low. Transition process at the enterprise level is slow and is impeded by weak institutions, inefficient state owned enterprises, numerous small and medium enterprises handicapped by fragmented ownership and poor corporate governance, lack of access to finance and of foreign investment inflows, as well as by the overall lack of skills required to reform and develop the economy.

**Specific Initiatives**

**1.Pre-privatization Restructuring of Public Utility Companies and Large Enterprises**

**Summary and Sub-tasks**

The implementation of pre-privatization restructuring of public utility companies and large en-

terprises shall be encouraged by stimulating measures, expert assistance and stricter responsibility and motivation of the board of directors, company management and employees, more active engagement of Government officials and institutions in this process, acceleration of privatization preparatory activities with greater support of the State through legislative process, better solutions to redundancy issue and old debts to State institutions, development of social programs and employment programs, etc.

a) Establish efficient coordination mechanisms at the Government level and improve engagement of its officials and institutions in implementation of restructuring action plans agreed with the enterprises.

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

b) Apply stimulating measure of rewarding for board members and management and employees for a successful implementation of the established restructuring action plans.

c) Require stricter responsibilities and sanctions towards Government officials, members of the board of directors, management and employees for failure to implement determined action plans for restructuring.

d) Provide expert help to the board of directors and management in adopting and implementing restructuring action plans

e) Improve corporate governance

**Responsible Institutions**

Commission of the Government of Montenegro for Economic Policy and Industrial Development, Ministry of Finance and Ministry of Labor and Social Welfare, Development Fund of the Republic of Montenegro, Employment Bureau of the Republic of Montenegro, in cooperation with boards of directors and managements of companies

**Donor Support Committed**

EU, USAID, World Bank and EBRD

**2. Post-Privatization Restructuring of Small and Medium Size Enterprises**

Implementation of post-privatization restructuring of small and medium size enterprises shall be accelerated by incentives and capacity building of company management and employees, Government officials and institutions, privatization investment funds and other owners and stakeholders, to get engaged more actively in this process, and by increasing support at the State policy level through the legislative process, stronger incentives to employees and resolving work force redundancy issue, resolution of old debts owed to State institutions, development of social and employment programs, etc. During this year, activities regarding implementation of the Restructuring Program will primarily be focused on pre-privatization restructuring of enterprises in the area of manufacturing activities (leather, footwear, textile...).

- a) Establish a closer cooperation among owners and coordination of joint actions in the process of adopting and implementing restructuring plans
- b) Develop management and marketing skills in small and medium size enterprises through direct international consulting support "business to business"

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

- c) Provide expert help to management of small and medium size enterprises by engaging domestic consultants

- d) Improve corporate governance

- e) Introduce incentive programs for managers and employees' performance

**Responsible Institutions**

Commission of the Government of Montenegro for Economic Policy and Industrial Development, Ministry of Finance, Ministry of Labor and Social Welfare, Development Fund of the Republic of Montenegro, Employment Bureau, in cooperation with privatization investment funds and other owners

**Donor Support Committed**

GTZ, EU and USAID

**3. Reforms and Institution Strengthening**

**Summary and Sub-tasks**

Reform and institutions strengthening dealing with development of enterprises and entrepreneurship, including but not limited to corporate governance, restructuring and privatization, shall be supported. The Development Fund will be assisted in redefining its dual role as manager/supervisor of State assets and/or financial institution supporting the sector of small and medium size enterprises. The Agency for Restructuring and Foreign Investment shall be supported in improving its internal organization and in implementing privatization. Institutional responsibility for restructuring of companies shall be clearly defined. The overall capability for economic reform management will be enhanced, by strengthening the administrative capacity of the Commission of the Government of Montenegro for Economic Policy and Industrial Development and the line ministries within its competency.

- a) Building the administrative capacity of the Commission of the Government of Montenegro for Economic Policy and Industrial Development

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Transformation of the Development Fund of the Republic of Montenegro

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

c) Institutional capacity building of the Agency for Economic Restructuring and Foreign Investments

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Commission of the Government of Montenegro for Economic Policy and Industrial Development, Development Fund of the Republic of Montenegro, Agency for Economic Restructuring and Foreign Investments

**Donor Support Committed**

EAR and USAID

**16b Privatization and Post-Privatization**

**Goal**

Improving the performance of formerly state owned enterprises, while decreasing state ownership in all enterprises, protecting property rights and promoting economic freedom.

**Key parameters**

- Increases in percentage of private ownership
- Decrease in total Government claims on enterprises
- Increase in index of economic freedom

**Overview**

After mass voucher privatization and a number of tenders, majority of share capital in Montenegro is in private ownership (about 70%). However, there is a lot of work yet to be done both on continuing the privatization process and on improving sustainability of many privatized companies. Although the funds own a significant percentage of capital in some of the enterprises, it happens more often that the capital structure is fragmented, and in majority of cases there is no clear majority ownership, although the process of centralization of capital has started. Capacity to restructure enterprises is limited, and there are not enough of the restructuring incentives. The Program for Restructuring of Enterprises and Support to Institution Development is being implemented. The protection of property rights is inadequate and unequally applied, and the entire business environment and business culture should be reformed. Finally, neither enterprises nor shareholders are well informed on shareholders' rights. Generally, enterprises are not implementing in adequate manner quality corporate governance. There are major restitution problems, although there is a progress in this area.

**1. Accelerate the Sale of State Shares in Companies and Banks**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Despite results of privatization, part of the capital is still in the hands of the State (especially infrastructure). Many enterprises are still directly or *de facto* under the State control, which gives minority private shareholders little benefit from privatization.

Progress has been achieved in the privatization process and the financial effects are significant, with 25.8 million € received from sale of state owned companies in 2004 and additional 74.9 million € committed for future investments, or around 120 million in the first quarter of 2005. Progress in specific large-scale enterprises could be better than achieved (e.g. Shipyard Bijela, Port of Bar, EPCG). Toward the end of 2004, activities in privatization of banks increased. In December 2004 the Privatization Council of the Government of the Republic of Montenegro established a Commission for Privatization of the Banking Sector and the privatization process of Podgoricka Bank has been initiated.

- a) It is necessary to accelerate the sale of residual shares and majority capital in strategic enterprises, with a faster tender sale.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

- b) Sale of residual shares will as well help to consolidate the share structure of enterprises, so the sale should be directed toward that goal.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

c) The mechanism for achieving this goal is adoption and implementation of annual privatization plans.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

## 2. Resolve Property Restitution Claims

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Summary and Sub-tasks

Unresolved restitution claims create high degree of uncertainty, which results in impediments to sale of property or attraction of investments in property that could be subject if restitution claims. The Restitution Law was passed by the Parliament in 2002, but due to certain flaws, the Law could not have been implemented, as it was not compliant with international standards. The new Law on Restitution of Taken Away Property Rights and Compensation regulating this area has been adopted.

## 3. Protection of Ownership Rights and Promotion of Economic Freedoms

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Summary and Sub-tasks

Creating an environment that will protect and promote property rights and the interests of investors is an imperative to economic growth and development. Specific steps are needed: The Commission for Economic Freedoms was established by the Government of the Republic of Montenegro at the end of 2003 - beginning of 2004.

a) A single point of contact for legal and physical persons to report administrative and legal barriers to property rights and economic freedom should be established.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

b) Establish a Task Force that will ensure that barriers are analyzed by relevant State institutions and streamlined or removed.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

c) The Task Force will review the impact tax rates, customs, investment promotion and administrative costs of all kinds have on economic freedom, and recommend adjustments as required.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

d) The Task Force will be tasked to identify a comprehensive list of goods and services currently provided by the Government that could be provided by the private sector.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

## 4. Analysis of Ownership Concentration and its Impact on Corporate Governance

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Goal

Due to different privatization methods in Montenegro (internal, mass voucher, tenders...) and the fact that a percentage of privatized enterprises is approximately 70%, it is necessary to encourage the process of concentration of ownership, which should lead to better efficiency of corporate governance.

### Key parameters

- Degree of ownership concentration (companies with one owner with ownership of 40% or more)
- Economic strength of a dominant owner
- Increase of export in companies with a dominant participation of one owner

### Activities

Conduct research on a representative sample of privatized companies in Montenegro

### Responsible Institutions

Agency for Economic Restructuring and Foreign Investments, Securities Commission and Privatization Council

### Donor Support Committed

## 5. Follow-up Implementation of Privatization Contracts and Propose Measures

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

### Summary and Sub-tasks

Check whether and to which extent privatization contracts are implemented by buyers of the enterprises, especially in the area of contracted investments, social program and employment degree. It is necessary to prepare a report for the Government twice a year.

**Responsible Institutions**

Responsible ministry, and Agency for Economic Restructuring and Foreign Investments

**Donor Support Committed**

**6. Involvement of Private Sector in the Delivery of Public Services and Reduction of the Number of State Administration Bodies**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

It is necessary to involve private sector in the delivery of public functions or in part of the activities performed currently by state administration or state bodies. There are two reasons for that:

- a) Increase efficiency in performing the functions by unification and rationalization of functions
- b) Reduce state administration.

For that purpose, it is necessary to make a list of functions and tasks that could be offered to the private sector (domestic and foreign) through a tender procedure. Also, it is necessary to develop a system of control and evaluation of work of private institutions in performing public functions and to provide competition.

**Responsible Institutions**

Ministry of Justice and Privatization Council

**Donor Support Committed**

**7. Project financing for BOT system as a form of partnership between private and public sector**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

It is necessary to develop methodology for financial projects. Project financing is a special

area of "privatization" in the area of finances. During the last decade, it has become one of important forms to solicit mid-term and long-term sources of capital for financing investment projects. However, in Montenegro, this form of financing is not even at the outset, even though Montenegro needs project financing, since there is a gap between investment needs and available financial funds, especially in the area of infrastructure. There are different forms of partnership between public and private sector in this area (management contracts, contracts on performing services, leasing, concessions, BOT...)

**Responsible Institutions**

Ministry of Economy, Ministry of Tourism, Ministry of the Environmental Protection and Urban Development, Ministry of Agriculture, Forestry and Water Resource Management, Ministry of Justice

**Donor Support Committed**

**8. Improve Corporate Governance Mechanism**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Privatization in Montenegro is in its final stage. However, it is more and more evident that there is an increasing corporate governance problem. The Government, privatized companies, as well as international institutions and donors should commit themselves more to this problem, and especially to formulate efficient corporate governance practice. The problem in Montenegro, as well as in all countries in transition, is a lack of incentives and encouragement much more than effective regulation and laws. A key problem is how to have investors ensured that management will choose right projects, put efforts to successfully implement them, as well as provide relevant information on the work of management and condition in the company. In that respect, it is necessary to explore mechanisms for improving corporate governance in Montenegro, primarily the position of majority shareholders, market for corporate control, gaining proxy control, activities of the board of directors and fee to the board of directors, manner of monitoring by banks, activities of minority shareholders, monitoring of employees, etc.



**Responsible Institutions**

Ministry of Economy, Development Fund of the Republic of Montenegro, Securities Commission

**Donor Support Committed**  
EAR

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**17. Sector Growth and Development Policies**

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**17a Tourism**

**17b Agriculture**

**17c Forestry**

**17d Education**

**17e Health System**

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**17a Tourism**

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**Goals**

A sustainable and diversified tourist product that creates growth in the number of tourists, increase in per day and per visitor spending and job generation across regions and seasons.

guests from Western and Middle Europe. The abovementioned Strategy plans increase of the number of overnights from the current 4.4 million to 11.4 million in 2010 and to 20.9 million overnights in 2020.

**Key parameters**

- Guidelines defined by Master Plan – Tourism Development Strategy by 2020
- Sustainable development that protects environmental and cultural heritage
- Regional balance in product development and marketing, recognizing different needs, circumstances and potential of the North, Center and South of Montenegro.

Directly or indirectly, on the basis of tourism, 75,000 new jobs will be opened. In favor of the fact that tourism represents realistic base for overall economic development of Montenegro is the assessment of the World Tourism and Travel Council (WTTC) that, with engagement of the Institute for Research and Assessment from Oxford, prepared the Report – Satellite Assessment of Tourist Turnover and Effects of Tourism in Montenegro to the overall domestic product. According to those results, share of tourism in creation of gross domestic product in 2004 amounts to 15%, while the overall revenues amount to 214.7 million €. WTTC estimates capital investments in 2004 in Montenegrin economy in general generated by tourism to be 36.7 million € or 19% of overall investments. Furthermore, WTTC forecasts annual growth of 10.3% in overall demand of travels and tourism that, if accomplished, will make Montenegro the country with tourist economy that has the fastest development in the entire World in the following decade, if compared with 174 countries monitored by WTTC. It is forecasted that financial effects will record the same growth rate.

**Overview**

The Government of the Republic of Montenegro starting from the position that tourism is one of the priorities in the Republic development and grounds of development concept of Montenegrin economy, at the end of 2001 adopted the Strategy, or the Master Plan of Tourism Development by 2020. The Master Plan clearly defines goals whose accomplishment will enable Montenegrin tourist offer to follow up international development and for Montenegro to establish its position on the international market as a high quality tourist destination, to increase income, reduce unemployment and to preserve natural potentials and resources.

Government of the Republic of Montenegro and Ministry of Tourism are implementing regular activities for establishing of business relations with foreign partners on permanent basis through investment of capital into tourism capacities. Basic priorities in the tourism develop-

ment policy of Montenegro are fast privatization and creation of assumptions for direct foreign investments.

c) Creation of preconditions for introduction of the system of Integral Management of the Coastal Area (IUOP).

**1. Framework for development of tourism and coordination of the process**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

a) Completion of Legal and Institutional Framework.

It is necessary to work continuously to improve legislation in order to implement recommendations defined under strategic documents of the Government in the area of tourism and provision of adequate environment for the development of tourism. To achieve competitive advantages Montenegro must offer the same or higher conditions as competitive destinations. It is necessary to create environment that enables meeting of development needs on principles of sustainable development taking into consideration preservation of environment and cultural heritage.

b) Creation of preconditions for the full implementation of the new Law on Tourism as of July 2002, which includes preparation of over 30 regulations, rulebooks and registries within the two-years period.

A number of enabling regulations defining certain areas of tourism are completed and amendments to the current and preparation of new enabling regulations referring to nautical tourism, agro tourism, ski terrains etc, is planned for the forthcoming period. Rulebook on Classification, Minimal Conditions and Categorization of Hospitality Facilities is successfully being implemented. Procedure of amendments to the Law on Tourism is in the final stage and implementation of this Law is expected by the beginning of the season. The Council for Tourism of Montenegro under the Government of the Republic of Montenegro represents the broadest institutional framework for creation and implementation of tourism policy and promotion.

IUOP is a dynamic, continuous and adaptable system of management of resources, which is the foundation for sustainable development in the coastal area. It requires a multi disciplinary approach to solving of problems, participation of all authorized bodies and integration of sectors (areas of activity), institutions and administration levels. The goal of the Project Integral Management of Coastal Area in Montenegro (IUOP) is development of Strategy for Integral Management of Coastal Area (SIOUP) for Montenegro that, as a document based on provisions of Barcelona Convention from 1995, will represent instrument for implementation of the sustainable development of coastal area. With the emphasis on sustainable development, this Project is reconciled with development strategies of the Government of the Republic of Montenegro. In 2005, plan of activities for this Project, in addition to other activities, anticipates development of Strategy of Nautical Tourism Development.

d) Support to appropriate sustainable tourism development in the North.

The plan is to support sustainable tourism projects in the North through technical assistance, marketing support, and ending and grants to small and micro enterprises. Protected areas such as National Parks must be provided with increased level of investment in environmental protection, appropriate infrastructure (education facilities, support to appropriate small scale recreational activities) and public/private partnerships with ecologically sound adventure travel operators, including the identification and support of models through demonstration of projects. Activity-specified programs for activities such as rafting, paragliding, mountain climbing, hydrospeed, and others must be implemented in order to provide a greater level of consumer acceptance. The Ministry of Tourism, in cooperation with an institute from Slovenia, prepared Program of Development of Mountain Tourism in Montenegro. Implementation of the first stage of the Program which is support to pilot projects defined by the Study of Development of Tourist Offer Programs, and positioning on the market.

e) Realization of the Program of Reorganization of Comprehensive System of Promotion of Montenegro

In order to have comprehensive promotion system of Montenegro on domestic and foreign market, Ministry of Tourism prepared the entire Project of Reorganization of Tourist Organization. In the process of drafting of the Law on Tourist Organizations, the guiding principle was the need to fully and precisely establish and regulate organizational links within the National Tourist Organization, from the tourist place, municipality to Republic level under clear distinction of functions that guarantee successful functioning of this organization. In that respect, Law on Tourist Organizations ("Official Gazette of the Republic of Montenegro," No. 11/04) and Law on Temporary Residence Fee ("Official Gazette of the Republic of Montenegro," No. 11/04) were adopted. Two Rulebooks were also promulgated: Rulebook on Classification of Activity for which Membership Fee is Paid and Rulebook on Categorization of Tourist Place. The Ministry provided support to local self-governments in activities for establishing of local tourist organizations by preparing proposals of regulations that are necessary for foundation and work of local tourist organizations. So far, 12 local tourist organizations have been established and in additional four it is expected for prepared decisions on establishment to be adopted at the first following session of the local self-government. Activities on the development of the project of establishing of NTO are in progress.

f) Full membership in the World Tourism Organization including preparation of Satellite Evaluation of the Tourist Industry in Montenegro by the World Tourism-Trade Council.

Ministry of Tourism will continue its activities on improvement of cooperation with relevant international organizations and institutions in order to implement international standards in the area of tourism. Activities for obtaining full membership in WTO will be intensified. The established successful cooperation with the World Travel and Tourist Council and Oxford Forecasting Ltd, institution of forecasting, to develop TSA (Tourist Satellite Accounting) reports for Montenegro continues.

g) Development of Tourism Supportive Infrastructure

The prioritization of infrastructure development must include needs and requirements of the tourism industry for improved access by road, rail and air, reliable water and electricity supply, and waste water and solid waste management, particularly in coastal region being a prerequisite for tourism development. Consumer protection regulations must be developed further, improve safety regulations (fire, sanitation, health, and traffic) for tourists in and around hotels and related establishments, restaurants, public facilities, and on tourist vessels. Tourism signs should be significantly improved, marking areas of interest posted throughout Montenegro.

h) Overbuilding and Unregulated Development

Weekend apartments in residential buildings, intensively being built along the coast, are without strategic regulation. This practice encroaches on commercial real estate potential and limits popular location possibilities for potential tourism-related investments. Incentive policies for the tourism sector are needed. If such measures were clearly defined with consistent legislation, and equally implemented among all companies, the result could be to ease the number of inspections and burden imposed on private companies and further improvement of data for planning purposes. Encourage formal and informal cooperation of shareholders and associations in the tourism sector and with other sectors, such as agriculture.

i) Rationalization and Changes of Tourism Related Tax Regimes

Implementation of Law on VAT, from the aspect of tourism, makes Montenegro that is relatively expensive destination even more expensive with respect to competition. Annex H of EU Directive 02/77 on VAT allows EU citizens to apply lower VAT rates on hotels, and VAT has been significantly reduced in this sector in many countries. Organized foreign turnover is particularly de-stimulated that, although not export in the physical sense, can be legitimately classified as export. Amendments to the Law on VAT are currently

being considered in order to treat organized foreign turnover as exports. When considering this problem it should be taken into account high sensitivity of the tourism sector to prices, and high employment and economic multiplier effect of this sector. Elimination or introduction of the reduced VAT rate on organized foreign turnover should also be considered within the strategy for exports increase.

j) Investment Incentives

Targeted incentives for appropriate and productive foreign investment can be quite helpful in generating new productive capacity. Incentives for investments should be particularly utilized in order to obtain international hotel brands within Montenegro. Reasonable loan opportunities, terms and conditions are required to develop the private tourism sector. Private banking institutions must be viewed by the public as reliable, independent sources for long and short-term credit. Address lack of credits tailored to suite the tourism seasonal cycles, difficulty in obtaining credit, unfavorable terms and conditions of credits, and the banking sectors' overall lack of interest for tourism related property. Privatization, investment and associated regulations continue to be very important. To create a favorable environment for foreign direct investments, operational efficiency, as well as transparency, safety and incentives of investments are considered by investors. Montenegro's offer in these regards is important and must be improved as well.

k) Product Improvement and Development of Niche Markets

The quality of the tourism product should be improved in order to win international markets of high potential. Strategy of Tourism Development by 2020 provides strategic directions for development of tourism at the level of Montenegro. In addition to developed regional concepts for development of Boka Kotorska (Kotor Bay) and Ulcinj, Studies for Development of Mountain Tourism and Strategy for Development of Nautical Tourism (in process of preparation), activities should be continued on development of other necessary studies that will enable implementation of strategic directions defined by the Master Plan. In

the forthcoming period activities should be initiated for incorporation of guidelines defined under these documents in legally binding form to provide for their certain implementation in accordance with principles of the sustainable development of tourism. Implementation of new standards for hotel accommodation, camps and private accommodation (weekend houses, private apartments), in accordance with international standards, finalized last year with German and American experts. The present catalogue of hotels needs to be amended with new accommodation capacities. Special attention should be paid to human resource training in the field of tourism in order to improve the level of services and improve hotel plans management.

l) Improvement of Conditions of Urban Development in Tourism

Increase the number of Blue Flag certified beaches, implement comprehensive environmental certification, and implement more aggressive wastewater and solid waste management plans.

Environmental protection requires a more serious, broader and more aggressive approach than to date. Campaigns such as "Let It Be Clean," the tender for roadside cleaning, extended inspections, and eco-telephones are a good beginning. However, additional emphasis should be on consistent and sanctions equitably imposed.

In order to encourage incentives in the sector of tourism and particularly in the form of greenfield investments, it is necessary to define: a) appropriate location with plan documentation and procedures for resolution of property rights, b) investment models (joint-venture, BOT arrangements, management contracts, contracts on provision of services) and project financing through partnership of public and private sector; (responsibility: Ministry of Tourism, Public Enterprise for Coastal Area Management, Local Government, Agency for Economic Restructuring and Foreign Investments)

**Responsible Institutions**

Ministry of Tourism, Ministry for Environmental Protection and Urban Development, Ministry of Maritime and Transportation, Ministry of Justice,

Ministry of Culture and Media, Tourist Organization of Montenegro, Public Enterprise for Coastal Area Management, Local Government and Agency for Economic Restructuring and Foreign Investments

**Donor Support Committed**  
DEG, GTZ, USAID, UNDP

**2. Marketing: Forming and Developing of Tourism Offering**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

a) Enhancement of marketing, especially to foreign markets. The focus is on the market of Western and Northern Europe. A special strategy will be defined for the market of Serbia, Vojvodina and Kosovo. Specific sub-tasks include market research, creation of a database analysis of competing destinations and analyses and creation of new offerings.

A comprehensive national branding effort should be implemented, in order to create a clear and coherent image of Montenegro in the eyes of potential foreign visitors and travel agencies, and, more broadly, potential foreign investors.

The tourism-marketing budget should be increased substantially for efficient and effective marketing activities targeted at high potential markets. National branding must be developed and placed at the market. Montenegro's presence at a broader range of international trade shows should be increased, and support given for both national and regional brochures and Internet placement. The presence of Montenegro, as well as individual tourism companies on the Internet should be significantly enhanced.

Develop strategies for targeting high valued niche group of "frequent individual travelers" (FIT) and for increasing return visits and customer retention.

b) Completion of expert analyses and pending projects (FLAG/analyses of hotels, DEG/Master plan), but also new ones for which the funds are provided. Verifying conditions and regional development concept for Velika Plaza,

Skadar Lake and Boka Kotorska. These projects will entail active participation of several ministries, local self-government and tourism educational institutions – teachers and students. Within these projects the problems of water supply will also be treated, as well as electricity supply, treatment of solid waste and wastewaters, spatial planning, environmental protection, traffic infrastructure, target markets, positioning of the products and their further development, education, and development of special products, presentation on the target markets and sale of products.

Development of a number of documents has already been completed (Master Plan, regional concepts, Study on Development of Mountain Tourism). Special Purpose Spatial Plan for the Coastal Area is being developed and it will enable better understanding of the problem concerning spatial development of the coastal area of Montenegro, as well as Project of Integral Management of Coastal Area that will define the Strategy for Integral Management of Coastal Area (SIUOP) for Montenegro that, as a document based on provisions of Barcelona Convention dated 1995, will represent instrument for implementation of the sustainable development of coastal area.

c) Niche Market Development and Support. Include analysis of Montenegro's competitive position *vis a vis* other destinations. Implementation of projects for specific forms of tourism such as: development of village tourism; development of nautical tourism; building of golf terrains; health tourism (including finalization of announcement of Igalo and Vrmac as health resorts in accordance with the Law on Tourism); eco-tourism (including preparation of projects for development of eco-tourism together with Ministry for Environmental Protection and Urban Development and UNDP) will contribute to the diversification of the tourism product, based on regional appropriateness and market demand is critical. Greater attention should be placed in supporting smaller scale projects in the North, and to implementation of interregional cooperation through joint promotion abroad.

The Ministry of Tourism should work closely with the Ministry of the Environmental Protection and the National Parks. Cultural tourism should be supported by presenting the rich cultural heritage of Montenegro, particularly

through presentation and valorization of certain cultural property that have broader and even international importance. Consider possibilities of cooperation with the Ministry of Agriculture for development of agro-tourism and Student Vacation Association of Montenegro concerning youth tourism.

d) Program of urgent measures to improve quality of hotel accommodation and services. Identify possible urgent improvements (furniture, decoration, technical equipment, new entertainment facilities, etc.) to improve the hotel product for upcoming seasons (this should be a main concern of private companies). As a part of this project, tenders will be published for management of specific hotels; VET project, to provide for rapid training during the wintertime in the services area (reception operation, restaurants, organization, foreign languages.).

e) Support to small and middle size enterprises in tourism. Favorable credit lines for small businesses projects in the area of tourism should be provided in cooperation with banking sector and international institutions from the aspect of interest rate and repayment terms. Continue cooperation with the Employment Fund and Directorate for Development of Small and Medium Size Enterprises on implementation of credit lines referring to increase of the quality level of the current accommodation capacities.

f) Campaigns to improve the quality of the tourist municipalities. Continue with implementation of activities related to campaign of cleaning and spatial development, removal of illegal waste disposals and provision of the conditions for efficient treatment of the waste, as well as implementation activities for campaign with a goal to improve the quality of the beaches (water, sanitary units).

Continuous campaigns to inform public on activities undertaken by the Ministry for Tourism.

g) Program: Establishing and unifying of quality offers of private accommodation (rooms, houses, apartments, villas) which must be of adequate quality to satisfy the demanding needs of the foreign market. Organization of promotions and marketing activities to enter

foreign markets. These efforts will entail legalization of private accommodation, payment of taxes, and other obligations toward the State as prescribed by law. Support of and harmonization with internationally recognized environmental/sustainability standards and "branding" such as: Green Globe, Green Apple, ISO 14000, Green Seal, etc.

h) Adopt the system of symbols of World Tourist Organization (WTO) Start of the implementation of the program for placing of tourism signage on highways in Montenegro and certain tourist municipalities (Budva, Bar, Cetinje, Podgorica, etc.). The funds and technical assistance for this project are provided by German Ministry for International Cooperation. Third stage of the project "Tourist Sign Posting" that included highways and regional in the north of the Republic was implemented. This represented the end of the process of placing of tourist-information information boards and signs on all highways and regional roads in the Republic. Activities on the implementation of the project "Tourist Sign Posting in urban areas" in municipalities Bar, Budva, Tivat and Herceg Novi are in progress. Continue activities on placing signalization in other cities in Montenegro.

i) Increase in air traffic. Montenegro is a dominantly charter destination. It is necessary to start activities immediately to modernize the airports and initiate discussions with air companies to increase number of flights and air services. Ministry of Tourism in cooperation with the Tourist Organization will establish cooperation with foreign tour-operators. Montenegro is primary destination of charter flights, sold in wholesale and retail of tour operators on main western, northern and eastern supply markets. Success of marketing depends on inclusion of Montenegro in brochures of Hotel in Holiday financed and produced by our tour operators. Montenegro does not have nor it will have the capacity of hotel accommodation or size of hotels that would make it "the destination of mass charter tourism." With the constant focus on improvement of tourist product, the market will gradually move towards attracting the market of higher-middle class. Charter tourism is often linked to mass tourism. The only true link with mass tourism can be made with tourists who come by car from the neighboring countries. Internet will

play an increasing role concerning establishment of balance of group and individual arrivals, primarily for small hotels. However, Montenegro will primarily remain the air destination for tourists from the West and the North and arrival of individual tourists (not charter) will depend on availability of capacities with charter airline companies. That is the case in Greece and Italy that have similar accommodation structure (majority of hotels below 400 beds).

- j) Modernization of education programs at the Faculty for tourism and hospitality and secondary vocational schools for tourism in coop-

eration with the Ministry for Education and Sciences and foreign organizations. Support to private educational institutions from the tourism area.

**Responsible Institutions**

Government of Montenegro, Ministry of Tourism, Ministry of Environmental Protection and Urban Development, Ministry of Education and Science, municipalities, nongovernmental organizations

**Donor Support Committed**

DEG, GTZ, USAID, UNDP

**17b Agriculture**

**Goals**

Safety of food supply to Montenegrin citizens, including fulfillment of the needs of the tourists in Montenegro, to increase significantly export especially through tourism – “at the door step,” to increase the competitiveness of domestic food producers, to balance regional development of Montenegro, to create better living conditions in the villages, to be included in regional, European and international integration processes.

**Key parameters**

- Development of production of goods in private sector - main priority
- Family businesses - the optimal development of Montenegrin agriculture.

**Overview**

In the area of agriculture there are available resources of approximately 0.80 ha of agricultural land or 0.29 ha of arable land per capita, which is significantly above available resources of the most of European countries. The mentioned resources are not adequately used and they represent one of the main preconditions for the faster development. Also there is the tradition in agriculture business and large interest of young entrepreneurs to realize their entrepreneurship ideas in the food production. At the same time there are certain limitations for faster development of agriculture: lagging behind for decade, negative effects of the overall economic situation on agriculture in last 10 years, fragmented ownership, negligence of the private sector during the previous period, relatively low level of pro-

ducers' expert knowledge, insufficiently built infrastructure in villages, inadequate application of modern technologies in the production process as well as limitation of the processing capacities.

**Specific Initiatives**

**1. Incentives policies in agriculture**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Summary and Sub-tasks**

Incentives policies in agriculture, realized through numerous programs defined by agricultural budget, represent the most important source of the financial support to the key segments of the agriculture and rural development. In accordance with the reform orientation of the Government, introduction of market principles and liberalization in the agriculture, the largest part of the agricultural budget goes for financing of the programs that have general/broader importance. Long-term priorities of incentives policy are the following:

- Solving the problem of placement of market surpluses and improving marketing position of Montenegrin products,
- Building of infrastructure in villages,
- Strengthening of expert and inspection services,

- Provision of social security of farmers through old age compensations and program for young farmers,
- Support for export activities.

In the implementation of this initiative, special attention in the following period will be paid to:

- a) Preparation of a Strategy of Montenegro Agriculture and Rural Development Approach to EU. The Strategy has to define guidelines of future agriculture and rural region development and it will serve as a platform for harmonization of legislation with EU regulations, reform and adjustments of agrarian policy to CAP (Common Agriculture Policies of EU), and institutional reform which will enable the defined goals to be achieved.
- b) Better budget support to agriculture – as it is necessary to allocate more funds for agriculture development, which will be in line with WTO principles.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management, Ministry of Finance

**Donor Support Committed**

USAID; EAR, bilateral support (Luxemburg, Netherlands, Germany, Italy)

**2. Redefining measures to support domestic agriculture**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Summary and Sub-tasks**

Present level of development of the food production have imposed the question of adequate regulation of the market position of domestic producers, especially towards competition, in other words products coming from countries with double subsidies for production, through direct incentives to producers and export subsidies. Thus the proposal of measures to protect domestic production will be prepared, as well as translation of non-customs limitation for food imports into custom rates. The goal is to have an adequate protection of the young Montenegrin industry with respect of demands of WTO. In harmonization with Serbia in the customs policy the interest of Montenegrin producers, process-

ing industry and consumers will be maximally protected.

In order to implement this initiative it is necessary to:

- a) Continue strengthening competitive capacity of domestic producers.
- b) Consistently implement Law on Foreign Trade and especially the part of the Law referring to elimination of unfair competition (antidumping, control of excessive import and countervalue duties), respecting already signed bilateral agreements,
- c) Reconsider customs tariffs in accordance with double track model and Montenegro separate accession to the World Trade Organization.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management, Ministry for Foreign Economic Relations and European Integrations, Ministry of Finance

**Donor Support Committed**

USAID – through the Office for Accession to the World Trade Organization of the State Union of Serbia and Montenegro

**3. Reforms in crediting policy**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007
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**Summary and Sub-tasks**

Reform comprises of transfer of credit activities from the Ministry to the banks and adequate credit institutions, with active role of the Ministry in creation of strategic goals and proper placement of the funds out of current funds from donations. For that purpose uniform criteria will be prepared for crediting in agriculture and positive cooperation with Employment Bureau will be continued, as well as with the Directorate for Development of Small and Medium Size Enterprises, to realize agriculture credits.

As the agriculture is an area with huge unused potentials, the task of the Government is to find quality sources of financing to credit entrepreneur's ideas and business plans in the area of agriculture. That would lead to significant increase of employment, and new added value



would be created which would open large number of opportunities for employment in the other industries, which are relying on agriculture (services, tourism etc).

Strategy for agriculture development will represent the base for further reforms in the crediting policy. The Strategy should define acceptable models of crediting in agriculture and the role that the Government is to play in this sensitive segment of agriculture development, taking new EU member countries' practice as an example. To this end, consider establishment of a guarantee fund to assure availability of loans to farmers.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management, Employment Bureau, and Directorate for Development of Small and Medium Size Enterprises

**Donor Support Committed**

Rollover funds out of donation of Japan, European Union, donation of goods from USA

**4. Building of institutions in agriculture (inspection and expert services)**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

It is necessary for the State of Montenegro to have an efficient inspection service for the veterinary medicine and agriculture, to be fully under authority of the Ministry of Agriculture, Forestry and Water Resource Management and completely financed from the Budget. To achieve that goal the activities undertaken on modernization of veterinary medicine and agriculture inspections will be continued, as well as improving expert knowledge of inspectors, building and equipping of laboratories.

Second important segment are expert services in agriculture, without which there is no fast development of the agriculture. The reality is that certain number of activities of those services have been financed from the Budget, but only with precondition that they work efficiently and that their work is visible in practice. In that respect a transformation of Public Veterinary Institutions will follow with further strengthening of private veterinary practice. Advisory service for the plant production will also be established,

which will together with the Service for the Selection of Cattle represent the necessary service to the agricultural producers. The new concept of the expert services imposes significant changes of the role of Bio-technical Institute, as the only scientific and research institution in the agriculture area in Montenegro.

Building of institutions will be continued with special emphasis to the following:

- a) The Agriculture Sector Strategy will provide new inputs for continued building of institutions in agriculture.
- b) Expert services will continue to be strengthened (advisory services for crops and selection for livestock production), and a through necessary training of the experts ("training of trainers"), and completion of functional laboratories set up process. (Phyto-sanitary laboratory).
- c) Inspection services modernization has to be continued along with a consistent application of inspection procedures set by new legislation that have been harmonized with the EU legislation.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management

**Donor Support Committed**

EAR – European Agency for reconstruction through training of the key experts, bilateral cooperation – advance training of the experts abroad

**5. Quality standards, internationally recognized certifications, and branding of agricultural products in Montenegro**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Montenegrin agricultural producers are generally lacking information on quality standards and in internationally recognized certifications, primarily ISO and HACCP, then certificates that protects product origins (PDO – Protected Designation of Origin), geographic origin (PGI – Protected Geographical Indication) or traditional production technologies (TSG – Traditional Spe-

cialty Guaranteed), certificates for organic production, and other certificates important for sale of products in specific markets, for example Halal certificate. Producers need to know: 1) what these certifications mean, 2) how important they can be to international recognition of private companies and to establishing national standards within each sector, 3) what is involved in getting actual certification, and 4) potential obligations required (managerial and financial) in getting certificate. Commitment to international quality standards defines a company that, selling to consumers within the domestic market, is committed to producing a high quality output compared with those who are average. It also prepares the firm to potentially export when they are ready to do so. Montenegrin agriculture is also significantly compatible to the principles of organic or biological agriculture due to decreased consumption of synthetic chemicals in feeding and protection of the plants. It is necessary to have an adequate certificate to place the products on the market and to provide for an adequate price of the products, which essentially fulfill the criteria to be treated as biologically valuable food product ("healthy food"). Thus, it is necessary to engage an agency for issuance of certificates with international reputation to enforce the movement of high quality, internationally recognized standards in all area, especially organic agriculture. Organic agriculture is a great challenge and development chance completely fitting into the concept of Montenegro as the Ecological State. Recognizing opportunities that can be realized from addressing quality standards also greatly expands market opportunities by allowing branding of Montenegrin products. What can be merely a slogan can become a meaningful marketing tool in responding to international demand for products of the highest quality.

In implementation of standards in agriculture it is necessary to:

- (2) Introduce national, sector wide quality standards for all field crops and livestock.
- (3) Assure official recognition of international certification programs in certain fields such as ISO, HACCP and other certificates (organic agriculture, PDO, PGI, TSG), to expand market opportunities in the region and in the EU. Halal certification will be considered for meat and meat products.

- (4) Take specific steps to obtain certificate for organic agriculture.
  - a) It is necessary to establish an organic agriculture agency (funds have been already allocated for 2005) and help it establish links with related internationally recognized agencies for issuance of organic agriculture products certificates.
  - b) Sub-laws regulating more specifically certain organic agriculture segments should be adopted.
  - c) The implementation of laws should be continued along with strengthening of organic agriculture movement through international projects realization, producers' education and their joint approach to markets. Promotion of organic agriculture products should be persistent, especially within tourism and niche product export to EU market.
- (5) Strengthen the initiative relating to creation and promotion of Montenegrin products through assurance that quality standards are the foundation of all branding efforts of Montenegro products, such as "Made in Montenegro" and Montenegro Ecological State.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management

**Donor Support Committed**

UNDP - Program of Sustainable Development

**Specific Initiatives – new initiatives**

**6. Statistical Support to the Agricultural Development**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Appropriate information is a basic precondition to conduct a meaningful agrarian policy and realize incentive measures in agriculture. This refers to both information on primary production and total food processing industry, and the information on agriculture products flow (import, export, etc.). The Ministry of Agriculture will, in the future, develop a system of collection of all relevant production data (primary production

and the processing industry) in line with international standards and following methodologies applied in the EU. The Ministry will maintain close cooperation with other institutions in charge with market data collection, including Monstat, Customs Administration, and Central Bank, etc.

The negotiations with the WTO, particularly preparation of goods offer, will require very precise, updated and reliable trade statistics. The current situation with trade data may significantly slowdown the negotiation process.

The package of statistical support to agriculture includes:

a) Establishing register of all agricultural producers that will represent a basis for all other forms of registration and implementation of incentive measures in agriculture,

b) Implementation of identification and registration of live stock and implementation of the chain system for meat "from stable to the dining table,"

c) Establishing cadastre of agricultural crops, for example win yards, olive grows, etc.

d) Implementation of the system for collection and analysis of market information in agricultural area.

#### **Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management, Monstat, Customs Administration, Central Bank of Montenegro

#### **Donor Support Committed**

USAID, EAR-CAFAO, World Bank

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### **17c Forestry**

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#### **Goals**

To manage the process of forest maintenance that leads to obtaining FSC certificate (sustainable forestry certification)

#### **Key parameters**

- To manage the process of maintaining forests that leads to obtaining FSC certificate (sustainable forestry certification)
- To maximize well regulated participation of the private sector in all areas where needed

#### **Overview**

Montenegro has a land area of 1,381,000 hectares, out of which 212,000 hectares is production forest, according to the last survey conducted in 1988. These tree resources are located mainly in the northern part of the Republic, which is economically impoverished, and represent the best prospect for sustainable development in that region. A significant problem relates to development of a sustainable management system that would provide maximum benefits both for local population and wood processing industry. Due to rapid events in the surroundings, forestry and wood processing sector were significantly economically eroded during the last 15 years, which has had a negative impact on the quality of performed works in forests and illegal logs. State-owned companies were operat-

ing with great burdens, due to these limitations, which led to their financial collapse. The Government has adopted, two years ago, the program for rehabilitation and development of forestry and wood processing industry, which prepared these companies for privatization, but this activity has not had a full impact. Impeding circumstances were the following: lack of coordination with commercial courts carrying out bankruptcy cases, human resources limitations, as well as lack of investments that would strengthen competitiveness and transition to market orientation. The Government, independently and in cooperation with international donor institutions, has started the projects for receiving international certificates required for improving, through marketing, the current status of these companies.

Concrete action plans respecting terms and conditions of log supply as well as forestry practices are required. Since these are state-owned entities, the Government must commit to improve forestry management to meet the objective of providing a reliable, predictable, affordable and sustainable supply of raw material to the processing industry. The Government must immediately take action to facilitate and implement these sectors and donor agency led interventions for the consolidation and restructuring of the

state wood processing assets to achieve a completion of privatization and/or liquidation. The sector must receive significant incentives in order to increase production with the maximum degree of finalization of products, which would lead to greater inflow of money and growth of finished products export, which has significantly burdened economic ambience in Montenegro. Models for using other forest products in northern rural areas must be developed in order to develop business based on non-timber forest products, such as promotion of eco-tourism, mushrooms, ethereal (essential) oils, medicinal herbs, etc.

**Specific Initiatives**

**1. Get Sustainable Forestry Certification**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Without sustainable forestry certification, Montenegro cannot access the most lucrative export markets and there is a disincentive to add value to products prior to export. The initiated activities on establishing of FSC standards must be implemented in this segment. Obtaining certification will require the restructuring and retraining of the bodies managing forests, as well as significant public works, mainly forest roads. First steps include a GIS to catalogue and monitor forest resources by establishment of Department for Forestry monitoring and planning.

**Responsible Institutions**

Ministry of Agriculture, Forestry and Water Resource Management, Forest Administration of Montenegro

**Donor Support Committed**

UNDP, LUX

**2. Promote a Competitive Industry in Timber Harvesting**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Quality implementation of the initiative will require Expert Council for the sector of wood processing industry to improve placement, design, productivity, finances, labor force im-

provement. Forestry and wood processing industry in Montenegro do not have an organization in the private sector that would represent commercial interests of the entire chain of participants in the processing process. Except the Association of forestry and wood processing in the Chamber of Commerce of Montenegro there are no official group of representatives or formal branch association. This group needs to be established and must become recognized as the supreme organization that promotes the best interests of wood industry. Similar international models exist in Slovenia, such as the Association of Forest Products and Wood Cluster. The Council for Forest Products of Montenegro should be set up as a legal entity financed by private sector and managed by the Board of Directors and it will have its Charter and clear mandate to improve wood industry sector. Permanent committees of such Council would work with Government representatives as well as with representatives of relevant private sector stakeholders to reach necessary progress in all aspects of economic trends including corporate governance, design, placement of goods, productivity, Labor Law, efficient chain of supply and better standard for all participants in the process.

**Responsible Institutions**

Ministry of Economy, Development Fund, Ministry of Agriculture, Forestry and Water Resource Management,

**Donor Support Committed**

EU/EAR, USAID, UNDP/SPX, EBRD, SEED

**3. Promote Restructuring, Bankruptcy and Re-capitalization of Wood Processing Companies**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Market research should be completed to obtain data on interest of potential domestic buyers and in particular international buyers for State companies. It should include review of small, medium and large size enterprises from Italy, Austria and Germany to assess the likelihood to attract buyers for state property and conditions under which the buyers would come. The internal assessment and evaluation of State companies must be finished. It will lead to final decision on whether a company would be seg-

mented or sold in the liquidation process. Official prospectus should be prepared for every company that is being offered and adequate publications and timeframes within tender parameters. Additionally, the Government should also review direct *bona fide* negotiations. Passing of information and publications could be carried out through local consular offices and Embassies.

**Responsible Institutions**

Ministry of Economy, Ministry of Agriculture, Forestry and Water Resource Management, Development Fund, Ministry of Labor and Social Welfare

**Donor Support Committed**

Duchy of Luxembourg, EAR, USAID, UNDP

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**17d Education**

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**Goals**

The basic goal of education system reform is to provide equal approach to quality education of children, youth and adults in Montenegro. Within this process a special consideration is given to: 1) increase the number of education institutions implementing reform solutions, 2) area of secondary vocational education and training with the goal to establish open, flexible system that will meet labor market needs for high quality labor force, 3) providing textbooks for newly adopted education programs, 4) training of human resources working in education institutions in Montenegro, 5) providing conditions for objective measuring of achievements of pupils in primary and secondary schools in Montenegro, 6) introduction of ICT in education system, 7) inclusion of children with special needs in education system, 8) improvement of school infrastructure, 9) increase the number of Roma population children into mandatory education, 10) reduction of number of illiterate persons.

**Key parameters**

- Number of teaching-education institutions included in implementation of reform solutions
- Development of education programs and training programs for the following sectors: agriculture, construction, tourism and wood-processing
- Establishment of certification system
- Number of textbooks prepared for newly adopted education programs
- Teaching staff trained for implementation of reform solutions at school level
- Establishing of Examination Center of Montenegro
- Ration of number of pupils to number of computers

- Number of children with special needs involved in formal education system
- Area of school space per pupil
- Percentage of pupils of Roma population attending mandatory education
- Percentage of illiterate persons compared to total population of Montenegro

**Overview**

Reform of education system in Montenegro has commenced in 2000. Following the drafting of education system vision presented in the document "The Book of Changes" the Ministry of Education and Science commenced with: a) legal, b) institutional and c) expert preparations needed for implementation of reforms at school level. Adoption of a set of draft laws defining education sector, establishing of new institutions (Institute for School System and Center for Vocational Education) and advisory bodies (Council for General Education, Council for Vocational Education and Council for Education of Adults) provided basic prerequisites that enabled comprehensive preparation of the proposed solutions in 20 primary and 15 secondary vocational schools as of 1 September, 2004.

Basic principles of decentralization and establishment of quality system in education and introduction of objective standards that will enable its monitoring and continuous improvement represent guidelines both for the Ministry and newly established bodies and institutions responsible for education in Montenegro.

In 2004, the Ministry conducted activities directed to: 1) preparation of drafts for new education programs for pre-school institutions, primary and secondary schools, 2) development of draft enabling regulations arising from the set of laws on education, 3) training of human resources for

implementation of reform solutions, 4) preparation and printing of textbooks in accordance with the new education programs, 5) installation of computer network in 30 schools, 6) development of applications for IT system in education, 7) providing of furniture for 20 primary and 3 high schools, 8) development of 25 training programs for adults, 9) introduction of dual system of education for two vocations, 10) providing of free textbooks for all Roma population pupils enrolled in the first grade of primary school, 11) development of strategic document for establishing and functioning of Examination Center of Montenegro, 12) development of Action Plan under its competence within the project "Decade of Roma Inclusion," 13) introduction of teacher degree studies in Albanian language, etc.

**Specific Initiatives**

**1. Increase the number of teaching-educational institutions implementing the reforms**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Increase the number of primary schools included in the implementation of the reform

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

In accordance with the principle of gradual introduction of reforms at the school level and for the purpose of adapting reform solutions to work conditions and realistic possibilities, it is necessary to increase the number of primary schools included in this process. It is planned that as of 1 September 2005, additional 27 primary schools should start implementing reform solutions and that each year this number is increased so that as of 2009 all primary schools in Montenegro should start working in accordance with reforms.

**Responsible Institutions**

Ministry of Education and Science and Institute for School System

**Donor Support Committed**

World Bank

b) Inclusion of high schools in the implementation of reform solutions at school level

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Due to lack of possibility to timely prepare textbooks in Albanian language for reformed education program in high school, the implementation of reform in this area of education has not yet commenced. It is planned that from the beginning of school year 2006/07 high schools should start implementing reforms with their full inclusion by the school year 2009/10 inclusive.

**Responsible Institutions**

Ministry of Education of Science and Institute for School System

**Donor Support Committed**

c) Increase the number of secondary vocational schools, in which new educational programs are implemented

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

After 15 secondary vocational schools that have already commenced implementing new educational programs for priority vocations, it is planned that as of 1 September 2005 additional 3 secondary vocational schools start implementing these 15 educational programs as well as 5 newly prepared educational programs.

**Responsible Institutions**

Ministry of Education and Science and Center for Vocational Education

**Donor Support Committed**

European Agency for Reconstruction

**2. Reform of Secondary Vocational Education and Training**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Development of new education programs for priority sectors

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

On the basis of the strategic documents of the Government of the Republic of Montenegro and analysis of data in the labor force market, sectors of tourism, construction, agriculture and wood processing have been identified as priority areas

for economic rehabilitation of Montenegro. For that reason the activities on development of new educational programs reconciled with the positive practice of EU countries, and under the support to VET 2004 Project will be focused on development of educational programs in these sectors in the forthcoming period. The plan is to develop: 4 educational programs for wood-processing sector, 4 educational programs for construction sector, 3 educational programs for agricultural sector and 1 new educational program for tourism sector. Following the development of draft educational programs and their reconciliation with social partners they will be adopted by the competent councils for education to start implementing them in school year 2006/07. In all cases in which it is determined that there are grounds for implementation of principles of modules, working groups established for development of draft educational programs in these sectors will develop the drafts according to modular system.

**Responsible Institutions**

Center for Vocational Education, Ministry of Education and Science, Ministry of Labor and Social Welfare, Chamber of Commerce, Employment Fund of Montenegro, Council for Vocational Education and Council for General Education

**Donor Support Committed**

European Agency for Reconstruction – Project VET2004

b)Development of new training programs for unemployed adults in priority sectors

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with defined priority sectors, the work groups will prepare draft programs for training of unemployed adults as follows: 5 for wood-processing sector, 4 for construction sector, 4 for agriculture sector and 4 for tourism sector. Following the approval of drafts of these training programs by the Council for Vocational Training (for the expert part of the training program) and the Council for Education of Adults (that approves the training program in its entirety), the programs will be conducted in Training centers (established within the Employment Fund in Podgorica, Herceg Novi and Berane).

**Responsible Institutions**

Center for Vocational Education, Ministry of Education and Science, Ministry of Labor and Social Welfare, Employment Fund of Montenegro, training centers, Council for Education of Adults and Council for Vocational Education

**Donor Support Committed**

European Agency for Reconstruction – Project VET2004

c)Establishment of certification system

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Absence of certification system in Montenegro represents a serious obstacle to employers to know with certainty that the document on completed training represents a guarantee of knowledge, skills and competencies required for the job. In this situation there is no possibility to determine a realistic situation with regard to providing of trainings that will meet the needs of the labor market even in those situations when the delivered training is prepared and conducted in quality manner. Absence of organized system that clearly defines prerequisites for carrying out of training (space, human resources....) as well as system of follow ups and examination of the acquired knowledge and competencies do not allow existence of data bases on offered trainings or about those carrying out the current programs. Additionally, absence of certification system does not enable the persons who previously acquired certain knowledge, skills and competencies or who due to different reasons gave up official schooling to get into the education system again and thus acquire a valid qualification. Therefore, it is necessary to provide legal basis, institutional prerequisites and human resources that will be able to establish and provide for functioning of certification system with the purpose of long-term improvement both of general education level of population in Montenegro and development of economy in Montenegro.

**Responsible Institutions**

Ministry of Labor and Social Welfare, Ministry of Education and Science, Employment Fund of Montenegro, training centers, Chamber of Commerce and Confederation of Trade Unions

**Donor Support Committed**

European Agency for Reconstruction – VET2004 Project

d) Expanding of dual system of education to new sectors

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

As of 1 September 2004, dual form of education for educational programs “auto mechanic” and “hair stylist” has been introduced in the system of secondary vocational education. This form of education enables significantly larger number of classes of practical teaching with regard to regular education programs in the school system where the pupil attends classes 2 to 3 days in school and the rest of the week works at the employer. This causes appearance of elements of employment between the employer and the pupil where the pupil is getting monthly compensation for his/her work with the employer, has insurance and contributions for pension-disability insurance and health insurance. Educational programs for “waiter” and “confectioner” will be completed in the school year 2005/06 to be implemented in the dual form of teaching.

**Responsible Institutions**

Center for Vocational Education, Ministry of Education and Science, Ministry of Labor and Social Welfare, Chamber of Commerce, Confederation of Trade Unions, Union of Employers, Employment Fund of Montenegro, Council for Vocational Education and Council for General Education

**Donor Support Committed**

Craftsmen Chamber KOBLENZ

**3. Providing of textbooks for newly adopted education programs**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Providing of textbooks for general education

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In line with the strategy of publishing textbooks for new education programs of general educa-

tion, the Institute for textbooks will continue with gradual preparation and publishing of textbooks in accordance with gradual expanding of reform implementation to classes of primary and secondary schools. In 2005 the priority is to publish textbooks for the 2<sup>nd</sup> and 6<sup>th</sup> grade of reformed primary school and reprinting of textbooks for I grade of primary school. In 2006, the priority will be to develop and publish textbooks for the 1<sup>st</sup> grade of high school in mother tongue and Albanian language and textbooks for the 3<sup>rd</sup> and 7<sup>th</sup> grade of reformed primary school (in both languages). Preparation of textbooks includes purchase of licenses and engagement of domestic authors.

**Responsible Institutions**

Ministry of Education and Science and Institute for Textbooks and Teaching Aids

**Donor Support Committed**

World Bank

b) Providing of textbooks for secondary vocational education

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

New education programs adopted for sectors of tourism and wood processing have started being implemented in secondary vocational schools in Montenegro. Considering the small number of copies printed and differences that appeared compared to education programs in Serbia from where the major part of textbooks was purchased in the past period, there is a necessity to develop and publish textbooks for these education programs. In the period to come it is necessary to provide textbooks in accordance with educational programs adopted by the Council for Vocational Education through textbooks development by domestic authors and through purchase of licenses that will enable amendments to parts of textbooks that should reflect specifics of Montenegro (particularly in the sector of tourism).

**Responsible Institutions**

Ministry of Education and Science and Center for Vocational Education

**Donor Support Committed**

Norwegian Ministry of Foreign Affairs



c) Development of scheme for lending of textbooks and providing of free textbooks for socially vulnerable children and children of minority nations

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Within the grant of the Government of Japan – PHRD TF 053327 an international expert was recruited, who together with the representatives of the Ministry of Labor and Social Welfare, Ministry of Education and Science, Institute for Textbooks and Teaching Aids he commenced activities for development of textbooks lending scheme. The scheme development will enable savings of financial resources through development of markets of used textbooks in the primary and secondary schools as to relax the budget to a certain extent from providing of free textbooks at the beginning of every school year. Additionally, in accordance with the decision of the Ministry of Education and Science to provide equal access to education to all children in Montenegro, and in line with the activities defined in PRSP document and Action Plan for Decade of Roma Inclusion, special attention is focused on providing of free textbooks for children from families in social need and children of Roma population.

**Responsible Institutions**

Ministry of Education and Science, Ministry of Labor and Social Welfare, Institute for Textbooks and Teaching Aids

**Donor Support Committed**

Government of Japan – Grant PHRD TF 053327 and World Bank

**4. Human resources training for implementation of reform solutions at school level**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Training of School Directors

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with provisions of Article 97 of the General Law on Education and Teaching all persons appointed for carrying out the function

of director shall be liable to complete the training for directors. In accordance with the training program adopted by the Council for General Education it will be necessary in future to provide training for directors of institutions implementing reforms.

**Responsible Institutions**

Institute for School System

**Donor Support Committed**

World Bank

b) Training of teachers

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Successful implementation of the proposed changes and carrying out of new educational programs require professional training of teachers where the priority is given to teachers who work in “reform” schools. The training is particularly important for teachers in the new I grade of primary school (working in the team) as well as for teachers teaching certain new mandatory subjects (civil education, ecology and information technology) to provide for their continuous implementation.

**Responsible Institutions**

Institute for School System and Center for Vocational Education

**Donor Support Committed**

World Bank, FOSI ROM, UNICEF and European Agency for Reconstruction

**5. Objective measuring of pupils' achievements in primary and secondary schools in Montenegro**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Establishment of Montenegro Examination Center

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with the Draft Law on Amendments to the General Law on Education and Teaching prepared by the Ministry of Education

and Science, the plan is to establish in 2005 the Montenegro Examination Center as the independent institution that will deal with external examination and assessment of pupils' achievements in accordance with provisions defined in the long-term vision of education system. The examination center should provide for objective measuring of pupils' achievements in accordance with standards defined by the new educational programs to ensure: a) ground for improvement of education quality in institutions and b) prerequisites for enrollment of pupils in secondary schools and universities without sitting entrance examination. At this point the Examination Center functions within the Institute for School System of Montenegro.

**Responsible Institutions**

Ministry of Education and Science and Institute for School System

**Donor Support Committed**

FOSI ROM and World Bank

b)PISA Program

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

PISA (Program for International Student Assessment) is an international assessment trying to respond to the question how efficiently education system prepares pupils for future challenges through assessment of up to what extent 15 years old pupils have grasped the knowledge and skills important to participate in social life. As of 2004, Montenegro has been included in the implementation of this program and the main assessment will be conducted in 2006.

**Responsible Institutions**

Ministry of Education and Science – PISA National center

**Donor Support Committed**

FOSI ROM and World Bank

**6.Introduction of ICT in education system of Montenegro up to the university level**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a)Purchase of computer equipment for network of schools in Montenegro – LAN (local area network)

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with the document “Strategy of Introducing ICT into Education System of Montenegro,” 30 focus schools were selected (20 primary and 10 secondary) in which the project of LAN networks is being prepared. The focus schools represent ICT training centers for certain areas, teaching contents in which information communication education of pupils and teachers is carried out. Following the completion of this task it will be necessary to increase the number of involved schools (primary and secondary) that are defined as focus schools in the second phase of the project implementation. Local computer networks should have minimum two mutually independent segments. Pupils should have the access to the first segment and school staff to the second. Local networks should have the possibility to access centralized resources at the Ministry level, with a clear definition as to who may access certain resources.

**Responsible Institutions**

Ministry of Education and Science and ICT Council

**Donor Support Committed**

IRD and World Bank

b)Development of applications in IS in education

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In 2004, following the announcement of tender, the Ministry selected PMF to develop the software application for IS in education. This application should provide for central access to database for the need of bringing decisions in the education sector based on information. Use of this application will enable insight into situation prevailing in the education system, including: infrastructure, resources, teaching staff and per-

sonal data and success of pupils by classes, schools and municipalities in Montenegro.

**Responsible Institutions**

Ministry of Education and Science and ICT Council

**Donor Support Committed**

**7. Education of children with special needs**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with standards of the international community, the education system in Montenegro tends to enable development of pupil's personality in accordance with his/her individual capacities and needs. Therefore, the basic goal is to provide full integration of children with special needs into regular schools in cases when that is possible and to continue improving the quality of education for children with special needs within specialized institutions when it is not possible to enable teaching of children in regular classes. Comprehensive approach to this problem implies: establishing of data base on children with special needs, establishing of mobile teams comprising experts working in special institutions, kindergartens and regular schools to provide support to teachers in regular schools in which inclusive education is being implemented, providing of equipment for workshops in special institutions to make persons with special needs capable of working, additional training of staff to work with children with special needs in special and regular schools, providing of textbooks and teaching aids for children with special needs and modification of school infrastructure for their undisturbed stay and work.

**Responsible Institutions**

Ministry of Education and Science, Institute for School System, Center for Vocational Education and special institutes for education and rehabilitation of children with special needs

**Donor Support Committed**

Finnish Ministry of Foreign Affairs, OECD, COSV, UNICEF, FOSI ROM and Save the Children UK

**8. Improvement of School Infrastructure**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

a) Improvement of the current infrastructure

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

At this point the Ministry of Education and Science disposes with 612 facilities in which the teaching process is carried out covering the total area of 567,381m<sup>2</sup>, and 153 facilities of the total area of 18,695m<sup>2</sup> in which teaching is not conducted. Considering the fact that investments in school infrastructure in the past 10 years could not meet significant needs that still exist, majority of school facilities are in the status that does not meet the optimum conditions necessary for carrying out of teaching process. In majority of cases, the facilities have roof and roof construction problems that cause problems with overall ruining of the building interior.

**Responsible Institutions**

Ministry of Education and Science

**Donor Support Committed**

World Bank

b) Construction of new facilities

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Considering the constant migrations of population, the education system is facing a problem of surplus of unused space of school facilities in the north and at the same time overloaded capacity of education-teaching institutions in urban environments, particularly in Podgorica. On the basis of monitoring of data from the registry of population and available data it is assessed that at this point, only in Podgorica it is necessary to build 1 kindergarten, 2 primary and 3 secondary schools.

**Responsible Institutions**

Ministry of Education and Science

**Donor Support Committed**

**9. Increase the number of Roma children included in the education system**

H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In line with the initiative "Decade of Roma Inclusion" the Ministry of Education and Science, Institute for School System and Center for Vocational Education, through activities within their competence, should provide prerequisites to increase the number of Roma children into education and make members of Roma population capable of working as to provide for their full integration into Montenegrin society. Within these activities, the Ministry will provide free textbooks for Roma children that are enrolled in the I grade, train teaching staff to work with Roma population, promote contents in education programs related to culture and history of Roma, follow up achievements of pupils of Roma population and further support to prepare Roma to enroll Faculty for Teachers in Niksic.

**Responsible Institutions**

Ministry of Education and Science, Institute for School System of Montenegro, Center for Vocational Education

**Donor Support Committed**

OSCE, FOSI ROM, UNICEF, HELP

**10. Reduction of the number of illiterate persons in Montenegro****Summary and Sub-tasks**

According to the population census data from 1991, 5.9% of population is illiterate. Such situation is not in accordance with the determination of Montenegro to become a "society of knowledge." The situation is additionally complicated by the fact that women make 82.8% of this number. Therefore, it is necessary in the forthcoming period to commence with the program of making adults literate in order to reduce the number of illiterate by 2010 to less than 1% compared to the total number of population.

**Responsible Institutions**

Ministry of Education and Science and Center for Vocational Education

**Donor Support Committed****17e Health System****Goals**

The goal of health policy in Montenegro is to make health protection efficient and qualitative, to enable access to primary health care; create institutional framework that would contribute to creation of financially sustainable health system. Key goals of the health policy in the Republic of Montenegro until 2020 are: life expectancy increase, improvement of life quality with regard to health, reduction of differences in health and insurance from financial risk.

**Key parameters**

- Life expectancy
- Birth rate, mortality and their ratio
- Medication price, or medications' price reduction rate
- Legal and institutional framework
- Information system in health institutions

**Overview**

Health system of Montenegro is a part of the health system of former SFRY with inherited features of irrational and inefficient organization, with promotion of accessibility to all rights from health protection. The health protection system in Montenegro to date has been based on the principles of social justice, equality and accessibility, which provided the largest scope of rights to health protection financed from public funds, with the minimum participation of insured persons. Equality of users of the system and equal accessibility for all were just declarative principles determined by the Law, which have created great expectations of the health system by the citizens, requiring good quality protection and improved protection standard that consequently increased costs beyond reasonable possibilities. Gap between the rights, or requests for health protection, and impossibility to meet them put a financial pressure both on health institutions and the Health Fund. Impossibility to provide health

protection in the scope determined by the Law has caused inequalities in providing health protection to population, both regional and urban – vs. rural, as well as differences in accessibility of health protection based on social-economic status of population. Furthermore, the lack of clear goals and health development strategy at the level of the Republic has enabled a domination of capacity and resources in hospital protection, imbalance of the structure of resources and financial funds. Generally, this has created a picture that citizens have right to any of health services regardless the real need. At the same time, absent is the awareness of citizens that every health service has its price and that health system is not free of charge. Montenegro prepares comprehensive reform of the health system, with credit support and technical assistance of the World Bank. Reasons for reform should be searched for in inefficient functioning of the health system and a range of identified problems: from inadequate organization of health service, manner of collection and distribution of funds, absence of adequate system for monitoring and control in different segments of the system and insufficiently good quality of provided health care services. The mentioned problems have existed for a long period of time. Reform of the system of health protection and health insurance affects all the segments and has major implications on developments in other segments of the society.

Some of the most important problems in Montenegrin health system are as follows: too large public and overall expenses for health care, undeveloped system of control and improvement of health protection quality, absence of qualitative information system of health and other mechanisms for better management. Furthermore, primary health protection does not have significant role in prevention, diagnoses and treatment of diseases; health care staff are very badly paid, state hospitals and network of primary health centers are inefficient; medicines prices are far above international standard. Also, should be pointed out the huge informal payments that finance non-regulated private sector.

Therefore, Montenegrin health care system encounters problems, which require urgent intervention, in financing and management, and also in delivery of health care services. In Montenegro, the share of expenses for health in overall GDP amounts up to 6.74%. Taking into consid-

eration that the percent of expenses for health in overall budget expenses amounts up to 15% approximately (14.72% in 2004, which represents a reduction compared to 2003 when the percentage was 16.24%), what is primarily the result of inefficient usage of funds, then it can be concluded that the reform in health care areas is necessary. In spite relatively high expenses for health, there is absence of improvement of basic health indicators during a few last years.

**Specific Initiatives**

**1.Support to the process of health system reform**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Health system reform in Montenegro has three components: 1) Institutional Reform; 2) Reform of Approach to Health, and 3) Reform of Financial Relation. Government of the Republic of Montenegro has adopted strategic documents for health development: Development Strategy, Strategy of Mental Health, Strategy for Prevention of Violence, Strategy PRSP for Health, NPA for Health. Also, the Ministry of Health has prepared two strategies for prevention of HIV, Strategy for Smoking Control and other strategic documents determining in greater details activities for implementation of adopted goals of the health policy: the 21 goals for the 21<sup>st</sup> century. The Parliament of the Republic of Montenegro adopted 5 systemic laws in the health area. Strategy for development of health system in Montenegro envisages a set of reforms in the area of health care. The World Bank shall support the reform process in this area, and the support shall comprise two sub-components:

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

a) Adoption of rules and capacity building for the Ministry of Health and Health Fund, focusing on those problems that the Government of Montenegro sets as priorities for support from the World Bank.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

b) Specific investments for additional modules of information system, which is already under development, as well as improvement of col-

lection of data, monitoring and management of primary health protection and supporting services.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Responsible Institutions**

Ministry of Health, Health Insurance Fund

**Donor Support Committed**

World Bank

**2.Reform of Primary Health Protection**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

This action should support the implementation of policies defined under item 1 above, as well as to develop primary health care protection. A new model of Health Care Center organization shall represent the basis for organization of primary health protection, introducing a model of family doctor, who will be specially educated for this profession. This component has three sub-components:

- a) The first implementation phase shall commence in Podgorica, what is to be used for creating reform model, from which conclusions and useful ideas shall be identified, prior to the beginning of implementation of the model on the whole territory of Montenegro. Key elements of the reform model are as follows: possibility for patients to choose a doctor; implementation of new contracts with these doctors; improvement of organization of services provision with the purpose of reducing queues and waiting time, or facilitating medical staff to spend time with patients more efficiently. These activities shall be coordinated with the assistance of information system developed under the Item 1 above.
- b) Support to continuing education of doctors in primary health protection, as well as to organization of training programs for all employees in primary health protection.
- c) Support to implementation of reform model in other parts of Montenegro. Medical staff not from Podgorica shall also be included in the training under Item 2b above. Collection of

local and donors' funds shall be required to implement all aspects of the reform of primary health protection, which is to happen upon the completion of the project with the World Bank.

- d) Define standards and norms for selected doctors.

**Responsible Institutions**

Ministry of Health and the network of health care institutions in Montenegro

**Donor Support Committed**

World Bank

**3.Universal approach to health protection**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Attention should be focused to payments in private sector. Currently, they are extremely high and represented to such extent that impact the approach to health protection for significant number of citizens. Measures for control of expenses which are being undertaken in majority of countries in the process of health system reform, have indicated increase of financial risk both for provider of health services and for patients, and if that risk is not neutralized by increased productivity, it is most likely that households are going to bare the largest share of that risk. This is the reason for introducing, monitoring of impacts of reforms to household expenses. Monitoring should assist in identification of the problems and to suggest how to soften those effects.

**Responsible Institutions**

Ministry of Health and possible involvement of research institutes

**Donor Support Committed**

**4.Integration of private and public sectors**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

As a part of financial reform, specific attention in the reform process needs to be given to private

sector. As already mentioned, enormous payments are directed to this, up to now, unregulated sector. The problem could be overcome by contracting provision of health services to insured persons with the Health Fund. In this way the current problem would be overcome: patients that are paying health insurance are using private sector services as public sector is not sufficient enough to provide timely provision of services to their satisfaction. This would be some form of intermittent step, prior to introduction of voluntary health insurance.

**Responsible Institutions**

Ministry of Health and Health Fund

**Donor Support Committed**

**5. Introduction of voluntary health insurance**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

On the basis of extensive reforms implemented in the health area under supervision of the Ministry of Health, it is realistic to expect that requirements for preparing the introduction of private health insurance will be met at the end of 2006. This would certainly improve situation in this sector and contribute to achievement of goals of increase of health services at one hand and reduction of expenses on another. Current system dependent on taxes and contributions paid on earnings represents a burden, both for productive labor force and overall economy.

**Responsible Institutions**

Government of the Republic of Montenegro and Health Fund

**Donor Support Committed**

**6. Improvement of quality and efficiency through interventions on the supply side**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

The State, as owner of the largest part of the network of providers of health services would need to start at least two initiatives in order to address the lack of efficiency in the existing sys-

tem of provision of health services. First, rationalization of hospitals should be carried out with the objective to increase quality of provisioning of health services as well as types of hospital services and staff, with the aim to adjust to changed epidemiological profile of the population. This reform would also imply merging of specialized centers for the purpose of achieving economy of scale. Second initiative is to decentralize primary and secondary protection, or devolution of responsibilities to local governments.

**Responsible Institutions**

Government of the Republic of Montenegro and local self-government bodies

**Donor Support Committed**

**7. Inclusion of non-health spheres of activities of the Government in the health system reform**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

A part of reform regarding approach to health is very important. Better health of population will not be achieved, if the health service is the only one taking care of it. Therefore, it is necessary to plan required measures outside the health protection system. Health does not originate from hospitals, primary health care centers and pharmacies, in such institutions diseases are prevented and cured that occur in social and natural environment, where man lives and works. Health service has almost no effect on environmental factors that have impact on the health, which have positive and even more negative on the population. Health profession cannot solve problems regarding environmental protection and environmental pollution, transportation safety, safety at work, housing conditions, employment, education of people, resolving social problems and poverty, alcoholism and other addiction diseases. All of these factors have important role and effect on the health. Therefore, improved health and quality of life are not only within the competency of the Ministry of Health, but also other spheres of activity, or Government and Parliament.

a) Inclusion of the Ministry of Education and Science in the process of Health System Reform: by introduction of health education in elementary schools and high schools as a separate subject and/or including it in other teaching subjects. Children and the youth (indirectly their parents as well) will acquire basic knowledge and habits regarding healthy life, personal hygiene, proper nutrition, necessary physical activity, prevention of diseases and injuries, sexual education, addiction diseases (alcohol, drugs, smoking) and their harmful effects, etc. The second task of this sector is to improve the level of general education and provide acquisition of broad knowledge by wide population and eradicate illiteracy, because it is well known that the health condition is the poorest among illiterate people and persons with low education and qualifications;

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

b) Inclusion of the Ministry of Maritime and Transportation in the process of Health System Reform: adoption of regulations prescribing: the obligation of bicyclists and motorcyclists (co-drivers, especially children) to wear helmets, use special seats for children in the car, the use of safety belts by all passengers in the car and bus, limitation on carbon monoxide in exhaust gases of cars, limitation on alcohol in blood of participants in transportation, prohibition of driving under drug influence, etc. In addition to that, the Ministry of Health will commit itself to more consistent control and penalties in transportation, which will conse-

quently reduce the number of accidents and health insurance costs and contribute to health improvement. It will suggest insurance companies not to cover expenses of transportation accidents of participants who did not comply with regulations in the area of transportation safety. On such a basis, competent bodies of the Government will adopt concrete goal of activities for reduction of transportation accidents with death as consequence, or reduction of injuries of participants in transportation for 30% compared to the condition in 2003, by 2007;

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

c) Inclusion of other ministries in the process of health system reform, primarily Ministry of Environmental Protection and Urban Development and Ministry of Labor and Social Welfare.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

d) Education of citizens in order to inform them on consequences of decisions on health they themselves make.

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

#### Responsible Institutions

Ministry of Health, Government of the Republic of Montenegro

#### Donor Support Committed



**18. Infrastructure as a Growth and Development Factor**

- 18a Energy**
- 18b Transportation Infrastructure**
- 18c Utility Infrastructure**
- 18d Telecommunication**

**18a Energy**

**Goals**

To deliver reliable, fairly priced electricity to the citizens and businesses of Montenegro.

**Key parameters**

- Development and implementation of EPCG development strategy and privatization strategy
- EU directives and signed Memorandums of Understanding
- Regional integration in the electricity market
- Rational use and conservation of energy
- Development of renewable forms of energy
- Reduction of energy deficit

**Overview**

In the near term, the energy sector in Montenegro can be defined as electricity and the fuels used to generate electricity. The sector suffers from permanent deficits in cash and working capital for normal operations and maintenance, infrastructure development, upgrades and improvements, and the introduction of new capacities. The poor financial and operational position of the Energy Sector could be attributable to a combination of low tariffs to all consumers, high consumption, obsolete equipment and technology, poor use of conservation and energy efficiency measures, low collections, high level of losses and unauthorized consumption of electricity, poor and outdated organization of the electricity company, and other systemic deficiencies. Reforms are needed to put the sector on a sustainable track and attract investment capital

**Specific Initiatives**

**1. Energy Law and Establishment of Independent Regulator - Implementation of Energy Development Strategy for the Republic of Montenegro**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The Parliament of the Republic of Montenegro adopted the new Energy Law compliant with the EU Energy Directive in June 2003. The Independent Energy Regulatory Agency was established in January 2004, and in June 2004 it had issued interim licenses, prepared grid codes, and started working on tariff methodology. First tariff setting is expected in July 2005, which is the timing set by the Law. USAID funding for the first year of operations of the Agency ended in May 2004. DFID technical assistance to the Agency finished in March 2005. EAR plans to fund technical assistance to the Agency from September 2005, and provide limited support to the Agency in period between end of DFID project, and start of main EAR project. Energy Policy of Montenegro represents a starting point for development of the Energy Development Strategy that should be finalized until the end of 2005. The Energy Development Strategy for the Republic of Montenegro should determine priority development directions in the energy sector and adequate instruments that enable realization of key priorities regarding work, operations and development of the entire energy system. This document should define as well dynamics for adoption of adequate instruments for all changes in energy activities to be made in accordance with adequate political, socio-economic, energy and ecological determinations of the country.

**Responsible Institutions**

Ministry of Economy and Energy Regulatory Agency

**Donor Support Committed**

USAID, DFID, World Bank, EAR

**2. Restructure EPCG and Unbundle Generation, Transmission and Distribution**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Summary and Sub-tasks

Functional unbundling of the EPCG, which covers management, information and accounting separation is well underway. The legal requirement was that EPCG functionally unbundled its operations by January 2005. Formally, the company complied with this requirement by adopting a new Charter at the end of December 2004, and appointing directors of new entities in January 2005. Separation of accounts has been completed, with the assistance of BearingPoint (funded by USAID), in December 2004. The new functionally unbundled EPCG consists of 4 functional units: Transmission, Generation, Distribution, and Supply. It also has "Electrogradnja" (Construction) as a profit center and the Direkcija (Head Office) which includes: Financial Department, Commercial Services, Development and Engineering, IT services, Legal, Administrative and Human Resources Department, Environmental Protection, Social Standard, PR, and Regulatory and Corporate Planning.

Achieving the goal of commercial viable company is a process, which only just started with the first organizational changes. Although the accounts have been separated, the funds are still centrally controlled. The issue of transfer prices and preparation of separate business plans and profit and loss statements is in progress. The Regulatory Agency has not yet issued its proposed methodology for setting tariffs. Therefore, it is not reasonable to expect that the new functional units of EPCG will have their business plans ready before July 2005, when it is expected that the Agency will issue the first tariffs for the new entities.

EAR project is providing support for the tariff setting process in EPCG. Expert help will finish by the end of April 2005. EAR is planning continuation project from September 2005, but it is possible that it will provide some limited assistance to the Government of the Republic of Montenegro/EPCG during this interim period.

EAR funded consultants when preparing the proposals for new organizational structures of unbundled EPCG have addressed the issue of staffing levels. It was advised that about 1/3 of the staff should be treated as technologically redundant. The social program to deal with this is being prepared. Although the EPCG manage-

ment agrees that EPCG is overstaffed, the progress is quite slow.

### Responsible Institutions

Ministry of Economy and EPCG

### Donor Support Committed

USAID, EAR, World Bank

## 3. Introduce Cost Recovery Tariffs

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Summary and Sub-tasks

In March 2003, the Government of the Republic of Montenegro has approved the increase in prices of electrical energy for an average of 2332%, so that the average price now is 4.6 cE/kWh, which significantly brought closer the tariffs to the cost of electrical energy. The Energy Regulatory Agency and the Ministry of Economy have taken the issue of tariffs more seriously since autumn 2004. ERA has still to issue its proposed tariff methodology, which is delaying tariff preparation by EPCG. The new tariff system should be approved by the Agency in July 2005. EPCG, in cooperation with the Agency, submitted a proposal to the Government for amending the existing tariff system until the adoption of a new one.

### Responsible Institutions

Ministry of Economy, EPCG and Energy Regulatory Agency

### Donor Support Committed

USAID, EAR, World Bank, DFID

## 4. Achieving Positive Cash Flows at EPCG

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

### Summary and Sub-tasks

As far as demand management is concerned, several programs have been implemented. One of the programs is a pilot project of the World Bank for remote reading of meters, and a similar project had already been financed by Norway. Programs for energy efficiency promotion have started. A Department for Energy Efficiency has been established within the Ministry of Economy, and the Energy Efficiency Strategy for 2004

has been finalized with the technical assistance of EAR. Pilot projects for energy efficiency shall be prepared, and the campaign for informing the public is planned for 2005. Collection rate shall be improved to 96% until the opening of the market, which will be the task of a new Supply functional unit. EPCG is in process of developing measures for improving collection rate, by changing collection system organization and introducing new information system.

**Responsible Institutions**

EPCG, Energy Regulatory Agency and Ministry of Economy

**Donor Support Committed**

USAID, EAR, World Bank

**5. Design and Operation of Electricity Market**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The Agency has started the process of establishing market rules, which will probably be based on bilateral market structure. Energy Regulatory Agency issued temporary licenses for market transmission, distribution and supply operators. Upon having been considered by the Agency, Rules on Electricity Supply, Temporary Grid Code (transmission system operator) and Temporary Distribution Code were adopted by operators, which should together regulate electricity market. Working group consisting of transmission system operators at the regional level implemented operational proposal related to compensation mechanisms among transmission system operators (TSO) for cross-border trading (CBT) in the South East Europe. In Montenegro, CBT started to be applied from January 1, 2005. The existing exchange arrangement between HPP Piva and EPS has not been re-evaluated yet. Currently, there is no technical assistance for this assignment.

**Responsible Institutions**

Energy Regulatory Agency and Ministry of Economy

**Donor Support Committed**

USAID, DFID, EAR

**6. Tender for Private Sector Participation or Independent Energy Producers**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Development and Privatization Strategy for the energy sector is being prepared. EAR project prepared several drafts, and developed a financial model, to help the decision makers. Privatization process of largest customers in ongoing. Steel Works was privatized in mid 2004, while the privatization process of KAP is in its final phase. On the other hand, Government committed to selling of the remaining 30% shares in the Coal Mine and completes an asset sale of the Thermal Power Plant in 2005. Financial Advisor for these two sales is Raiffeisen. Private sector participation is also expected in the small-scale power generation projects. Private investors are expected in small-scale hydro plants. UNDP is in process of tender for project of revising licensing process of projects to small-scale hydro plants

**Responsible Institutions**

Ministry of Economy, Agency for Economic Restructuring and Foreign Investments, Energy Regulatory Agency, EPCG

**Donor Support Committed**

**7. Analysis of the Possibility to Build New (energy) Sources**

**Summary and Sub-tasks**

Montenegro has great hydro and mineral wealth that can create conditions for additional energy production in Montenegro. The Government shall draft sub-normative legislation and Study for Construction of New Renewable Hydro-Energy Facilities and Expansion of the Existing Sources (thermal power plant). In the following period, diversification of energy forms, sources and energy production technologies should be encouraged. It is necessary to strategically support efficient use of energy, as well as to prepare a plan for using renewable energy and thermo-energy sources. Furthermore, it is necessary to support researches, development and application of new, pure and efficient technologies, and establish a special body that would coordinate this activity.

**Responsible Institutions**

Ministry of Economy, Energy Regulatory Agency, EPCG

**Donor Support Committed**

**8. Oil and Gas Research**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Oil-geological activities in the Montenegrin submarine area are carried out in research block encompassing south area and narrow coastal region from St. Stephen to the mouth of the river Bojana to the Adriatic Sea (Ulcinj Block III), in research blocks defined as Block I and Block II, from St. Stephen to the Prevlaka Peninsula and is stretched for some 100 km from the coast, i.e. to the border with Italy. Oil and gas research is carried out in accordance with concession contract signed between the Government of the Republic of Montenegro and company Jugopetrol, JSC Kotor, or in accordance with joint venture and oil and gas research and exploitation con-

tracts signed between Jugopetrol and companies Ramco Energy (Medusa Oil & Gas Limited) and Star Petroleum. Oil-geological researches in the Ulcinj Block are carried out by research phases, which have included until now full seismic activities. In the following phase oil-geological drillings should have been done by February 15, 2005, but they were not performed until that date. Such oil drillings should give results on existence of commercial reserves of oil and/or gas in the Ulcinj Block. In the research fields Block I and Block II, researches are also conducted in phases. Until now, certain seismic works have been done, and final 3D-seismic work that precedes oil-geological drilling is expected.

**Responsible Institutions**

Commission of the Government for Financial System and Public Expenditures, Ministry of Economy, Public Institution Republic Bureau for Geological Researches

**Donor Support Committed**

**18b Transportation Infrastructure**

**1. Road Infrastructure**

**Goals**

Manage, maintain, reconstruct and build road network in Montenegro in the manner that enables its safe, secure and efficient usage, with the goal to reduce traffic incidents.

**Key parameters**

- Achieved standards
- Length of reconstructed roads in kilometers
- Length of newly constructed roads in kilometers

**Overview**

Accumulated problems are the consequence of the road network age, unfinished road network, exploitation in the manner not envisaged by the project and bad road maintenance during the last decade. Problems are manifested through a large number of critical points both from safety/security and economic aspect. Big holes, cracks, bulging, potholes and bumps, small

rockslides and similar things, create great damages for traffic participants, increase costs for vehicle maintenance, and jeopardize lives. A large number of unstable slopes with bigger rockslides, damaged bridges, supporting walls that are deteriorating, leaking tunnels where roadways are difficult to maintain, result in often interruptions in transportation with direct economic consequences.

**Basic Information**

State road network is made of 1,848 km, out of which 964 are regional roads whereas 884 are highways, and 312 bridges and 136 tunnels. The network consists of around 115 points that are not designed, built or maintained in the manner to meet professional standards, thus representing a permanent danger regarding transportation safety and security. Road network is used by around 100,000 registered vehicles in Montenegro, out of which around 89% are passenger vehicles.

**Specific Initiatives**

a) Implementation of the Law on State Roads

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

New Law on State Roads is adopted in mid 2004 and is harmonized with the European Directives. The Law unifies authority and responsibility for managing, maintaining and building roads. In accordance with the Law, Directorate for State Roads, as body directly in charge of road network, is established. The Rulebook on Organization and Systematization of Jobs for the Directorate is about to be adopted.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation, Directorate for State Roads

**Donor Support Committed**

EAR

b) Road Infrastructure Development Strategy

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Pursuant to the Law on State Roads, it is necessary to develop a strategic document that will set the framework for managing, maintaining and building road network in Montenegro. On the basis of this document, mid-term and annual working programs for the Ministry shall be developed, which will be adopted by the Government of the Republic of Montenegro and implemented by the Ministry of Maritime Affairs and Transportation.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation

**Donor Support Committed**

EAR

c) Reconstruction and Modernization of Road Infrastructure

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Under supervision of the Ministry of Maritime Affairs and Transportation, reconstruction and

modernization of road network is performed (correction of curves, construction of tunnels, construction of third lanes, etc). Sites where reconstruction and modernization are carried out are the following: Vezište, Duga, Subadanj, Bakovića klisura, Bogutovski potok, Seoce I and II, Crkvine, Dolovi, third lane Mojkovac, Vrmac, Lokve, Obzovica, Mioska - Crkvine etc.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation

**Donor Support Committed**

EAR and loans from EIB and EBRD

d) Construction of New Roads

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

As far as construction of new roads is concerned, construction of Sozina tunnel is being finalized on the road Bar-Podgorica. Also, the project Kolašin-Mateševo is prepared, and lobbying and preparatory activities for construction of the road Podgorica-Mateševo, as well as Adriatic-Ionic Highway through Montenegro are under way. Activities regarding construction of the road Risan-Grahovo-Žabljak are continued.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation, Directorate for Construction of Highways

**Donor Support Committed**

EIB loan

**2. Railway Infrastructure**

**Goals:**

- Provide safe and secure transportation throughout the entire railway network in Montenegro,
- Remove weak points in the network where transportation is done with reduced speed due to technical condition of railroads,
- Reduce the number of traffic jams (interruptions),
- Prevent further network deterioration

**Key parameters**

- Achieve maintenance standards
- Repair bridges and tunnels
- Rehabilitate slopes

**Overview**

During the last 15 years, adequate railroad maintenance was not provided, which is mirrored by a large number of facilities (bridges and tunnels) where emergency measures are necessary, as well as a large number of weak points representing a potential danger for transportation safety. Maintenance not performed in timely manner is causing accelerated infrastructure deterioration and significantly increases required funds. Every stoppage throughout the railroad has great economic consequences and disturbances or work interruption of a large number of business organizations.

**Basic Information**

Total length of railway network in Montenegro is 250 kilometers, and with station sidetracks around 330 kilometers. There are three railroad directions:

- Railroad Vrbnica – Bar, the length of which is 169 kilometers is fully electrified and opened for transportation in 1976. From transportation point of view, it has the most significant economic importance, and from maintenance point of view it represents the most expensive railroad in Europe. This railroad includes 107 bridges, 106 tunnels, 9 galleries, 371 passages, a large number of unstable slopes and landslides, a large number of curves with the minimum allowed curve radius (R = 300m) with the maximum allowed slope (I max = 25‰), etc.
- Railroad Nikčič -Podgorica, the length of which is 56 km, is opened for transportation in 1948, as railroad of narrow gage, but it was reconstructed in normal gage railroad in 1965.
- Railroad Podgorica – Skadar (state border with Albania), the length of which is 25 km is not electrified, and is opened for transportation in 1986. After several years of interruption, it is used only for freight traffic from 2002.

**Specific Initiatives**

a) Laws Regulating Railway Operations

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

It is necessary to adopt a new legal framework within railway reforms. The plan is to have 3 laws. The Law on Railway has already been adopted in 2004, the Law on Railway Transport

Safety is being drafted, and the Law on Business Relations on the Railway is also being drafted. All of the aforementioned laws shall be harmonized with EU directives and adjusted to Montenegrin specificities.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation, Railway of Montenegro, JSC

**Donor Support Committed**

EAR

b)Railway Infrastructure Development Strategy

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Pursuant to the Law on Railways, it is necessary to develop a strategic document defining development directions of the railway infrastructure and railway management.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation

**Donor Support Committed**

c) Privatization Strategy for the Railway of Montenegro

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Within the entire railway sector reforms, it is necessary to require optimal model and its organization and ownership transformation. The Law on Railways envisages separation of infrastructure from management, but separation model is not defined. The Ministry is researching possibilities for introducing private capital with full protection of State interests at the same time.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and Railway of Montenegro JSC

**Donor Support Committed**

EAR

d)Reconstruction of Railroad Bar – Border with Serbia

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

A large number of critical points on the Belgrade-Bar railroad, unfinished tunnels and slopes, as well as unresolved problems regarding maintenance are being dealt with by loans provided by EIB. Realization of EIB loan in the amount of 15 million € is in progress, and EIB is willing to approve a new loan in the same amount immediately after spending the aforementioned funds. Problem regarding realization of this program relates to the fact that there is a greater need for funds to resolve outstanding maintenance than reconstruction itself, so in cooperation with EIB, a model is being looked at in order to acknowledge this order of priorities in the next loan.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation, Railway of Montenegro, JSC

**Donor Support Committed**

EIB loan

**3. Maritime Infrastructure**

**Goals**

Provide maximum safety and security standards for using navigable roads throughout inland waters and territorial sea, as well as on vessels and in functioning of entities of maritime industry.

**Key parameters**

- Compliance with international conventions in the area of safety and security
- Ecological protection of coastal area
- Attractiveness of our coast and navigable roads for maritime activities

**Overview**

On the Montenegrin coast, there are four ports for international transportation and two shipyards, whose economic valorization depends directly on the condition of our maritime infrastructure and its adjustment to world standards. Also, compliance with these standards is a precondition for further maritime valorization, especially nautical tourism.

**Specific Initiatives**

- a) Establishment of the Administration for Maritime Safety

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

The Administration for Maritime Safety has been established in 2003, by taking over the federal institution "Plovput" and merger, or establishment of organizational units dealing with search and rescue on the sea, ecological protection, etc. The basic tasks of the Administration, in addition to maintenance of navigable roads, relate to drafting of necessary documents, such as: national search and rescue plan, ecological protection from ship pollution, application of ISSP code, relevant international conventions, etc.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and Administration for Maritime Safety

**Donor Support Committed**

- b) Establishment of Coast Guard Coordination

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In territorial sea and inland waterways, a large number of state bodies carry out different activities regarding supervision, control, inspection, etc. Number of sea accidents, ecological incidents, gray economy regarding tourist vessels, illegal hunting, etc., points out the fact that despite existence of such a large number of state bodies, one comprehensive standard is not achieved for safety security and ecological protection in our territorial waters. Therefore, during 2004, the Ministry of Maritime Affairs and Transportation initiated the process of coordination of activities and unification of resources of all entities in order to achieve higher safety, and ecological protection standards. The basic goal is to strengthen the coordination during 2005, and at the end of 2005 to reconsider the possibility of establishing coast guard, as new body that would function independently.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and Ministry of Internal Affairs

**Donor Support Committed**

Government of the USA

c) Revitalization of Maritime Industry

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Shipping industry, once one of the most important economic branch in Montenegro, has experienced collapse during the last 15 years, primarily due to UN sanctions, and then due to its incapacity to adjust to new market conditions. The most difficult effect of the fleet ruin is the fact that around 1,800 of our seamen lost their jobs on our vessels and were forced to look for employment on foreign ships. Many of them were not able to find employment. The estimate is that some 450 seamen are not capable of finding a stable employment. In 2002, the Government made a Decision on Establishing State Company “Crnogorska Plovidba” with intention to continue navigation tradition of Montenegro. For that purpose, the Ministry of Maritime Affairs and Transportation established a joint company with the Norwegian partner, employing our seamen. Also, several private companies that engage our staff have been established.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and “Crnogorska Plovidba”

**Donor Support Committed**

EAR

**4. Civil Aviation**

**Goals**

Establish a civil aviation body in order to achieve sovereignty in this sector, provide maximum safety and security standards and favorable framework for operations of economic entities in this sector.

**Key parameters**

- Establish Civil Aviation Directorate
- Establish Agency for Flight Control
- Safety and Security in Civil Aviation

**Overview**

By adoption of the Constitutional Charter and Law on its implementation, transportation area is placed within the competency of member states

of the union. As far as civil aviation is concerned, Montenegro has had neither preconditions nor interests to fully take over at this moment these competencies, thus it concluded inter-state agreement with Serbia to establish the Civil Aviation Directorate and Agency for Flight Control. Montenegro has achieved full equality in decision-making process and protection of its national interests in both bodies. Through these bodies, all of its interests in this transportation sector are being realized.

**Specific Initiatives**

a) Law on Civil Aviation

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with new international and state framework, especially regarding organization and application of standards, new Law on Civil Aviation is being drafted.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation, Civil Aviation Directorate

**Donor Support Committed**

b) Reconstruction of Airports in Podgorica and Tivat

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

Reconstruction of the Montenegro airports, taken over from JAT in 2003, is a priority in development of transportation infrastructure. For this activity, EBRD and EIB support is provided within REBIS program. Their reconstruction will be implemented during the entire year of 2005, and should result in considerable improvement of safety and security standards, as well as of service improvement.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and Airports of Montenegro, Public Utility Company

**Donor Support Committed**

EAR, USAID, loans provided by EIB and EBRD



c) Modernization of Flight Control

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

In accordance with new relation in regulation of flight control in Montenegro, procurement of new devices and systems is being done, by which safety and security standard in this sector will be increased. This especially relates to procurement and installment of new radars, new communication devices and devices for monitoring and communication.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation and Agency for Flight Control

**Donor Support Committed**

**5. Road Transportation**

**Goals**

Regulate road transportation in accordance with international standards and create conditions for restraining gray economy in this sector.

**Key parameters**

- Quality of inter-community transportation in Montenegro
- Improve standards and regularity in passenger road transportation
- Restrain gray economy in this segment

**Overview**

In road transportation, competency was transferred from the union level to the member state level, thus it is necessary to establish new regulation and establish institutions that will deal with this sector. Also, it is necessary to establish the framework for development of this sector, both in internal and international transportation, and create preconditions for regulation of city and suburban transportation. In this segment, a fast development of gray economy, or illegal transportation, has occurred, as consequence of flaws in the existing legal framework, thus one of the most important tasks is adoption of the new Law on Road Transportation.

**Specific Initiatives**

**Law on Road Transportation**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

It is necessary that the new Law defines competencies over regulation of inter-community and city and suburban transportation, operations of inspection bodies and their competencies, introduce new standards and procedures in compliance with the European Directives.

**Responsible Institutions**

Ministry of Maritime Affairs and Transportation

**Donor Support Committed**

**18c Utility Infrastructure**

**Goals**

Create conditions for continuous and quality provision of utility services

**Key parameters**

- Degree of master plans realization
- Harmonization degree with defined regulations and standards
- Harmonization degree with EU Directives
- Functioning efficiency and rationality of the utility services system
- Degree of utility infrastructure facilities' construction

**Overview**

Organization of activities in the area of utility sector is within the competence of local self-government units that have different professional, technical and financial capacities for their efficient performance. In the last 20 years, not enough was done regarding maintenance of the existing and construction of new utility infrastructure facilities. Bad financial and functional condition of this area is conditioned by organizational problems of public utility companies to whom local self-government units have delegated, to the greatest extent, performance of these activities, bad infrastructure and equipment condition, losses within certain systems,

inadequate citizens' attitude towards utility goods, low fees for rendered utility services and delivered utility product, etc. For the purpose of faster and more synchronized activities regarding improvement of condition in this area, drafting of strategic documents have been initiated, as well as master plans in the area of water supply and wastewaters and waste management.

**1. Water supply**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

a) Define new legal and institutional framework

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

In accordance with the Government commitment to establish two units in the water supply system, regional and local, amendments to the Law will be prepared in order to define new institutional framework and create conditions for efficient implementation of investment projects.

**Responsible Institutions**

Ministry of the Environmental Protection and Urban Development, in cooperation with the Ministry of Agriculture, Forestry and Water Resource Management and Ministry of Finance

**Donor Support Committed**

b) Draft Water Supply Master Plan for the Montenegrin Coast

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Water Supply Master Plan for the Montenegrin Coast is a necessary condition for making decisions on investments in the water supply sector for the Coast in the following period. The Master Plan will provide answers to the following questions:

- Evaluation of the existing water supply facilities, reservoirs
- Analysis of water consumption and losses
- Prognosis of water consumption on the basis of evaluation of increase in the number of citizens and tourists (Master Plan for Tourism)
- Proposal of measures for improvement

- Defining investment program with priorities and implementation dynamics

**Responsible Institutions**

Ministry of the Environmental Protection and Urban Development, Working group comprising domestic experts for drafting the Master Plan, water supply companies on the Montenegrin coast and Municipality of Cetinje, "Vodacom"

**Donor Support Committed**

German Government, KfW

c) Regional System for Water Supply of the Montenegrin Coast

**Summary and Sub-tasks**

For the purpose of creating necessary conditions for further tourism development on the Montenegrin coast in accordance with the Master Plan, it is necessary to provide sufficient quantities of good quality water for human consumption. For that purpose, public regional utility company has been established, and during 80s and 90s, some infrastructure works on construction of water supply system Skadar Lake – municipalities on the Montenegrin coast (tunnel Sozina was built, distribution reservoir Đurmani was built, part of pipeline from Herceg Novi to Budva and some smaller facilities) have been completed. Drafting of techno-economic analysis is in progress, which is one of the preconditions for the World Bank to make a decision on loan support for realization of the project in accordance with the plan.

**Responsible Institutions**

Government of the Republic of Montenegro, Ministry of the Environmental Protection and Urban Development and Ministry of Agriculture, Forestry and Water Resource Management

**Donor Support Committed**

World Bank

d) Emergency and internal measures for improving water supply of municipalities on the Montenegrin Coast and municipality of Cetinje

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

In order to better use of reserves of the existing water supply systems in municipalities on the Montenegrin coast and municipality Cetinje, measures are undertaken to reduce losses within

the water supply network, increase collection percentage, optimize the existing and activate new sources, as well as to have better organization of companies dealing with water supply. Inter-municipality, coordinating and service-providing company "Vodacom" has been established.

In 2004, the Government, in cooperation with coastal municipalities and Municipality of Cetinje, with support of the German Government, has started with realization of the program for reconstruction and rehabilitation of local networks. Credit support was provided by consortium of local banks in the amount of 5 million €. The program was successfully realized. At the same time, donation of the American Government was provided in the amount of 10 million dollars for improving water supply of the coast. In the following period, activities regarding realization of urgent measures II (detection and reduction of losses, network rehabilitation, better usage of the existing and new water sources) that will be financed by KfW bank will be continued. Intensive activities will be undertaken regarding establishment of efficient collection system, financial sustainability and reorganization of public utility companies to which municipalities have delegated water supply activities.

**Responsible Institutions**

Municipalities and water supply companies on the Montenegrin Coast and Municipality of Cetinje, „Vodacom,” Government of the Republic of Montenegro

**Donor Support Committed**

German Government (BMZ), USAID, Norwegian Government and other donors

e) Create Conditions for Defining and Realization of Program for Improving Water Supply of the Northern Part of the Republic

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary**

On the basis of positive experiences from implementation of the Program for Improving Water Supply of the Montenegrin Coast, a similar concept for the northern part of Montenegro will be defined in cooperation with donors.

**Responsible Institutions**

Ministry of the Environmental Protection and Urban Development and Ministry of Agriculture, Forestry and Water Resource Management

**Donor Support Committed**

German Government (BMZ), USAID and other donors

**2. Master Plans for Wastewaters Management**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

a) Implementation of the Master Plan for Sewage System and Treatment of Wastewaters on the Montenegrin Coast and Municipality of Cetinje

**Summary and Sub-tasks**

Based on the initiative of the Ministry of the Environmental Protection and Urban Development, and with a full financial support of the European Agency for Reconstruction, the Master Plan has been developed by the consulting firm DHV Water BV from Netherlands and adopted by the Government of the Republic of Montenegro. Realization of the Master Plan is envisaged in three phases: phase I from 2004 to 2008, phase II from 2009 to 2018 and phase III from 2019 to 2028. The first phase envisages realization of emergency measures for rehabilitation of pumping stations and closing of short outlets. This phase also envisages activities regarding reconstruction of the existing and construction of new outlets, construction of certain parts of primary sewage network, construction of facilities for preliminary treatment, procurement of cleaning equipment, research activities and drafting of studies, etc.

For realization of activities envisaged by the first phase, it is necessary to provide 27.7 million €. For realization of activities from the II phase, it is necessary to provide 82.4 million, whereas for the III phase it is necessary to provide 170.7 million €. The total amount necessary for realization of the Master Plan is 280.8 million €.

**Responsible Institutions**

Municipalities on the Montenegrin Coast and Municipality of Cetinje, „Vodacom,” Government of the Republic of Montenegro

**Donor Support Committed**

German Government, USAID, EAR

b) Adoption and Implementation of the Strategic Master Plan for Sewage System and Wastewaters in the Central and Northern Region of Montenegro

**Summary and Sub-tasks**

Based on the initiative of the Ministry of the Environmental Protection and Urban Development, and with a full financial support of the European Agency for Reconstruction, the Strategic Master Plan has been developed by the consulting firm Safege from France, with the assistance of the company Tebodin from Netherlands and LDG from Greece. It is expected that the Government of the Republic of Montenegro will soon consider and adopt this Master Plan. The Strategic Master Plan envisages implementation of activities in the three phases: phase I from 2005 to 2009, phase II from 2010 to 2019 and phase III from 2020 to 2029. Priorities in implementation are reconstruction of the existing and construction of new sewage infrastructure facilities and plants for treatment of wastewaters: in Nikšić (required funds: 13.07 million €), Podgorica (required funds: 29.69 million €), Pljevlja (required funds: 7.34 million €), Danilovgrad (required funds: 2.46 million €), Kolašin (required funds: 3.01 million €), Berane (required funds: 4.99 million €) and Žabljak (required funds: 1.52 million €). For implementation of the phase I of the Strategic Master Plan, it is necessary to provide 81.24 million €, for realization of the phase II 197.49 million €, and by the year of 2019 the total of 278.73 million €.

**Responsible Institutions**

Local self-government units, Government of the Republic of Montenegro

**Donor Support Committed**

EAR

**3. Implementation of the Strategic Master Plan for Waste Management at the Republic Level**

H1 2003	H2 2003	H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006

**Summary and Sub-tasks**

Based on the initiative of the Ministry of the Environmental Protection and Urban Development, and with a full financial support of the European Agency for Reconstruction, the Strategic Master Plan has been developed by the consulting firm GOPA from Germany and adopted by the Government of the Republic of Montenegro at the beginning of 2005. The Master Plan envisages waste management in an integral manner. Priorities are: construction of 8 regional sanitary landfills, landfills for dangerous waste, landfill for industrial waste, permanent rehabilitation and closure of the existing waste disposal areas, construction of recycle centers, equipping utility companies, etc. At the beginning of July 2004, with donation of the World Bank, the first regional sanitary landfill for municipalities of Kotor, Budva and Tivat was constructed. Realization of the Strategic Master Plan is planned in two phases: the first phase from 2005 to 2009 (required funds: 55 million €) and II from 2010 to 2014 (required funds: 74.2 million €). The total amount of required funds for implementation of activities envisaged by this plan is 129.2 million €.

**Responsible Institutions**

Local self-government units, Government of the Republic of Montenegro

**Donor Support Committed**

World Bank, EAR

**18d Telecommunications**

**Goals**

It is necessary to provide reliable and quality telecommunication services at market price to citizens and enterprises in Montenegro.

**Key parameters**

- EU Directives, international recommendations and standards
- Regional integration on the telecommunication services market
- Rational use of limited communication resources and rational regulation of the sector

- Establishment and development of the universal service

**Overview**

Telecommunication sector in Montenegro represents a set of various communication activities whose goal is to provide quality and differentiated services to different categories of users. This sector is, bearing in mind other sectors and the environment, outstandingly technologically advanced. Fixed network is 98% digitalized. The sector is regulated by the Law on Telecommunications and partially by the Law on Broadcasting, whereas regulatory bodies are the Agency for Telecommunications and Agency for Broadcasting. The task of the sector is to follow up communication development directions and tendency towards integration of different communication services due to convergence of technologies. The sector should provide the establishment of the fund for universal service, determine a set of services to be financed from such fund, as well as manners for their financing and control. The most significant operators on the market are Montenegro Telecom (majority owned by Matav) as the sole operator in the area of fixed telephony, Monet that operates from 2000 (100% owned by Montenegro Telecom) and ProMonte operating from 1996 (100% owned by Telenor) as mobile operators; and Internet CG as internet service provider. Upon the privatization of Montenegro Telecom by Matav in March 2005, the state does not have ownership in any of public telecommunication operators, which facilitates liberalization of the sector. Process of tariff rebalance for the fixed operator has started at the end of 2004, and it will be continued at the end of 2006.

Penetration of the fixed network (43%) and coverage by GSM network (98% of inhabited territories) is very good.

The Law on Telecommunications was adopted by the Parliament of the Republic of Montenegro at the end of 2000. By introduction of this Law, the regulatory Agency for Telecommunications has been established that issues licenses to tele-

communication operators. Telecommunication Development Plan is being drafted, which will cause changes in the existing regulations of the sector.

**1. Drafting Sector Development Strategy**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**2. Amendments to the existing regulations in accordance with the Strategy**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**3. Implementation of new regulation**

H1 2004	H2 2004	H1 2005	H2 2005	H1 2006	H2 2006	H1 2007	H2 2007

**Summary and Sub-tasks**

It is expected that the Telecommunication Development Strategy would be finalized during May 2005, and upon 30-day public debate, it is expected that the Government of the Republic of Montenegro by the end of June 2005 would adopt the Strategy. The Strategy covers the period up to 2010. The Strategy shall, in addition to the established guidelines for the sector development, give guidelines that will result in amendments to the Law on Telecommunications and the Law on Broadcasting. Amendments to the aforementioned laws will enable implementation of new EU Directives (adopted in 2002, after adoption of the aforementioned laws) and rationalization of regulatory functions in the sector. This envisages creation of the single Agency that would cover the entire electronic communications (including also ICT sector) and postal services.

**Responsible Institutions**

Ministry of Economy, Ministry of Culture and Media

**Donor Support Committed**

USTDA (finances Strategy development, which is drafted by the company Arthur D. Little)



**ABBREVIATIONS USED IN THE DOCUMENT**

- GDP – Gross Domestic Product  
BMZ – German Federal Ministry of International Cooperation and Development  
CARDS – Community Assistance for Reconstruction, Development and Stabilization  
CAS – Country Assistance Strategy  
CBM – Central Bank of Montenegro  
SIDA – Swedish International Development Cooperation Agency  
COSV – Comitato di Coordinamento delle Organizzazioni per il Servizio Volontario – Italian non-governmental organization  
DFID – Department for International Development of the UK Government  
TA – Directorate for Public Revenues – Tax Administration  
EBRD – European Bank for Reconstruction and Development  
EIB – European Investment Bank  
FOSI ROM – Foundation Open Society Institute – Representative Office Montenegro  
GTZ – German Agency for Development  
HELP – German non-governmental organization  
IBRD – International Bank for Reconstruction and Development  
ICT – Information and Communication Technologies  
IDA – International Development Agency  
IFC – International Financial Corporation  
IRD – International Relief and Development – consulting firm for international development  
IS – Informational System  
KfW – German Development Bank  
LAN – Local Area Network  
MIGA – Multilateral Investment Guarantee Agency  
MIPA – Montenegrin Foreign Investment Promotion Agency  
IMF – International Monetary Fund  
Monstat – Bureau of Statistics of Montenegro  
OSCE – Organization for Security and Cooperation in Europe  
OECD – Organization for Economic Cooperation and Development  
PISA – Program for International Student Assessment  
PMF – Faculty of Science and Mathematics, University of Montenegro  
SDR – Special Drawing Rights  
SCEPP – Legal and Economic Advisory Center  
WTO – World Trade Organization  
TAIEX – Technical Assistance and Information Exchange unit of the Directorate General Enlargement of the European Commission  
TSS – Transitional Support Strategy  
UNDP – United Nations Development Program  
UNICEF – United Nations Children’s Fund  
USAID – US Agency for International Development  
USTDA – United States Trade and Development Agency  
VET2004 – Program of Technical Support to Vocational Education and Training in Montenegro, financed by the European Agency for Reconstruction











