

## 1. Identification

<b>Budget heading:</b>	22 05 02, CARDS Action Programme 2006
<b>Budget year</b>	2006
<b>Total cost:</b>	EU contribution : €18.5 million
<b>Legal basis:</b>	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
<b>Contracting</b>	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
<b>Implementation</b>	The Final Date of Implementation of projects under this proposal is 31.12.2014. Therefore, all activities, including contracts, payments, monitoring, audits and evaluations must end by 31.12.2014.
<b>Annual programming/ implementation:</b>	European Agency for Reconstruction €18.0 million; Commission Headquarters € 0.5 million (Programming and Management of EU funds Facility)

## 2. Political and Economic update

In February 2003 the Parliament of the then Federal Republic of Yugoslavia adopted “The Constitutional Charter of Serbia and Montenegro” together with the law on its implementation. By adopting the Charter the Federal Republic of Yugoslavia underwent major constitutional reform and was renamed Serbia and Montenegro.

The implementation of the Constitutional Charter and the Implementing Law foresee the transfer of a large number of competences from the State to the Republican level but also entail the development of new State level mechanisms so as to ensure a functioning state (i.e. Foreign Affairs, Internal Market, External Trade, etc.). Two-year negotiations between the Serbian and Montenegrin Governments to fully harmonise the Internal Market were unsuccessful. Following the adoption of the European Partnership document, the EU Council of Ministers made a decision to help accelerate political and economic reforms in both Republics by proposing the ‘Twin Track’ approach implying the prospect of a single Stabilisation and Association Agreement with distinct negotiations with the Republics on trade, economic and possibly other relevant sectoral policies. This decision has clearly unlocked the reform processes and has enabled the State Union to move further within the Stabilisation and Association process.

Negotiations on a Stabilisation and Association Agreement between the European Commission and the State Union of Serbia and Montenegro were launched in October 2005. The negotiations are taking place on a twin-track basis, whereby the Commission negotiates separately with the State Union, for the areas of competence of the State Union, and with the two Republics on the areas of competence of the latter. SAA negotiations are an important task of the Montenegrin administration and their success will be crucial for the reform process in the country.

The Referendum on independence will take place on 21 May 2006. It is important –for the smooth development of Montenegro and its relations with Serbia and with the European Union – that the referendum process is handled in a fair and democratic manner and in line with the newly adopted law on referendum on independence which is based on a broad consensus among political forces in Montenegro.

### ***Recent economic trends in Montenegro***

Overall, substantial progress has been achieved in Montenegro in creating a stable legal framework and sustainable macro-economic environment that is conducive to economic growth and investment. Moreover, recent privatization initiatives in the telecommunications sector (Telekom Montenegro to Matav, Hungary), the banking sector (Podgoricka Banka, the third-largest

bank in the republic), and the aluminium smelter KAP to Rusal (Russia). These high-profile sales indicate that the Government is determined to push forward with economic transition (Economist Intelligence Unit, Country Report, October 2005). However, a lack of political initiative to confront social issues such as redundancies in the public sector, social security reform, and environmental problems has created doubts within the population that these privatisation efforts will have a short-term impact on improving living standards and household income. Both the Adriatic Shipyard in Bijela and the Podgorica Tobacco Complex, which the authorities have tried unsuccessfully to sell off in the past, are scheduled for privatization in early 2006.

Official data indicate positive trends in the economy and the beginning of a return to growth. But any conclusions on the size of the recovery must be cautious in the context of imperfect statistics and unreliable business register data (output, employment and wages). Real activity in industry, for example, is measured without maintaining appropriate sampling standards. The official industrial production index grew by about 14 % in 2004 and showed a further slight increase through the first eight months of 2005. Other indicators of activity (such as retail trade, tourism, and electricity consumption) also show that the economy has begun to recover. According to EU data, the real GDP in Montenegro rose by 3 % in 2004, primarily led by the manufacturing, trade and tourism sectors (European Commission, Serbia and Montenegro 2005 Progress Report, November 2005, page 31).

The rate of inflation (CPI average) has been falling steadily, from 20% in 2001 to 3.4% in 2005. Price stability has been a major contributor to recent growth and virtually all prices have been liberalized in the context of a euro economy. Wage demands have begun to moderate, and the average net monthly wage (at €205) in the first eight months of 2005 was just 5% higher than the average for 2004.

The introduction of Valued Added Tax (VAT) in April 2003, with a standard rate of 17 percent, is the key driving force behind higher budgetary revenue and a significant improvement in the public finances. In the first eight months of 2005, VAT revenue increased by about one quarter (25%), and now represents almost half of all tax receipts of the Republic budget. Overall, the consolidated government deficit (without grants and foreign-financed project loans) has fallen from over 6 % of GDP in 2000 to an expected 1.5 % in 2005.

Developments in capital markets during the first 9 months of 2005 imply that the two Montenegrin stock exchanges are growing quickly and becoming a significant part of the Montenegrin economy. More specifically, stock exchange transactions during this period amounted to more than €125 million, which was 300% higher than during the entire year of 2004. This performance suggests that more and more citizens are looking at the capital market as a financial resource and a means to engage in business activity.

In an economy where the Euro is legal tender, such financial development can only be achieved in the context of a strengthening balance of payments. The current account deficit has been reduced from minus 18.6 % of GDP in 2001 to 9.7 % in 2004.

The Government's new 'Economic Reform Agenda 2005-2007', updated with assistance of EU experts, involves a series of policy measures intended to accelerate enterprise restructuring, privatisation and private sector development. It projects an increase in public investments from €60 million to €150 million in 2005 and 2006 and a reduction of employees in the public sector by about 5000. In addition, the Agenda aims to further reduce the budget deficit and curtail public expenditure from 48.6% to 46.0% of GDP.

### **3. Summary of the Action Programme**

A description of proposed project actions within each programme component is provided in the following sections. Background material is also provided for each sector so as to highlight the

justification for the projects subsequently proposed. Further details on individual projects are available in a separate set of Project Annexes.

- **Democratic Stabilisation (approx. €3.0 million)**

A pressing concern continues to be the situation of refugees, IDPs and the Roma community as well as the role of civil society in enhancing the social dialogue. As such the 2006 programme looks to supporting (i) the possibility to refugees and IDPs to choose their most favourable durable solution, to return to their place of origin or to integrate into domestic society; and (ii) assisting other vulnerable parts of society and enhancing the civil society dialogue in the sector of good governance (mainly public administration reform) as well as in other economic and social sectors.

- **Good Governance and Institution Building (approx. €5.0 million)**

The key objective of the programmes proposed in the area of Good Governance and Institution Building is to assist the Republic of Montenegro in strengthening the administrative capacity of its institutions in line with EU standards and best practices. The 2006 programmes stress the following developmental needs of the public administration reform agenda: professional career systems, continuous training schemes, a transparent salary system and an improved capacity in local government to enable them to deliver qualitative municipal services to citizens. It will moreover provide assistance to the reform of the public expenditure management system by the introduction of a medium term expenditure framework. EU policies for integrated border management will be pursued by upgrading border posts with other CARDS countries to foster regional integration.

- **Economic and Social Development (approx. €9.5 million)**

The priorities stressed in this section of the Action Programme contribute to socio-economic developments of the Republic of Montenegro by improving the investment climate through enterprise restructuring and development, assisting in the privatization of state assets, supporting efforts to mobilize foreign investment. In addition, the focus is on strengthening trade through developments in the agricultural and food sectors, improving laws and operations of trade related institutions including competition, state aid, consumer protection and supporting WTO accession. Finally, emphasis is given to strengthen the capacity of environmental institutions, upgrade environmental infrastructure and assist labour market reforms.

- **Other, such as GTAF, Programme Reserve (approx. €1.0 million)**

The main purpose of the General Technical Assistance Facility (GTA) is to support the preparation and early implementation of activities under the Action Programme.

The programme reserve covers unforeseen expenditure that may arise during the 2006 programme implementation.

The annual programmes are published on the DG Enlargement web site as well as on the web site of the European Agency for Reconstruction (EAR). All international calls for tenders or calls for proposals are published on the web site of Europe-Aid and all locals on local newspapers and on the web-site of the EAR.

### **3.1 Democratic Stabilisation (approx. €3.0 million)**

The components outlined below deal with proposed programmes/projects in the sector of Minority Rights and Refugee Return as well as Civil Society.

#### **3.1.1 Minority Rights and Refugee Return (approx. €2.0 million)**

***Background and cooperation related policy of the beneficiary country and Republic***

During the conflict arising from the break up of Yugoslavia, Montenegro became host to many refugees and Displaced Persons. At one point the number of those seeking refuge from neighbouring territories amounted to 20% of the total population. In the course of time, and with the assistance of international humanitarian organisations as well as that of the Government of Montenegro (GoM) many succeeded in returning to their homes. Nevertheless, a relatively large number (26,500) of IDPs and Refugees remain in Montenegro, without much hope of return and with a desire to formalise their status. About 70% of these are IDPs from Kosovo.

The desired option of the Government of Montenegro, especially its Commissariat for Displaced Persons (MCDP), is to facilitate return. However, among the international donor community it is widely recognised that many cannot or will not return for security reasons. Thus there is now a need for two parallel implementation strategies, allowing the possibility to refugees and IDPs to choose their most favourable durable solution. The first solution would aim to assist refugees and IDPs to achieve self sufficiency and a financially and socially equal position to that of the other citizens of the Republic. The second direction would aim at ensuring conditions for repatriation of refugees and IDPs to the places of their habitual residence in Kosovo, Croatia and Bosnia.

### ***Coherence with EC cooperation policy and the MIP***

The 2005/06 MIP states that, support for economic development must also recognise the need to address the needs of the significant refugee population.

The European Partnership calls for adequate co-operation between the State Union and Republics as regards the legislative basis and practical protection of the rights of refugees, displaced persons and minorities. It also has as a priority to ensure full respect for human rights, including access to health services, easy access to personal documents; ensure right of a real choice between sustainable return and integration and to facilitate integration for those who choose not to return. Specifically for Montenegro, the Communication on the preparedness of Serbia and Montenegro to negotiate an SAA with the EU (SAA Feasibility Report) states that the current Montenegrin legislation has serious deficiencies in areas such as access to employment and related rights (health care and pension funds) coupled with voting restrictions for IDPs.

In line with these objectives, the 2006 programme will contribute to conditions for return and in domestic integration as well as promote regional cooperation.

### ***Identified projects***

#### **3.1.1.1 Support to the return and integration of Refugees and IDPs in Montenegro (approx. €2 million)**

EU funds will (i) support local integration of IDPs in targeted municipalities through housing assistance schemes with particular emphasis on partial self help and rehabilitation; as well as through increasing access in general to employment, income generation and specific training opportunities; (ii) support vulnerable refugee/IDP groups (e.g., the elderly, orphans) with specifically targeted support activities; and (iii) support returns through developing cross border linkages and referral systems.

#### **3.1.2 Civil Society (approx. €1 million)**

### ***Background and cooperation related policy of the beneficiary country and Republic***

Despite significant assistance by international donors for the past few years, the civil society sector in Montenegro is still weak and needs further strengthening. The sector currently represents an estimated 2500 registered organisations, of which only about 1% can be considered as genuine, i.e. active NGOs with operational and financial sustainability.

Most of the NGOs in Montenegro lack human and financial resources and have little capacity to handle donor funding. Only a few are able to define missions, visions, objectives, goals, etc. And most of those are NGOs active in the field of human rights (especially women and children's rights) and democracy. Many of these have received training from different donors on advocacy on legal change, project development, cross sector collaboration among their constituents and communities. Following advocacy initiatives by some powerful NGOs, a significant number of laws have been amended and/or adopted. As a consequence of their improved image, these more mature NGOs have been included recently in public debates on different policy issues, consulted on draft legislation, etc. For example, with the participation of civil society an Action Plan was adopted by the Government in November 2003 to implement the Poverty Reduction Strategy Paper (PRSP).

In particular, the Action Plan focuses on (i) social sector reforms (basic service provision and economic inclusion for the most vulnerable parts of the population); and (ii) strengthening the role of trade unions as civil society institutions, which assist in building social partnerships aimed at solving unemployment and related socio-economic issues of relevance to their members, such as housing, education and training, gender policies.

Regulatory framework for NGO operations envisaged by the Action Plan has been mostly ensured with the amended NGO law. A Memorandum of Understanding has been signed between several prominent NGOs and ministries including the Ministry of International Economic Relations and European Integration. However, the lack of strategy for the cooperation between NGOs and the Government is still seen as an impediment to NGO development. In addition, the Civil Service and Judiciary have been deprived of the right to negotiate collective bargaining agreements. On the other hand, the Labour Law guarantees the right to social dialogue to all members of society and the Trade Unions are determined to acquire collective bargaining skills.

As a pendant to the Trade Unions there is also a recently established Montenegrin Union of Employers. It is also an NGO and together with the trade unions could play an important role in addressing increasing unemployment/redundancy issues in Montenegro.

### ***Coherence with EC cooperation policy and the MIP***

The Country Strategy Paper for the Federal Republic of Yugoslavia emphasises that building democratic society based on respect of human rights and the values of equality and pluralism will require the participation of civil society actors, including NGOs and professional associations. The European Partnership as well calls for Montenegro to support development of NGOs by fostering adoption of the strategy for the cooperation between NGOs and governmental bodies.

Specific 2005-2006 MIP objectives (shared in a more general fashion by the SAA Feasibility Report) related to the civil society are focusing on enhanced social dialogue, increased involvement of civil society in the policy making process and improved cooperation with public authorities in order to enhance civil society's contribution to Montenegro's economic and social development. This corresponds to the European Partnership priority related to the adoption for a strategy for cooperation between NGOs and governmental bodies.

In line with these objectives, the 2006 Civil Society programme intends to support the involvement of civil society organisations in the implementation of the Poverty Reduction Strategy Paper agenda. Emphasis will be placed on partnership projects between local governments/public authorities, business and non-profit sectors aimed at contributing to social protection of the most vulnerable and deprived, economic development and increased employability of the unemployed. It will also support an enhanced social dialogue between relevant social partners

In the past few years EU funds have been used to support democratisation, human rights and confidence building measures between ethnic communities within the framework of the European

Initiative for Democracy and Human Rights (EIDHR) programme. The 2006 Programme complements actions under the EIDHR and enhances those covered by EU Integration Fund Programme (Serbian Programme). It also enhances the ongoing EC assistance and planned initiatives in the sector of good governance (mainly public administration reform) as well as in the economic, VET and environment sectors.

### ***Identified projects***

#### **3.1.2.1 Support to the Civil Society Sector**

EU funds will be used to: (i) support partnership projects addressing main challenges during the transition, i.e. social exclusion, poverty and unemployment (Civil Society Organisations have opportunities to provide community based services, such as home care of the elderly, services to adults and children with disabilities, reintegration and aftercare of children and adults from institutions, identification of employment needs and pre-qualification of those made redundant, etc.) and (ii) assist the trade unions and in particular the Trade Union for Civil Servants and Judiciary in acquiring knowledge and skills indispensable for participation in social dialogue related to the ongoing reform processes.

Assistance will be provided in reviewing and implementation of the Trade Union's Action Plan. Joint training will be organised for trade union members and employers' representatives on Remuneration System for Civil Servants, on internal labour market - how to use it in the best way and avoid redundancy issues. Training components will also include training for trade union leaders and members on specific techniques and the best social dialogue model applied in the EU.

#### **3.2 Good Governance and Institution Building (approx. €5.0 million)**

This priority sector includes programmes on Public Administration Reform and Integrated Border Management.

##### **3.2.1 Public Administration Reform (approx. €3.5 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

The Serbian and Montenegrin constituent Republics have almost exclusive responsibility in the area of Public Administration, including organisational issues, salaries and staffing. Both Republics have undertaken Public Administration Reform recognising that it is one of the cornerstones of the SAP, since it addresses the administrative capacity, and legal framework, which must be sufficient to develop and implement EU-related legislation and policies.

In March 2003, the Montenegrin government adopted a Public Administration Reform Strategy, which lists the main aims and contents of reform activities to be executed to 2009. The Strategy was prepared by the Ministry of Justice, together with a technical assistance team funded under a related 2002 CARDS project. It focuses on reforms of central and local government and has become an object of inter-ministerial discussions and public debates including participation of civil society actors.

In June 2005, the Government adopted a new Economic Reform Agenda, which lists briefly the main activities to be executed in different policy areas in order to foster economic development and bring the country closer to the EU.

Both the Public Administration Reform Strategy and the Economic Reform Agenda stress the following developmental needs of the public administration: professional career systems, continuous training schemes for civil servants, recruitment and retention policies for qualified staff;

a transparent salary system, and improved capacity in local government to enable it to deliver quality municipal services to citizens.

With the help of EU and other donor funded programmes, some progress has been made on the legislative side over the last years. Nevertheless, both at central and local levels of government, it is still at an early stage of implementation and further assistance is needed to assure that the reforms are effectively implemented under the new legislative framework. Additional assistance is needed at the central level to ensure full implementation of the civil service legislation. At the local level more assistance is needed to align legislation and its implementation with EU “best practices”, e.g., division of responsibilities (administrative and financial) between local and central levels, formulae for allocating monies from an equalisation fund, etc. Further additional support is also needed by the Ministry of Finance to prepare and implement a medium term financial plan on a rolling 3-year basis, which is in line with good EU practices. Moreover, assistance is required to build the capacities of the Ministries to gradually meet the requirements for the decentralised management of EU funds.

### ***Coherence with EC cooperation policy and the MIP***

The 2005-2006 MIP states that there is a need for promoting an efficient and accountable administrative system both at central and local level, while reducing corruption and “brain-drain” through establishment of systematic civil service training and recruitment.

The European Partnership notes that priority actions for Montenegro to move closer to European Union standards in public administration are as follows: (i) an effective implementation of the public administration strategy with a particular focus on civil service reform, the civil service pay system, transparent recruitment, professionalism and accountability, and (ii) the sustainability of the Authority for Human Resources Management. It also reinforces the need to increase the capacity of the central and local administrations and their need to define their administrative and financial roles and responsibilities.

The SAA Feasibility Report recommended promoting the implementation of laws and focus on the development of administrative capacity. It also underlines the need for development and implementation of transparent and impartial recruitment procedures, human resources management and career development for the public service, continued training and the promotion of ethics within the public administration.

### ***Identified projects***

#### **3.2.1.1 Strengthening of the Montenegrin Public Administration**

EU funds will: (i) assist in implementing civil service and related salary system reforms and in strengthening the strategic role of the Authority for Human Resources Management; (ii) assist in revising and implementing the local government legislative framework together with the Council of Europe; (iii) assist the Ministry of Finance in developing and possibly implementing a medium term financial framework on a rolling 3-year basis; an (iv) assist in implementing the treasury and personnel information systems and fund related equipment; (V) assist in developing capacities and establishing the structures necessary to implement EC assistance under the decentralised implementation system.

#### **3.2.2 Integrated Border Management (approx. €1.5 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

The emergence of five new states from the break-up of the former Yugoslavia has created over 5,000 kilometres of new international borders in the Western Balkans. Physical facilities at the recognised border crossing points (BCPs) were introduced rapidly. However, due to inadequate available financial resources, border control personnel are obliged to operate with poor infrastructure and equipment resulting in inefficient security and customs inspections with a consequential reduction in effective control.

The Government has undertaken a needs assessment in order to identify a prioritised list of international BCPs requiring upgrading. This list has been subjected to a process of rationalisation by EU consultants taking into account the recommendations of the Regional Balkans Infrastructure Study (Transport) and the principal of providing only one BCP per international border of sufficient capacity to handle international trade and passenger traffic, including customs procedures for export, import and transit.

Following adoption of Government's IBM strategy, its implementation will be supported by various ongoing and proposed programmes, for example, the CARDS Regional IBM programme, CAFAO, the CARDS 2005 JHA programme and USAID. The Agency believes that the committed level of assistance is sufficient at present to ensure effective implementation of the institutional elements of the strategy.

However, currently infrastructure at the majority of Montenegro's international BCPs remains inadequate – many have no facilities for detailed inspection of vehicles, parking areas for cars and commercial vehicles are lacking, electricity generators are unavailable and communications systems are outdated. Facilities for the personnel operating the BCPs are also sub-standard – office accommodation is of poor quality and sanitary facilities are inadequate.

The net effect of these factors adversely affects the quality of border control procedures and the moral of control personnel, thereby jeopardising the fundamental objective of introducing an IBM strategy.

### ***Coherence with EC cooperation policy and the MIP***

The EC Guidelines on IBM (also outlined in various chapters of the SAA Feasibility Report) promote the need to establish efficient and effective border management that will enable the citizens to live in an area of security and freedom, where citizens can travel more freely and where their businesses can operate more easily across borders, which are key prerequisites for economic growth and poverty reduction. Enhanced cross border flows will also support the development of more open societies with better understanding and tolerance of their neighbours and their cultural, religious and linguistic differences. Threats related to abuse of malfunctioning border management systems, such as smuggling of goods and trafficking in people, drugs, weapons etc. can be better addressed if authorities responsible for management of the crossing of state borders improve their exchange of information and co-operation. The Guidelines particularly emphasise the need for the development of realistic investment plans to ensure that infrastructure and equipment are in place when needed.

Support to the introduction of an integrated border management system in Montenegro will address the European Partnership's medium-term priority of developing the technical infrastructure and human resource capacities to implement the Integrated Border Management policy including strengthening the border police and the customs services. It will directly address the EP requirement to improve cross-border facilitations through upgraded border posts.

The 2005-2006 MIP also highlights the need for improvement of effective border crossings, including upgrading of roads and railways border posts. The focus should be on the borders with other CARDS countries to strengthen regional integration, as the main border crossings along the Trans-European Networks are being addressed in previous programmes.

### ***Identified projects***

### **3.2.2.1 Support to Integrated Border Management**

Essentially, EU funds will be used to rehabilitate and/or equip selected priority international border crossing points including access infrastructure.

## **3.3 Economic and Social Development (approx.€9.5 million)**

This section provides the outline of programmes to be implemented in the areas of investment climate (enterprise development), trade, environment, and labour market reform.

### **3.3.1 Investment Climate – Enterprise Development (approx. €2.5 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

The stable political and macro-economic environment, positive trends in the region and continued donor support have created a better climate for the enterprise sector in Montenegro. However, difficulties in implementing economic reforms have kept economic growth rates at rather modest levels. Government's actions in the area of economic reforms and private sector development are guided by a strategic policy document entitled: 'Economic Reform Agenda 2002 – 2007'. The initial priority of the reform strategy was to create a stable legal framework and macro-economic environment for business. Current priorities (recently revised with EU assistance) assign much greater importance to acceleration of economic growth, resolution of regional imbalances and development of strategic sectors of the economy, with a focus, amongst others, on sustainable tourism and rural development. These goals should be achieved through stronger support for strengthening competitiveness and export capacity of the enterprise sector, acceleration of restructuring / privatisation, and establishment of public-private-partnerships (PPPs) in strategic sectors of the economy.

Under the present schedule most of the remaining (approximately 100) state-owned enterprises with an estimated workforce of 35,000 would be privatised within the next 2-3 years, except for a specified group of public utilities. The recent successful privatisation of the Telekom Montenegro, Podgoricka Banka and several hotels, as well as initiatives to sell the aluminium and other larger industries, indicate that the Government is accelerating the pace of enterprise privatisation.

EU funded assistance programmes have facilitated restructuring, privatisation and development of a large number of Montenegrin enterprises. But the overall process needs to be extended and requires further support. For example, assistance is needed to privatise and/or establish PPPs in the distribution and supply units of the electric utility company EPCG in accordance with the respective privatisation strategy adopted by the Government. On-going EU programmes will help Montenegro to create the initial capacity within the public sector to establish PPPs. Future technical assistance should build on these efforts and increase capacity for handling multi faceted PPP projects through practical on-the-job training and assistance in implementation of concrete projects in strategic sectors of the economy such as tourism.

Previous efforts have also been directed at improving enterprise and financial sector policies, legislation and strengthening the capacity of the institutions involved in enterprise development; for example, they helped to establish the first national SME agency (Directorate for SME Development), along with a network of regional business centres and a Euro Info Correspondence Centre (EICC). Future action should build on these efforts through the establishment of new forms of business support services, including the establishment of business incubation services.

The Government and local municipalities have thus far succeeded in protecting some of the most precious coastal areas spared for high quality tourism development from uncontrolled urbanization. The local lack of resources and professional skills to create conditions for their sustainable

development has prompted the Ministries of Tourism and Environment to jointly seek EU support in addressing these gaps. Technical assistance is needed to help organise the authorities and associations of owners, preferably in the form of PPPs to prepare the appropriate studies and conceptual plans, and to stir the interest of credible international investors to develop these locations for high-end tourism in line with the objectives of the government's National Tourism Master Plan.

### ***Coherence with EC cooperation policy and the MIP***

The European Partnership, in the short term, stresses the need to speed up the restructuring, privatisation and/or liquidation of large socially- and state-owned enterprises as well as of large publicly-owned utilities. In the medium term, the European Partnership underlines the need to improve the business environment, with emphasis on making it more conducive to private sector development and employment with competitive markets, establishing level playing fields and enhancing access to finance through financial sector development; and to implement the European Charter for SMEs. The 2005-2006 MIP underlines the above recommendations and adds the need to introduce measures, which would alleviate the resulting social costs.

The 2005-2006 MIP assigns priority to assistance in enterprise privatisation and restructuring, including pre- and post-privatisation, Turn Around Management support to enterprises. Furthermore, it calls for developing concrete plans for more sophisticated business support services, currently virtually absent, such as business incubators, SME clusters and business/technology parks.

The SAA preparedness report by the European Commission identifies the need to improve the overall business environment and to continue with development (privatisation and /or restructuring) of the enterprise and financial sectors as key inputs to Montenegro's social and economic development.

### ***Identified projects***

#### **3.3.1.1 Support to enterprise reform, privatisation and investment promotion**

EU funds will (i) support a TAM / BAS programme for rural areas, which will strengthen SMEs, promote exports and help to establish business incubation services; (ii) provide advisory support for the privatisation of public utilities by developing enterprise specific privatisation strategies and supporting the implementation of privatisation transactions; and (iii) support the establishment of public private partnerships (PPPs) in strategically important sub-sectors (e.g. tourism).

#### **3.3.2 Trade (approx. €2.5 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

Government action in the area of economic reforms is guided by its strategic policy document entitled: 'Economic Reform Agenda 2002 – 2007', recently revised with the assistance of EU funded experts. The principal objective of the Agenda is to improve the business environment for private sector development and the overall competitiveness of Montenegro's economy. To achieve this objective, Montenegro will need assistance in a number of key areas including the alignment of laws, rules and regulations with the *acquis* as well as strengthening relevant administrative and enforcement capacity in trade, competition, state aid and consumer protection.

The SAA preparedness report singles out competition, state aid and consumer protection as areas where weaknesses exist in relation with the *acquis*. The Government incorporated these observations in its updated Action (Work) Plan for 2005/2006, taking into account activities of other

donor organisations. The Government's Commission for Coordination of the EU Accession Process, which supervises the implementation of the Action Plan, will continue to focus on the following activities:

In the area of trade, the Economic Reform Agenda for 2005/07 assigns high priority to: harmonisation with EU regulations, WTO accession, implementation of regional free trade agreements, and increasing the competitiveness of domestic enterprises.

The Ministry of International Economic Relations and European Integration (MIEREI) coordinates multilateral and bilateral negotiations with WTO and its members. By mid-2006, Montenegro is expected to be well advanced in the negotiation process. The first working party has already taken place at the beginning of October 2005. Bilateral negotiations with WTO members on trade of goods and services have been initiated. USAID and the EU funded Policy and Legal Advice Centre assist in addressing a number of WTO-related issues, such as compliance with the EU tariff schedules, improvement of existing legislation in the field of trade defence instruments, etc.

A new law on Foreign Trade, including an implementing decree, has been adopted. Customs systems and procedures have been improved. A set of laws on protection of intellectual property rights has been adopted at the level of Serbia and Montenegro, as well as a law on the application of these laws in Montenegro. Also, a number of regional free trade agreements will soon become effective, raising implementation issues such as rules of origin and customs valuations. However, a number of trade-related laws remain to be drafted and/or adopted. To illustrate: the law on consumer protection and regulations pertaining to state aid does not meet EU norms, in particular in distinguishing between acceptable and non-acceptable subsidies.

The proposed 2006 programme will assist Montenegro in further harmonising its trade laws, rules and regulations related to the *acquis* and strengthen relevant institutions in their administrative and enforcement capacities.

In this context, it should be noted that parallel actions at the State Union level would focus on intellectual property rights, standardisation, accreditation and metrology, while the activities in the two Republics would target areas of the SAA preparedness study of April 2005.

The impact of WTO accession and the SAA is particularly demanding on the Agriculture and Food Sector as the dismantling of tariff and non tariff barriers and limitations on direct and indirect support measures will increase competitive pressures at home. This in turn requires policy change and strengthening of the capacity in policy analysis and formulation. More attention will need to be given to defining a framework for rural development and move sector support to "green box measures". Trade in products of animal and plant origin calls upon Montenegro to meet the legal and institutional requirements of the Agreement on Sanitary and Phytosanitary Measures. In order to benefit from access to the EU market it moreover needs to accelerate the harmonization of its veterinary, phytosanitary and food hygiene legislation to a rapidly evolving and ever more demanding *acquis* and strengthen its capacity of inspection and control. This is critical as third country trading partners will need to provide assurances of having equivalent legislation and systems in place.

Whilst advances have been made with the enactment of a new veterinary act and with harmonization of plant health, plant protection products and seed and seedlings legislation underway, dedicated assistance to this sector is needed to adopt a strategic approach towards legal harmonization and introduce the technical skills required to implement it.

### ***Coherence with EC cooperation policy and the MIP***

The CSP 2002-06 includes economic recovery, regeneration and reform focusing on economic development as the main priorities. The establishment of an appropriate legal and administrative framework and capacity building for the Stabilisation and Association Process (SAP), including

current negotiations of a Stabilisation and Association Agreement (SAA) and its implementation in the areas of trade and internal market are key objectives of the 2005-2006 MIP. Both the European Partnership document and the SAA Feasibility Report point to SCG's need to sustain commitments to reform, to regional trade liberalisation and improving the capacity to conduct three separate negotiation processes at the same time, i.e. the SAA, WTO accession process and the regional process for further development of the Free Trade Agreements (FTAs).

Planned assistance under the 2005-2006 MIP in the areas of trade and internal market aims to bring the laws, policies and regulatory institutions in line with the *acquis*, strengthen the relevant administrative capacity and create an environment conducive to trade and economic growth in line with the "twin track" approach.

The European Partnership calls for efforts to align rules and regulations on standardisation, certification, metrology, accreditation and conformity assessment with the EU *acquis* to create conditions favourable to trade and for the establishment of the legal framework and administrative capacity for active consumer protection in line with EU consumer policy. It also calls for strengthening protection of the Intellectual property rights.

The European Partnership's medium-term priorities call for the adoption of an overall strategy covering agriculture, rural development, fisheries and food safety matters; increasing capacity building of the Ministry of Agriculture; implementation of the Veterinary Law (including fishery products) and putting into operation the veterinary and phyto-sanitary laboratories, as well as the establishment of improved food chain safety controls.

In a similar vein, the SAA Feasibility Report states that Montenegro should accelerate the harmonisation of veterinary, sanitary and phyto-sanitary rules in line with EU standards, not least to help its exports meet international requirements including compliance with applicable rules of origin.

The 2005-2006 MIP encourages continued capacity building within the institutions dealing with agricultural and rural development, in particular support to drafting of laws and regulations in line with EU standards and their implementation; support the alignment of legislation, including veterinary and food safety legislation with the *acquis*, as well as the effective implementation and enforcement of the legislation, including upgrading inspection arrangements, in particular at external borders.

### **Identified projects**

#### **3.3.2.1 Legal and Institutional Reform of Internal Market and Trade**

EU funds will support the following main activities: (i) assistance in further refining existing laws and regulations relating to foreign trade, competition and consumer protection as well as assistance in establishing a legal framework for state aid; (ii) assistance in establishing and/or strengthening the related institutions, e.g., an independent competition authority, an independent state aid monitoring authority and a consumer protection body; (iii) assistance for related training activities, e.g. on rules of origin, anti dumping; enforcement of intellectual property rights, enforcement of competition regulations, etc.; and (iv) development and implementation of related public awareness campaigns; (v) assist the creation of a trade and policy advisory unit in the Ministry of Agriculture and advance WTO and EU compliance of trade related agriculture and food legislation and corresponding institutional development; (vi) assist with supplies and refurbishment of work space including food safety relevant laboratory infrastructure and food traceability systems.

#### **3.3.3 Environment (approx. €3 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

Protection of the environment and sustainable development are high priorities for the Montenegrin administration. To date, EU assistance, in partnership with the Ministry of Environment and Physical (Urban) Planning (MEPP), has supported strategic master planning and project identification in wastewater/solid waste sectors. The Government's environment priorities include the first stages of adaptation of existing environmental protection and framework legislation to approximate to the *acquis*. The Government also recognises the need to separate responsibility for developing environmental legislation and strategic policy from enforcement.

The existing Environment Law is a good example of a framework law based on modern principles of environmental protection and management, and is considered to be broadly consistent with EU principles of environmental management. It contains the basic elements of a strong environmental protection system, and is designed to be supplemented by detailed laws, regulations and guidelines adopted by the Government, the responsible ministries, and the municipalities. The law establishes MEPP as the central environmental protection authority of the Government. MEPP prepares draft laws, adopts the regulations, implements the environmental impact assessment process, issues environmental permits, gathers environmental data, inspects and controls compliance with the law, and can raise and administer funds to be used for environmental protection purposes. Its authority covers the protection of the air, water, soil, and the management of waste and nature, including cooperation with other ministries where necessary.

The MEPP is evidently overloaded with a wide variety of responsibilities and is significantly under-resourced. Unfortunately it is poorly organised and managed and thus plays a minimal role in the critical areas of government policy and strategy. It is also handicapped with inadequate technology, information and documentation systems. Additionally, the roles, relationship, boundaries and linkages between MEPP and other ministries and state agencies having considerable degree of environmental authority are ambiguous and not clearly delineated.

For these reasons, implementation/enforcement of new legislation is rather slow and Montenegro cannot fully utilize the benefits of increased regional cooperation and full participation in the upcoming Stabilisation and Association process. These deficiencies in institutional structure and capacity need to be addressed. A clear definition and distribution of competences, with no overlapping, should be established. The line Ministry should continue to be responsible for legislation and regulations relating to the environment, urban planning, housing and public utilities. An Environmental Protection Agency should be established to assume responsibility for enforcement. Municipalities should be provided with the means to ensure, within their jurisdiction, that all local activities and operations are performed in compliance with rules and regulations.

### ***Coherence with EC cooperation policy and the MIP***

The European Partnership identifies as a short-term priority the development of an overall environmental protection strategy, which would adapt environmental protection framework legislation in line with the *acquis* and the setting up of an environmental protection agency. Interventions under the 2005 Action Programme address these priorities. Ongoing and proposed 2006 programmes help to address the SAA preparedness report requirement to accelerate regulatory and institutional reform in Montenegro in order to strengthen the basis for implementation of a consistent and effective environmental policy.

The 2005-2006 MIP highlights the need to protect citizens from health risks linked to toxic pollution of air, water and soil by aligning legislation with the *acquis* as well as the effective implementation of the legislation and by strengthening capacity of environmental authorities and their institutional coherence.

**Identified projects****3.3.3.1 Support to the Environment Sector**

EU funds will be used (i) to provide technical assistance to the Ministry of Environment and Physical (Urban) Planning focusing on continued legislative and institutional reform, further development of the Environmental Protection Agency and enhancing capacity of the Project Implementation Unit; and (ii) identification and procurement of priority environmental works and equipment.

These projects will result in beneficiary institutions acquiring a greater capacity to operate effectively within an improved institutional framework with an emphasis on the separation of legislative and enforcement responsibilities. Existing environmental framework legislation will be developed in line with the *acquis*. The line Ministry will be provided with the means to develop rationalised strategic investment plans and to monitor implementation of investment programmes. The ability to attract external sources of investment funding will be enhanced. Environmental infrastructure and equipment will be upgraded based on the priority needs identified in strategic investment studies.

**3.3.4 Employment - Labour Market (approx. €1.5 million)**

This section of the Action Programme is comprised of a project dealing with labour market reforms.

**Background and cooperation related policy of the beneficiary Republic**

Although the Montenegrin economy is showing clear signs of recovery, the limited scope for productivity gains, the privatisation programme, the rigidities in the labour market and the lack of foreign investment, will keep the unemployment rate at high levels over the next few years. This would be in line with experiences of other transition countries. The changes in the structure of employment reflect the movement towards a modern market economy. But the process will be a long one. While net job creation is lacking, there are job opportunities emerging, albeit not on the scale associated with modern market economies. A new framework of labour market regulations and action plan should produce a more dynamic labour market.

Reference to a number of key indicators underlines a critical and increasing problem with unemployment. Official joblessness figures for 2004 stood at 22.6 % (of labour force, EU data) of which some 75% are long-term unemployed. More worrying is youth and female unemployment: approximately 50% of 16-25 year olds are out of work, with female unemployment standing at 55%. Regional disparities in unemployment are evident: North region – 39%, Central region – 42% and South region – 19%. The problem is set to be exacerbated by two further factors; firstly, as the privatization process continues, it is estimated that some 15,000-20,000 jobs are potentially at risk, mostly affecting older workers; secondly, the implications of the 2005 IMF public spending restrictions agreed with the Government may result in a reduction in public service workers by 5,000 (policy, military, public administration).

A 2005 European Training Foundation (ETF) labour market review examined existing policies, structures and measures underpinning labour market reforms with particular reference to economic restructuring, employment, education and training. In particular, the following areas were considered: (i) overall policy coherence; (ii) enterprise adaptability; (iii) accessibility and sustainability within the labour market; (iv) training; and (v) labour market governance arrangements. The proposed 2006 assistance programme reflects these concerns. It will help to align policy and governance arrangements of the labour and public employment administration service with the wider socio-economic policy framework, in keeping with broader developments of the EU Employment Strategy and the wider Copenhagen and Bologna processes.

Apart from drawing on EU developments in vocational education and training, Montenegro has not opened a dialogue on how the education system, curriculum reforms, teacher training and the contribution of University-based research and development should be shaped to meet the demands of key areas of the economy and an evolving knowledge and entrepreneurship society, including underdeveloped university/enterprise cooperation. These issues need to be addressed if Montenegro is to join mainstream EU developments and benefit from its human capital potential.

### ***Coherence with EC cooperation policy and the MIP***

The FYR Country Strategy Paper (2002-2006) identifies education, training and labour market reforms as among the priorities to be supported by the EU with employment promotion considered as key to development of democracy and political stability. In particular, the CSP recommends measures to mitigate the adverse social and employment consequences of economic reform including large-scale down-sizing. In this regard, the European Partnership gives particular attention to development of an employment strategy and training measures for the unemployed with improvements for the public employment services. Both the Country Strategy Paper and the European Partnership are reinforced by the 2005-2006 MIP, which foresees EU support for capacity building of the Ministry of Labour, employment service and social partners in the bid to tackle employment concerns. The SAA framework underpins an evolving national reform agenda which is increasingly more inclusive of employment and workforce development concerns.

### ***Identified projects***

#### **3.3.4.1 Labour Market Reform and Workforce Development**

In essence, EU funds will enhance the capacity of the Ministry of Labour and Social Welfare in labour market policy formulation and clarify institutional links between the Ministry and the Montenegro Employment Agency.

More specifically, support will be provided to: (i) both bodies for development and modernisation of policy and executive responsibilities; reinforcing social dialogue capacity and social partnership in the area of labour market reform and workforce development will be a central feature of this component; (ii) develop a National Action Plan for Employment, including an implementation plan, operational arrangements and funding implications for an 'employment fund' to support active employment measures (training, counselling, self-employment support) for specific target groups: lay-offs (as a consequence of privatisation and plant closures), women, youth, long-term unemployed and minorities; (iii) develop labour market and employment statistics, information systems, analysis, research capacity, monitoring and reporting systems; and (iii) facilitate a dialogue on life-long learning strategies in Montenegro by establishing a national partnership for innovation in the learning system to meet the needs of the next generation and beyond.

The programme could engage technical support and coaching from a similar policy making body in an EU Member State. Particular emphasis will be given to how the learning system can be more responsive to key economic sectors (e.g. food processing), the small business sector and wider communications technologies.

#### **3.3.5 GTAF (General Technical Assistance Facility) and Programme Reserve (approx. €1.0million)**

The main purpose of the General Technical Assistance Facility (GTAF) is to support the preparation and early implementation of activities under the Action Programme. It will moreover support monitoring, evaluations and audits and deployment of complementary short term technical assistance as may be required.

The Montenegro 2006 Programme Reserve will be used to cover additional programme related priorities and expenditures that are currently unforeseeable, including emerging needs to deal with unforeseen institutional developments which may have an effect on the Republic, and with unforeseen issues related to the future status of Kosovo.

#### 4. Past EC assistance and lessons learnt

Between 1998-2005, the EU committed over **€259.2** million to Montenegro. The funds were used for emergency and humanitarian relief, reconstruction and development activities and balance of payments support. Furthermore, the EU assistance has gradually shifted to more development type of activities, especially with regards to institution building and sectoral capacity building measures linked to EU integration.

Reconstruction and development assistance (CARDS/OBNOVA)	€128.3 million
Humanitarian assistance (ECHO)	€74.5 million
Macro financial assistance	€35.0 million
Others (EC food security programme)	€21.4 million

As of 14 December 2005, the Agency's global rate of contracting for combined 1998-2005 EC funds in Montenegro was 89% funds contracted and 81% disbursed.

#### **Lessons Learnt**

Some of the most valuable lessons learnt during the preparation of the 2006 Action Programme may be summarised as follows: (i) only proposals and projects that are mature and can be implemented in a reasonable time frame and with tangible results should be developed; (ii) the wider mobilisation of civil society actors would prove valuable in Montenegro to generate greater support for the reform process. This would contribute to addressing the slow pace of project implementation in key sectors such as Public Administration Reform and Justice and Home Affairs; (iii) when doing physical rehabilitation, all permits (i.e. land rights and building permits) and detailed designs must be in place and received on time; (iv) in the case of Montenegro it is clear that the passing of legislation is not sufficient to ensure the necessary enabling environment for project success; new legislation must also have a clear implementation strategy; (v) proper coordination and cooperation from other donors must be ensured when trying to deliver important messages to the Government; (vi) the EU and other donors must push for adoption of laws vital for smooth implementation of projects; (vii) a Memorandum of Understanding should be signed whenever competencies and responsibilities between stakeholders are unresolved or not clear; (viii) the Montenegrin administration should be encouraged to develop a greater inter-sectoral awareness relating to the utilisation of EU co-funding. This is particularly the case with the sectors of environment and economic development.(ix) Experience in other countries indicates that appropriate planning in time with due advance and vis a vis operational capacity is of crucial importance in view of the future context of assistance under IPA

#### 5. Complementary actions<sup>(1)</sup>

The main objectives of EU-funded programmes managed by the Agency are: (i) to support good governance, institution building and the rule of law; (ii) to continue supporting the development of a market economy while investing further in vital physical infrastructure and environmental actions and (iii) to support democratic stabilisation, social development and strengthening of civil society.

<sup>1</sup> Detailed information on complementary activities, activities of other donors and the Government can be found in the individual sector annexes

These objectives contribute to the all-encompassing goal of this Action Programme which is to help the Administration prepare for subsequent EU accession.

All ongoing and future projects implemented by the Agency reflect the objectives outlined above. The present Action Programme relies on lessons learnt and experience from the previous CARDS national programmes and the regional CARDS programme. CARDS regional and national programmes complement each other in the areas of institution building, justice and home affairs, environment, integrated border management, transport, civil society, etc. Preparation of the 2006 programme was also closely coordinated with the EC Delegation in Serbia and Montenegro. Activities of other donors have also been taken into account during the preparation of this programme. During the design of projects it is of the utmost importance to make sure that no overlaps with activities of other donors occur. The donor coordination process is described below in Section 6.

The Government's role in the implementation of EU programmes should be related to, but not limited to, backing the legal and policy reform within a given sector and facilitating investments by providing adequate and competent staff necessary for the implementation of projects. The EU encourages the Government to work on and subsequently produce sector strategies. A strategy puts the EU assistance in a certain context and provides both the Agency and the beneficiaries with a rationalised focus for future funding.

Operational links will be established with the EC's Joint Research Centre and have already been established with the European Environmental Agency in Copenhagen. These will be further strengthened in 2006.

## 6. Donor coordination

The Agency's Operational Centre in Belgrade hosts regular co-ordination meetings with EU Member States representatives. Depending on the topic of the meeting, the Agency sometimes invites other multilateral and bilateral donors active in a particular sector. This gives both the Member States and donors an opportunity to learn more about each other's programmes and to improve coordination. Furthermore, the Agency staff is involved in frequent coordination meetings with all major multilateral and bilateral donors, i.e. USAID, World Bank, EBRD, EIB, OSCE, UNDP, UNHCR, CoE, CIDA, Norway, the Swiss SDC and others. Such communications are more frequent and efficient in those areas corresponding to EU programmes.

The Agency in Montenegro also participates in coordination meetings with a range of EU and other donors, such as IFIs, the UN family, OSCE, CoE and other major bilateral donors, e.g., USAID, Germany, Greece, France. A very close and fruitful relationship has developed with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The Agency has played a supportive and often catalytic role (e.g., transport and energy) in helping these institutions to prepare and/or manage the implementation of their investments (e.g., road, rail, airports).

## 7. Cost and financing

Priority Sectors	EUR million (+/- 20%)
<b>1. Democratic Stabilisation</b>	
1.1 Support to Returns and Reintegration Process of Refugees/IDPs	2.0
1.2 Civil Society	1.0
<b>2. Good Governance and Institution Building</b>	
2.1 Justice and Home Affairs	--
2.2 Integrated Border Management	1.5

2.3 Public Administration Reform, Programming and Management of EU funds facility	3.5
<b>3. Economic and Social Development</b>	
3.1 Investment Climate (enterprise and agricultural/rural development)	2.5
3.2 Trade	2.5
3.3 Infrastructure	
Energy	--
Transport and telecommunications	--
3.4 Environment	3
3.5 Education and Employment	
VET and labour market	1.5
<b>4. Opening of the EC Community Programmes:</b>	--
<b>5. GTAF</b>	0.3
<b>6. Reserve</b>	0.7
<b>Total*</b>	<b>18.5</b>

\*Note: The Total does not include the estimated running costs of the EAR. The mode of contributions payable to the EAR is governed by a Financing Agreement between the European Commission and the EAR.

The Programme does not include CAFAO and Tempus, for which a separate Financing Proposal will be prepared. The total amount envisaged for these two programmes in Montenegro is €2.0 million: €1.5 million for CAFAO and €0.5 million for Tempus.

For all the sectors of the Annual Programme 2006 the implementation method would be: indirect centralised management, managed by the European Agency for Reconstruction, except for the Programming and Management of EU funds facility in which centralised managed will be applied.