

## ANNUAL ACTION PROGRAMME 2002 FOR MONTENEGRO

### IDENTIFICATION

|                             |  |
|-----------------------------|--|
| <b>Beneficiary state:</b>   | <b>MONTENEGRO - The Federal Republic of Yugoslavia</b>                                   |
| <b>Programme:</b>           | <b>Council Regulation (EC) No.2666/2000</b>  |
| <b>Year:</b>                | <b>2002</b>  |
| <b>Cost:</b>                | <b>€13 million</b>   |
|                             | <b>€11.5 million – EAR</b>   |
|                             | <b>€1.5 million – Commission</b>   |
|                             | <b>€1.0 million – Tax &amp; Customs</b>  |
|                             | <b>€0.5 million - Tempus</b>   |
| <b>Expiry date:</b>         | <b>31.12.2005 contracting</b><br><b>31.12.2006 disbursements (31.12.2007 for Tempus)</b> |
| <b>Sector:</b>              | <b>AA</b>  |
| <b>Group:</b>               | <b>M</b>   |
| <b>Budget line:</b>         | <b>B7- 542</b>   |
| <b>Implementing Bodies:</b> | <b>European Agency for Reconstruction, European Commission</b>                           |

### PROGRAMME SUMMARY

The proposed Annual Programme (outlined below) will continue to assist FRY/Montenegro in its transition towards a market economy, consolidation of political democracy as well as rapprochement towards European structures. It will now increasingly focus on institution building in order to ensure that the economic reforms are embedded in functioning democratic structures and civil society. In particular, the programme reflects the recently approved EC FRY Country Strategy Paper (CSP) and its three-year (2002-4) Multi-Annual Indicative (MIP) programme for FRY/Montenegro. The priority sectors will be:

#### 1. Good Governance and Institution Building

|  |                         |
|--|-------------------------|
| 1.1 Public Administration Reform - General | € 2.0 million (+/- 20%) |
| 1.2 Customs and Taxation                   | € 1.0 million           |

#### 2. Economic Reconstruction, Regeneration and Reform

|  |                         |
|--|-------------------------|
| 2.1 Energy                               |                         |
| - Electricity Sector TA                  | € 1.0 million (+/- 20%) |
| - Emergency Rehabilitation               | € 1.6 million (+/- 20%) |
| 2.2 Transport                            |                         |
| - Road Rehabilitation                    | € 0.7 million (+/- 20%) |
| - Railroad TA                            | € 1.5 million (+/- 20%) |
| 2.3 Environment                          |                         |
| - Sewerage/Wastewater Feasibility Study  | € 0.9 million (+/- 20%) |
| - Sewerage/Wastewater Treatment Facility | € 0.8 million (+/- 20%) |
| 2.4 Economic Development – Enterprises   | € 3.0 million (+/- 20%) |

### 3. Social Development and Civil Society

3.1 Tempus III Programme € 0.5 million

**Total € 13 million**

#### **PROGRAMMING CONTEXT**

The recently adopted CSP identified a series of problems that the FRY needs to address, such as the current lack of a functioning single economic space, high budgetary deficits, institutional and political complexities inside the federation, inefficient public administration, weak judicial systems and wide spread poverty.

The CSP also pointed out other obstacles to sustainable and equitable economic development such as the need to rehabilitate existing infrastructure (in particular in the energy and transport sectors), deal with critical environmental issues and support trade and private sector development.

Finally, in order to promote a truly democratic society and provide adequate social conditions for the population further efforts need to be undertaken to mitigate the adverse social consequences of the economic transformation process by supporting vocational education and training, the university sector, and public administration reform in the social sector, as well as strengthening civil society and media.

The CSP recognises that there are many sectors, which could benefit from EC assistance. But it also recognises that the EC must focus on a limited number of areas having high priority and where EC assistance can have particular impact if it is concentrated. The indicative multi annual programmes and especially the proposed Montenegro programme reflect this philosophy.

The design of the Annual Programme has taken account of lessons learned from reviewing the implementation of EC and other donor programmes in Montenegro and elsewhere in the FRY. Among these lessons are:

- In order to maximise effectiveness, the EC must continue to target its assistance on a restricted number of sectors - the lesson that is now incorporated in the CSP.
- Programme design and implementation must always ensure that the intended recipients of the assistance are engaged in a manner that enables them to maintain a real sense of ownership and helps to transfer knowledge and to develop their capacity.
- When proceeding with physical infrastructure rehabilitation efforts, it needs to be clear that the relevant authorities are genuinely committed to the medium and long-term measures required to ensure sustainability of the interventions.
- Close co-ordination of programmes with other donors continues to be critical if Montenegro is to maximise the benefits it receives from the combined international assistance effort.

- The need to focus on the institutional capacity within the line ministries and other relevant governmental institutions.

Wherever appropriate, assistance to Montenegro seeks complementarities with the components of the FRY Annual Programme being implemented in Kosovo and Serbia and with programmes under the EC's Regional Strategy 2002-2006.

## **GENERAL ECONOMIC AND POLITICAL BACKGROUND**

### *Socio-Economic*

The break up of the former Yugoslavia, the ensuing armed conflicts and economic mismanagement resulted in hyperinflation and a ruined economy. Established markets were lost, traditional production relations were disrupted and the international community imposed sanctions. Montenegro suffered a further severe economic set back as a result of the Kosovo crisis in 1999. GDP dropped by a further 10% in 1999 alone to 58% of the 1990 level. Today, the macro-economic environment remains fragile. In 2001 inflation in Montenegro reached 21.8%, despite the use of the DEM. There has been some recovery in output following the end of the Kosovo conflict. The official rate of real growth in 2001 is estimated to be 3.5% of GDP, but this will likely be exceeded.

Faced with this difficult situation, the government adopted ambitious plans including cutting expenditure on a range of budget items, liberalising the prices of some key staples, better targeting of social benefits, accelerating restructuring and privatisation and freezing the minimum wage. In this regard, a budget for 2002, fully consistent with the IMF agreement was proposed by the government and adopted by the Parliament. A World Bank debt consolidation loan has been approved for FRY, opening the way for agreed structural adjustment financing. A comprehensive enterprise restructuring and labour initiative was designed and adopted by the Government. Finally, a series of legal and other measures have been implemented aiming to improve the overall business environment.

### *Socio-Political*

The Federal Republic of Yugoslavia (FRY) was established in 1992, as a federation of the republics of Serbia and Montenegro after the four other republics of the Socialist Federal Republic of Yugoslavia became independent states. The current population of the Federal Republic is approximately 10.5 million. Montenegro's population is about 650,000.

FRY's federal structure is highly decentralised and fluid. In some areas, the reality differs from its legal form. The federal Constitution gives the republics responsibility for most economic and social functions. The main federal responsibilities are defence, foreign policy, monetary and trade policy.

Economic and political mismanagement during the 1990s resulted in increased tensions between Montenegro and Serbia especially after the election of Milo Djukanovic as President of Montenegro in October 1997. Djukanovic openly opposed the policies of Federal President Milosevic and proclaimed neutrality during the Kosovo crisis in 1999. Djukanovic began to detach Montenegro politically and economically from the Federal government, for example replacing the Yugoslav Dinar with the DEM in November 1999

and subsequently introducing the EURO notes and coins in January 2002 as the only legal local currency. Montenegro has also established a separate customs administration and a Montenegrin Central Bank. As a consequence, the Republic of Montenegro has in practice taken over responsibility for much of its monetary and trade policy although some practical co-operation with the Federal authorities continues (e.g. on the IMF stand-by arrangement).

Following intensive negotiations, facilitated by the EU (SG/HR Solana with some EC technical expertise), Belgrade and Podgorica signed an "Agreement on Principles" on 14 March 2002, agreeing on the restructuring and renaming of the common state. This Agreement must be approved by the republican and federal parliaments, followed by the drafting of a new Constitutional Charter. During this process, the distribution of competencies within the state and with the republics should be clarified, removing some obstacles which have impeded the reform process. The EU is supporting the implementation of the Belgrade-Podgorica agreement, notably by offering advice on practical issues. The Commission is also guiding the overall reform process throughout the state by means of the EU-FRY Consultative Task Force, in which it assesses and advises on key reforms

## PAST EC FUNDING

Total commitments for Montenegro from 1998-2001 amount to €62.3 million.<sup>1</sup> A brief description of this assistance is given below and more details are in Attachment 1.

|      |  |
|------|--|
| 1998 | €4 million   |
| 1999 | €23 million  |
| 2000 | €19 million  |
| 2001 | €16.3 million (includes the €3 million second tranche) |

As of February 1, 2002 the global rate of contracting for combined programme funds was 70%, with the payment rate corresponding to 46% of all commitments (a detailed breakdown is provided in Attachment 1, at the end of this document).

Annex 3 of the FRY MIP document provides a summary of EU Member State and other donor assistance to FRY, including Kosovo.

## ACTIVITIES – FRY/MONTENEGRO 2002

A description follows for the activities to be assisted, preceded in each case by a background justification for the selection of the various projects within each sector. Further details (including Log Frames) of individual projects are to be found in the separate set of **Project Annex** documents.

*Note: the reference numbers for the individual Project Annexes correspond to those used below.*

<sup>1</sup> This figure excludes the Agency's running costs, humanitarian aid provided by ECHO (about €40m), macro economic support (about €30m), customs and other regional programmes.

# 1. GOOD GOVERNANCE AND INSTITUTION BUILDING

## 1.1 PUBLIC ADMINISTRATION REFORM - General

**Programme:** Assist the Montenegrin Republican Government in reforming its public administration

**Cost:** €2.0 million (+/- 20%)

### Background

Before the collapse of the Milosevic regime, the Montenegrin government had demonstrated its willingness to embark upon essential economic, political and social reforms in line with EC norms and standards. It also realised that it must reform the system of public administration and the judiciary in order to combat the entrenched cronyism and corruption, which could stifle the reform process and lead to social/political unrest.

In 1998, the Montenegrin government announced reform plans for a number of public administration areas. It produced proposals and set up working groups and expert teams, which in turn produced a long list of public administration, judicial and local government reform objectives. However, apart from a few draft laws, the output has been negligible because of the lack of human and financial resources and of a realistic strategic plan.

Daily planning responsibility for the reform objectives/activities was given to the Ministry of Justice, which delegated part of the reform activities to the Institute of Public Administration, Judiciary and Local Government (the PA institute). The PA Institute was established by local and international institutions as a "think-tank" for developing reform programmes, drafting legislation and implementing training schemes for civil servants. Unfortunately the PA institute was seriously under-resourced since its beginning.

The presence of more foreign expertise has recently increased the efficiency of the legislative reform process. Drafts laws in different areas are under development and some economic reform legislation was passed by Parliament (budget law, banking law, procurement law, etc). However, few of the institutional reforms envisaged with these initiatives were achieved.

As a consequence many practical institutional change (implementation) problems remain in the public administration arena, which need to be addressed. The most important are:

(i) *A weak legal framework and institutional capacity:* The existing legal framework does not meet generally accepted public service standards of accountability, transparency and efficiency. The administration lacks proper structure, tools and procedures. Some existing administrative laws/procedures are overly bureaucratic and hamper reforms (e.g., the general administrative and civil service legislation).

(ii) *Lack of training:* No training has been provided during the last decade although the mandate of the PA Institute foresees the training of civil servants.

Other principal donor agencies active in this sector are: (i) USAID, focussing on macro economic restructuring (e.g., financial systems reforms, procurement, bankruptcy laws), (ii) the British Council, which provides training (e.g., management and language skills) and (iii) the OSCE and the Council of Europe, which are financing workshops and experts on general administrative laws. Most other donors have limited targeted objectives, whereas the EC assistance focuses on general public administration reforms on a more long-term basis. The below proposed public administration reform activities are closely liased with and complementary to those of the other donor agencies.

## **Project activities**

### **1.1.1 Support for Public Administration reform; train a core of “Young Professionals”**

Provide technical assistance to help adopt an EC oriented legal framework for the general public administration. The list of priorities presented by the Ministry of Justice includes: law on government, laws concerning status and employment of civil servants, salary laws, and law on inspection control. Complementing other donors' interventions, the EC funds will assist in reviewing, drafting and amending the basic administrative legal framework as well as planning the implementation strategies for each law, and providing information to the wider public on the reforms. At the same time support will be given to capacity building and reorganisation of local institutions involved in the drafting and implementation process such as the PA Institute, the Institute of Comparative Law, etc. Minor investments are envisaged to improve related facilities (e.g., books), which can help to increase the performance potential of local institutions in the sector.

A core group of young civil servants will be selected and provided with training in the main administrative reform areas, such as management and restructuring, human resource management, legal drafting and regulatory management. Such training (both short and long-term) should be carried out through participation in training activities of Public Administration Training Institutions in EU Member States.

## **1.2 CUSTOMS and TAXATION – Technical Assistance**

**Programme: Technical Assistance in the fields of Customs and Taxation**

**Cost: €1 million**

**Implementation: Commission**

## **Background**

The development of the Customs and Taxation authorities stagnated during the Milosovic years and the institutions are now in need of a comprehensive programme of modernisation and development to improve revenue collection and the fight against fraud and corruption as well to facilitate legitimate trade. The authorities in Montenegro have aspirations to develop modern customs and taxation services along European lines.

The Montenegrin authorities understand and accept the importance of maintaining operational co-operation with the customs and taxation services in Serbia and Kosovo. There are, however, increasing signs of divergence.

A needs analysis has been carried out using the EU Blueprints, originally developed for the enlargement process, to identify what needs to be done to ensure a comprehensive modernisation of the institutions throughout the territory of the Federal Republic of Yugoslavia.

## **Project Activities**

### **1.2.1. Assist the local authorities to complete a comprehensive programme of modernisation and development of the Customs Service**

The proposed project will be a continuation of the assistance programme started in 2001. It will include technical assistance and the provision of equipment and training. It will be effected by the deployment of a team of customs, taxation and information technology experts drawn largely from officials released by the customs and taxation services of the member states. The experts will assist the local authorities in their efforts to modernise and develop their services along European lines by encouraging the use of EU best practice.

This programme will seek to ensure a cohesive approach to the modernisation and development of the customs services throughout the territory of the Federal Republic of Yugoslavia with a view of harmonising legislation, training, organisation, and working methods so as to facilitate the free circulation of goods and people within the federation.

### **1.2.2 Assist the local authorities in their efforts to modernise their taxation services.**

The tax authorities are receiving significant assistance from other donors notably for the introduction of a form of Value Added Tax. Thus assistance under this programme will seek to ensure an optimum linkage between the customs and taxation services including for VAT at importation and also assist in the introduction of modern excise regimes.

## **2. ECONOMIC RESTRUCTURING, REGENERATION and REFORM**

### **2.1 ENERGY**

**Programme:** Improve the regulatory framework, increase energy efficiency, improve further the supply and reliability of power generation.

**Cost:** €2.6 million (+/- 20%)

## **Background**

The electricity power industry in Montenegro is the responsibility of the Electrical Power Authority of Crna Gora (EPCG), a vertically integrated utility reporting to the Ministry of Economy. During the past ten years the industry has experienced problems due to a lack

of funds largely resulting from low tariffs, which led to deferred maintenance and little new investment. As a consequence existing generating capacity had a supply deficit of about 30% in 2000, which is likely to increase to 35% in 2001. To overcome this deficit, power is imported from Serbia (through a long-term contract with EPS) and annual contracts with other regional suppliers. However, as electricity generation in Montenegro is highly dependent on hydropower, extended periods of adverse dry weather conditions (as recently experienced) necessitate disruption to domestic supplies. The government is also addressing the power deficit problem within the context of a new draft Energy Law (demand management) by introducing a series of scheduled tariff increases with the expectation of full operational cost-recovery in 2003.

## **Project Activities**

### **2.1.1 Technical assistance to the electricity sector (approx. €1.0 m)**

The proposed project will fund capacity building measures within the Ministry of Economy and the electricity utility, which will assist and complement forthcoming IFI investments dealing with the maintenance/rehabilitation deficit of existing facilities. Top priorities include the optimisation of the production capacity of existing thermal and hydropower generating installations, as well as upgrading the transmission and distribution networks. Loan funding of such projects is currently under consideration by the EIB within an overall FRY package. Other donors, such as CIDA and KfW, are in the process of, or are considering, funding regional energy studies.

### **2.1.1 Emergency rehabilitation of electricity distribution systems (approx. €1.6 m)**

In order to address immediately the poor levels of service to consumers in large communities, the EC also proposes an investment component, which will rehabilitate and upgrade up to three transformer stations serving the municipalities of Podgorica, Niksic and Berane. This will result in a significant improvement in the integrity of the electricity supply to a consumer base of approximately 25,000 within these cities before the EIB loan is effective and committed.

## **2.2 TRANSPORT**

**Programme: Support to IFI transport investments**

**Cost: €2.2 million (+/- 20%)**

### **Background**

#### **Road transport**

Although Montenegro has a peripheral geographic position in the Balkans, it enjoys strategic importance in that it provides the only seaport link to Serbia and the major road axis from Croatia and Bosnia & Herzegovina to Albania, Kosovo and FYROM. Montenegro also possesses an attractive Adriatic coastline, which constitutes a major potential tourist attraction. However, the natural terrain of the region limits road geometry and, therefore, speed and capacity as well as requiring relatively high maintenance costs.

The trunk road network is the responsibility of the Ministry of Transportation (MoT) with an annual budget for routine, periodic and winter maintenance of €5 million. A further €10 million is allocated for investment. Routine road maintenance is provided through an annual negotiated contract by an independent joint stock company. The company's majority stockholder is the government. Management and implementation of road construction projects are the responsibility of the MoT's Directorate for Highways.

The Montenegrin road network is generally adequate in terms of geographical coverage, but its maintenance and rehabilitation have been severely neglected in the past. Approximately 40% of trunk roads require either resurfacing, rehabilitation or reconstruction. The principal reason for this mounting backlog is the progressive decline in the available funds over the past 20 years.

On-going Agency programmes and EIB funding are targeted at addressing this rehabilitation backlog. However, there is an urgent need to progress from the current strategy of simply maintaining existing service levels to a programme of improvements, which will provide a better basis for economic growth.

### **Rail Transport**

As with the road network, the railway infrastructure in Montenegro is constrained by geography, resulting in high maintenance and operational costs. The railway was constructed during the 1960s and 1970s, and subsequent investment has been limited to essential repairs and renewal of basic assets. The track system has significantly deteriorated. A vast majority of locomotives and other rolling stock is old (> 25 years) and workshops are ill equipped to ensure proper maintenance tasks. The main north-south line that links the port of Bar with Serbia (FRY's only maritime port facility) is maintained at a barely operational condition. The east-west line from Podgorica to Niksic has deteriorated to an unacceptable technical standard.

Railway traffic has decreased dramatically by about 73% since 1989 and is now highly dependent on the transport of bauxite from a mine in Niksic to the aluminium plant near Podgorica. Exploitation of the potential market for the transportation of goods from Bar to Serbia has not been realised due the railways inability to successfully compete with alternative road transport facilities.

The Montenegro railway company (JPZCG) is heavily subsidised with more than 40% of its 2000 revenue coming from the government's central budget. Passenger fares are well below the level required to achieve full cost-recovery, while freight tariffs barely cover costs.

The rail company is 80% government owned and is highly dependent on it for the provision of essential resources and for major strategic decisions. The company also lacks modern management systems and procedures, especially for cost accounting and investment planning and does not have a medium-term business plan. This negative situation is exacerbated by chronic over-staffing, with productivity being well below that of adjacent rail transport providers.

## Project Activities

### 2.2.1 Fund a road maintenance/rehabilitation feasibility study for central & northern Montenegro (€0.7 million)

A pre-investment study, funded by the French government, for roads in southern Montenegro has been used as a basis for the on-going Agency-funded road rehabilitation programme. The German Government, through KfW, has financed preliminary studies of elements of the northern road network and is currently funding rehabilitation works. Additional EIB funding will address further urgent maintenance needs of the northern roads. However, it is now essential that the Ministry be provided with a detailed feasibility study to identify projects that will provide an improved level of service within the central and northern system, rather than merely address emergency rehabilitation needs. The study will provide a catalyst to secure additional funding from interested donors and IFIs.

### 2.2.2 Provide long-term TA to the Railway Company (approx. €1.5M)

EIB is proposing a €15 million loan to fund high-priority investments required to secure the existing system and maintain traffic at the current levels. It includes investment in track, signalling, telecommunication works and rehabilitation of rolling stock & maintenance facilities. The proposed long-term technical assistance is seen as an essential pre-requisite of the EIB investment.

## 2.3 ENVIRONMENT

**Programme:** Sewerage and wastewater treatment

**Cost:** €1.7 million (+/- 20%)

### Background

During the past decade, there has been a deterioration of Montenegro's infrastructure base, with investment levels for transport, energy, water systems, telecommunications falling below capital maintenance and replacement requirements. Given the loss of the revenue base, public sector budget priorities, at both the national and local levels, tended toward short-term current expenditures rather than investment. Before 1990 tourism was an important source of income, particularly in the Coastal Region. Although during the 1990s tourism declined, it is now picking up again but development is hampered by lack of adequate water supply and unhygienic disposal of wastewater.

At present, the rights and obligations for water supply and sewage disposal are the responsibility of individual municipalities under the overall auspices of the Ministry of Urban Development. Given their limited financial resources, there has been only crisis maintenance of inadequate sewerage systems and no investment in wastewater treatment facilities. As a result, leaking sewage collectors dispose untreated wastewater directly onto beaches, watercourses or inland lakes.

In 1999, a bilateral-funded assistance programme began with the rehabilitation of the water supply and sewage systems in the Coastal Region. It served as the basis for establishing a new regional water Utility (MonteAqua) as a public-private partnership, the public part comprising the existing public utilities. The main objective of establishing the Utility as a Public-Private Partnership was to improve the water supply and sewage disposal services for the whole coastal region within an existing framework of improving the infrastructure for tourism. This framework is heavily supported by KfW, DEG, GtZ, and the Austrian government.

The line Ministry has now successfully procured and awarded an open tender for private participation in the water sector. Contractual arrangements are currently being finalised and the regional Utility is expected to be fully operational by August 2002. The utility will start operations and investments based on a concession agreement with the Government of Montenegro.

## **Project Activities**

### **2.3.1 Fund a sewerage & wastewater treatment (coastal region) feasibility study (approx. €0.9 million)**

Within Montenegro, there are only 2 rudimentary wastewater treatment facilities serving Podgorica and Niksic, with all other communities (including those in the coastal region) discharging sewage without treatment.

The Feasibility Study will address this particular problem in the *coastal region*. In view of its considerable tourism potential efforts to-date have concentrated on improvements to the water supply system, particularly during the summer season. However, there is an urgent need to provide the utility with a detailed technical feasibility study to identify a programme of investment in sewerage and wastewater treatment that will reduce the current high level of pollution of coastal waters in line with EU, WHO and other international standards.

The Utility has, in its present financial programme, allocations for improving sewage collection and disposal and will use the study as a basis for seeking additional funding for final design and construction.

### **2.3.1 Construction of sewerage and wastewater treatment facilities for the Virpazar area (approx. €0.8 million)**

The investment component addresses a priority need for improved environmental conditions in the Skadar Lake. The lake and surrounding area has recently been designated as a National Park in an attempt to protect its unique habitat for wildlife. However, water quality within the lake is adversely affected by the discharge of untreated sewage from the town of Virpazar. There is an urgent need to establish basic infrastructure in Virpazar in order to provide the stimulus for the regeneration of its potential as a tourist attraction and reverse current economic stagnation. The project will comprise the construction of a gravity sewerage system and a wastewater treatment plant

and will result in a significant and visible improvement in environmental conditions both for the community of Virpazar and within the adjacent lake.

## **2.4 ECONOMIC DEVELOPMENT – Enterprise Restructuring**

**Programme:** Enterprise restructuring

**Cost:** €3 million (+/- 20%)

### **Background**

The decade-long isolation from international markets caused by political developments in the region, compounded by macroeconomic instability, has severely retarded the transition of the Montenegrin economy. Although the privatisation process was ambitiously launched in the early nineties, only about 7% of the total assets have been privatised to date.

Today, most of the state owned enterprise (SOE) sector is made up of approximately 250 loss making, heavily indebted companies, operating at very low levels of capacity, servicing basically the local market. At the same time, the unemployment rate has dramatically increased and become the single most important social and economic issue in the Republic.

Without access to markets, technological advances, knowledge and capital, the inefficiently managed SOEs can neither restructure nor keep pace with international competition. To address this situation, the Government of Montenegro has launched a major restructuring and privatisation effort aimed at re-activating its SOEs, while dealing with the inevitable short-term increase in unemployment through active labour market schemes.

In conjunction with this initiative, by the end of February 2002, some 220 SOEs will undergo a process of mass voucher privatisation (MVP-involving 30%-40% of company shares), upon which 40 out of a total of 175 small enterprises (with an average work force of 85 employees) will be fully privatised, while 135 will end up with an average of 80% in private ownership, widely dispersed among the employees, citizen and 6 privatisation funds.

For the balance of 30 medium size (about 300 employees) and 15 large SOEs also participating in the MVP (employing almost 35 000 people), significant controlling stakes are spared for either batch tender or international tender sales to prospective strategic investors in the course of 2002 and 2003.

However, privatisation of the remaining shares and creation of effective ownership blocks needed to fully re-activate the enterprises will be a challenging task, since most of them are in a precarious state and have obsolete equipment, excessive debts and number of employees. On the other hand, local entrepreneurs have little interest or capacity to invest, as they are deprived of proper access to medium or long-term finance. Furthermore, the long-lasting political and economic instability, as well as the absence of efficient regulation and organisation, have effectively discouraged any significant foreign investment inflows.

In order to facilitate the transition of the Montenegrin economy and creation of a competitive, self-reliant enterprise sector capable of generating employment and growth,

the government has decided to initiate a comprehensive restructuring and labour transformation program. The program shall be coordinated by a Steering Committee chaired by the Deputy Prime Minister for Economy and made-up of the ministers of finance, economy and labour & social care.

## **Project Activities**

### **2.4.1. Diagnostic/Restructuring and Institutional Support (approx. €3 m)**

Fund technical assistance for (i) restructuring and preparing for privatisation 6 to 8 enterprises; (ii) Turn Around Management (TAM) advisory assistance to 10 - 12 small to medium enterprises; and (iii) Business Advisory Services (BAS) to 50 - 70 small size enterprises. The last two activity components will likely be implemented by EBRD through a grant agreement.

The EC funded Turn Around Management programme is currently being managed by EBRD. Successive evaluations have identified TAM as a “best practice” instrument for enterprise restructuring/privatisation in transition economies. The best results have been obtained from small to medium privatised enterprises (less than 300 employees). A TAM programme, on average, costs about €60.000.

Additional funds will also be provided to improve Corporate Governance including regulatory reform, institution building, training and public education, institutional reform and capacity building of government agencies involved in enterprise restructuring and investment promotion activities.

## 3.SOCIAL DEVELOPMENT AND CIVIL SOCIETY

### 3.1 UNIVERSITY EDUCATION

**Programme:** Tempus III Programme

**Cost:** €0.5 million

**Implementation:** European Commission, Directorate General Education and Culture

#### Background

The Tempus programme was adopted by the Council of Ministers of the European Union on 7 May 1990. The programme was set up in order to support the process of reform in the countries of Central and Eastern Europe in the area of higher education within the framework of the European Community Phare programme.

On 29 April 1999 a new Decision on the Tempus programme "Tempus III" was adopted by the Council covering the non-associated countries of South-East Europe and the Partner States of Eastern Europe and Central Asia. This new phase of the programme will run from 2000 to 2006.

Within the framework of the general economic reform objectives of the European Commission's programmes for support to the non-associated countries and the Partner States of Eastern Europe and Central Asia and Mongolia, Tempus III aims to promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the Member States of the European Union.

The new phase of the Tempus programme seeks to contribute to:

- higher education policy and systems development;
- the reform of higher education governance, management and finance;
- the strengthening of links with the local and regional economy, as well as other stakeholders of the universities;
- curriculum development in priority areas for economic and social transition;
- the promotion of the mobility of students and staff;
- the development of administrative and institutional structures through training of staff from non-academic institutions;
- the strengthening of regional co-operation and networking between higher education institutions in South-East Europe.

A priority for higher education systems in South-East Europe is the achievement of the objectives of the so called Bologna Declaration, which was signed by 29 European governments and which aims at the establishment of a common European higher education space by 2010. Its objectives include the establishment of a common degree system in Europe (Bachelor, Master, Ph.D.), the introduction of the European Credit

Transfer System (ECTS), the strengthening of a European dimension in quality assurance and the removal of obstacles for the mobility of students and staff.

Participation in (that is, convergence towards) the Bologna Process requires systematic structural reform of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration (at the moment South-East European universities are mostly mere associations of faculties).

The Tempus programme will further contribute to the strengthening of regional co-operation between higher education institutions in South-East Europe. Considering the small size of higher education systems, the re-establishment of regional academic ties in a European framework would appear to be a pre-condition for the efficient use of scarce resources and thus for the long-term sustainability of higher education systems in South-East Europe. Regional co-operation can also contribute to mutual understanding and the overcoming of ethnic and political boundaries. Universities from the Federal Republic of Yugoslavia, due to their links to various neighbouring countries, can play an important role in fostering such regional co-operation.

## **Project Activities**

### **3.1.1 Support for the Tempus III Programme (approx. €0.5 m)**

The programme aims at funding Joint European Projects (JEP) and Individual Mobility Grants.

Joint European Projects can focus on one of the following areas:

- **University Management**: University Management JEPs can focus on systems and policy development, reform of university governance, administration and finance, the introduction of library and management information systems, the strengthening of quality assurance, the introduction of international relations offices, the introduction of the European Credit Transfer System, or the establishment of knowledge and technology transfer centres.
- **Curriculum Development**: Curriculum Development JEP's focus on the establishment of new or the revision of existing curricula and study courses, the development and the provision of new teaching materials, the introduction of new teaching methodologies, and the retraining of academic staff.
- **Institution Building**: Institution Building JEPs focus on strengthening civic society and public administration reform through the development of short cycle training courses for staff from non-academic institutions such as local, regional and national authorities, social partners, professional associations, media, and non-governmental organisations.
- **Multiplier Projects**: they are designed to disseminate results of past Tempus projects and to link institutions working on higher education reform in similar subject areas. These projects usually include a larger number of partners from South-East Europe and the European Union.

Regional approach: All of the above project types can be implemented on a regional level, e.g. projects which include higher education institutions not only from one but from several of the eligible Tempus partner countries.

## **IMPLEMENTATION OF ANNUAL ACTION PROGRAMME**

This programme will be implemented under the responsibility of the European Agency for Reconstruction (except for the €1 million Technical Assistance for Customs and Taxation and for the € 0.5 million Tempus III programmes), which will sign all necessary financing agreements and contracts with service providers and suppliers.

Implementation of projects will be carried out in close co-ordination and consultation with the FRY and Montenegrin authorities and those international agencies and donors that are active in the various fields covered by the EC programme.

In addition to the general SAp conditionality, programme/project conditionality may be imposed. This programme and project conditionality will be defined in the Financing Agreement/Memorandum to be signed with the authorities. Failure to comply with programme/project conditionality may lead to delay, suspension or cancellation of the planned or committed assistance.

TA Customs and Taxation : Due to its technical nature, the Commission will implement the programme. A team of experts managed by the Commission will be deployed to facilitate project delivery on the ground.

The implementation of the programme may require supply and service contracts. Award of contracts will be carried out in accordance with the provisions of Regulation (EC) 2666/2000. Participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons from member States, States, which are recipients under this Regulation and candidate countries for accession to the European Union.

Tempus III: The European Commission's Directorate-General for Education and Culture has the overall responsibility for the policy and management of the Tempus Programme.

Following an annual call for proposals, projects are assessed academically and technically according to general criteria and a list of national priorities established in co-operation with the partner country authorities, and taking into account the objectives of the Stabilisation and Association Process and the policy objectives of EU co-operation with the Tempus partner country.

In implementing the programme, the Commission is assisted by the Tempus Committee, set up by the Council Decision on Tempus III and consisting of representatives of the Member States.

## **MONITORING, EVALUATION AND AUDIT**

This programme (except for the Technical Assistance for Customs and Taxation and for the Tempus III programmes, which the Commission will implement) will be supervised and monitored by the Agency which shall:

- a) Supervise the implementation of the programme on the basis of regular reports;
- b) Carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after the completion of the programme.

The accounts and operations of the programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities the European Antifraud Office (OLAF) and the European Union's Court of Auditors.

|  |
|--|
| <b>INDICATIVE DISBURSEMENT SCHEDULE (€MILLION ACCUMULATED)</b> |
|--|

| <b>Sector</b>          | June 2002 | Dec 2002   | June 2003  | Dec 2003   | June 2004  | Dec 2004  | June 2005   | Dec 2005    |
|------------------------|-----------|------------|------------|------------|------------|-----------|-------------|-------------|
| Public Administration  |           | 0.3        | 0.7        | 1.0        | 1.5        | 1.7       | 1.9         | 2.0         |
| Energy                 |           | 0.5        | 0.8        | 1.0        | 1.5        | 1.8       | 2.2         | 2.6         |
| Transport              |           | 0.5        | 1.0        | 1.2        | 1.5        | 1.8       | 2.0         | 2.2         |
| Environment            |           | 0.5        | 0.7        | 0.9        | 1.1        | 1.3       | 1.6         | 1.7         |
| Enterprise Development |           | 0.5        | 1.0        | 1.5        | 2.0        | 2.4       | 2.8         | 3.0         |
| Customs/Taxation       |           | 0.2        | 0.4        | 0.6        | 0.8        | 1.0       | 1.0         | 1.0         |
| <b>TOTAL</b>           |           | <b>2.5</b> | <b>4.6</b> | <b>6.2</b> | <b>8.4</b> | <b>10</b> | <b>11.5</b> | <b>12.5</b> |

| Tempus | Dec 2003 | Dec 2004 | Dec 2005 | Dec 2006 |
|--------|----------|----------|----------|----------|
|        | 0.1      | 0.3      | 0.4      | 0.5      |

**Total: 12.5+0.5= €13 million**

## Attachment 1

**Status of assistance to Montenegro on 04/02/02 in 1000€ by project**

| year            | projects                                 | committed     | contracted    | contr/ comm | paid          | paid/ comm |
|-----------------|--|---------------|---------------|-------------|---------------|------------|
| <b>1998 (1)</b> | Transport                                | <b>999</b>    | <b>999</b>    | 100%        | <b>995</b>    | 100%       |
|                 | Agriculture                              | <b>1,033</b>  | <b>1,033</b>  | 100%        | <b>1,029</b>  | 100%       |
|                 | Technical assistance                     | <b>457</b>    | <b>457</b>    | 100%        | <b>454</b>    | 99%        |
|                 | Public Administration                    | <b>1,006</b>  | <b>1,006</b>  | 100%        | <b>837</b>    | 83%        |
|                 | Education                                | <b>500</b>    | <b>500</b>    | 100%        | <b>319</b>    | 64%        |
|                 | <b>Total 1998</b>                        | <b>3,995</b>  | <b>3,995</b>  | <b>100%</b> | <b>3,634</b>  | <b>91%</b> |
| <b>1999</b>     | Budgetary Support and Technical Assist.  | <b>12,681</b> | <b>12,681</b> | 100%        | <b>12,681</b> | 100%       |
|                 | Energy Supplies                          | <b>2,500</b>  | <b>2,383</b>  | 95%         | <b>2,199</b>  | 88%        |
|                 | Aid Co-ordination and Programming Unit   | <b>800</b>    | <b>783</b>    | 98%         | <b>307</b>    | 38%        |
|                 | Public Administration Reform             | <b>1,200</b>  | <b>1,130</b>  | 94%         | <b>333</b>    | 28%        |
|                 | Administrative and technical Assistance  | <b>800</b>    | <b>798</b>    | 100%        | <b>445</b>    | 56%        |
|                 | Economic Development                     | <b>4,200</b>  | <b>4,199</b>  | 100%        | <b>1,707</b>  | 41%        |
|                 | Media                                    | <b>804</b>    | <b>804</b>    | 100%        | <b>161</b>    | 20%        |
|                 | <b>Total 1999</b>                        | <b>22,985</b> | <b>22,778</b> | <b>99%</b>  | <b>17,833</b> | <b>78%</b> |
| <b>2000</b>     | Infrastructure constructions and repairs | <b>5,000</b>  | <b>4,924</b>  | 98%         | <b>3,899</b>  | 78%        |
|                 | Infrastructure                           | <b>5,800</b>  | <b>4,542</b>  | 78%         | <b>1,312</b>  | 23%        |
|                 | Agriculture                              | <b>2,300</b>  | <b>389</b>    | 17%         | <b>233</b>    | 10%        |
|                 | Finance                                  | <b>2,900</b>  | <b>2,428</b>  | 84%         | <b>151</b>    | 5%         |
|                 | Education                                | <b>3,000</b>  | <b>2,254</b>  | 75%         | <b>0</b>      | 0%         |
|                 | <b>Total 2000</b>                        | <b>19,000</b> | <b>14,537</b> | <b>77%</b>  | <b>5,595</b>  | <b>29%</b> |
| <b>2001</b>     | <b>Funds available in Oct. 2001</b>      |               |               |             |               |            |
|                 | Municipal Development                    | <b>4,500</b>  | <b>0</b>      | 0%          | <b>0</b>      | 0%         |
|                 | Transport                                | <b>7,000</b>  | <b>0</b>      | 0%          | <b>0</b>      | 0%         |
|                 | Institution Building                     | <b>1,200</b>  | <b>0</b>      | 0%          | <b>0</b>      | 0%         |
|                 | Administrative and technical Assistance  | <b>600</b>    | <b>0</b>      | 0%          | <b>0</b>      | 0%         |
|                 | <b>Total 2001</b>                        | <b>13,300</b> | <b>0</b>      | <b>0%</b>   | <b>0</b>      | <b>0%</b>  |
| <b>TOTAL</b>    |  | <b>59,280</b> | <b>41,310</b> | <b>70%</b>  | <b>27,062</b> | <b>46%</b> |