

## ANNUAL ACTION PROGRAMME 2003 FOR MONTENEGRO

### 1. IDENTIFICATION

Form of programme:	<b>“National programme”</b>
Beneficiary Country:	Serbia and Montenegro <sup>1</sup> / <b>Republic of MONTENEGRO</b>
Budget Year:	<b>2003</b>
Financial Allocation:	<b>€13.5 million</b>
Budget lines:	<b>B7- 542</b>
Legal Basis:	<b>Council Regulation (EC) No. 2666/2000 (as amended by Council regulation (EC) No. 2415/2001)</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 implementation of projects under this proposal must be concluded by 31.12.2007. Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2007.</b>
Implementing Bodies:	<b>European Agency for Reconstruction - €12 million European Commission - €1 million for Customs &amp; Taxation; and €0.5 million for Tempus</b>
Remarks:	<b>No administrative expenditure will be financed under this programme.</b>

### 2. SUMMARY OF THE PROGRAMME

The proposed Annual Action Programme provides funds for key aspects of the economic and social reform agenda and especially for the Serbia and Montenegro's rapprochement toward European structures, in line with the Stabilisation and Association process. In particular, this Annual Programme reflects both the Commission's approved Country Strategy Paper (CSP) for the Federal Republic of Yugoslavia and the associated three-year (2002-4) Multi-annual Indicative Programme (MIP). Increased emphasis and resources have been placed on "Institution Building" projects. The overall programme will be implemented in close

<sup>1</sup> Since the name of the state only changed in February 2003, the term FRY is maintained in references to earlier official documents.

coordination with programmes of other donors, particularly those of the EU Member States, and also in complementarity with the CARDS Regional programme and other CARDS assistance programmes in Serbia and Montenegro.

The priority sectors in the Annual Action Programme 2003 are as follows:

<b>Sectors</b> ( <i>titles as per MIP</i> )	<b>€ millions (+/- 20%)<sup>2</sup></b>
<b>1. Good Governance and Institution Building</b>	
1.1 Justice and Home Affairs	3.0
1.2 Customs and Taxation (Commission managed)	1.0
<b>2. Economic Reconstruction, Regeneration and Reform</b>	
2.1 Energy	2.0
2.2 Environment	4.0
<i>Economic Development</i>	
2.4 Rural Economy / Agriculture	1.5
<b>3. Social Development and Civil Society</b>	
3.1 Tempus (Commission managed)	0.5
3.2 Support to Civil Society / Media	1.0
<b>4. Other</b>	
4.1 General Technical Assistance Facility; & Programme Reserve	0.5
<b>TOTAL</b>	<b>€ 13.5 million<sup>3</sup></b>

### **3. COUNTRY BACKGROUND**

#### *Political*

Political debate over the last year has centred on the redefinition of the constitutional framework of the FRY. The republican as well as the federal parliaments have now

<sup>2</sup> Individual financial allocations are subject to fluctuations of up to +/- 20% over the annual programme's lifetime

<sup>3</sup> Excludes the Agency's administrative appropriations of approx. €1.5 million for managing the cumulative portfolio of EC/EAR assistance to FRY/Serbia. The Agency appropriations are the subject of a separate 2003 Financing Proposal on Administrative Expenditure.

ratified the Belgrade Agreement of March 2002 and the process of translating the principles embodied in the Agreement into operational arrangements is ongoing.

Because of the Government's signature on the Belgrade Agreement, the Liberal Alliance ceased to support the ruling coalition in June 2002 and early parliamentary elections were held on 20 October 2002, in which former President Djukanovic's coalition "A European Montenegro" won a parliamentary majority. It is expected that the new and more stable government will continue with economic reforms. The international community continues to ask Serbia and Montenegro authorities to act on security related issues, improve their cooperation with the Hague Tribunal, implement the new constitutional charter, and follow the actions planned for achieving the harmonisation of the state's internal market.

### *Economic*

Since 2000, the Montenegrin economy is undergoing a reform process. During 2001 and 2002, a large number of new laws have been enacted to pave the way for changes in the economy: budget law, company law, tax reform laws, accounting law, concession law, central and commercial banking laws, insolvency/bankruptcy law. A large part of the mass voucher privatisation programme was completed, though progress with tender privatisation has been limited so far. The reform of public finance is initiated, tax administration is being adapted to the needs of the tax reform, and commercial banks have been re-licensed.

The Montenegrin government adopted a radical monetary reform in late 1999 with the introduction of the deutsche mark, and now the Euro, to protect itself from hyperinflation. Nevertheless, prices continued to increase at a steady rate of about 25% per annum through mid-2002, although recent trends indicate a reduced rate of inflation. This is largely explained by progressive price liberalisation of basic foodstuffs in 2001 and the lagged effect of large increases in electricity tariffs and other services in late 2001 and early 2002. Real wages have been declining as nominal wage increases have failed to reflect consumer price increases.

While the macro-economic environment remains fragile, the reform measures undertaken to date have established basic requirements for the functioning of a market economy and have contributed to the slow but steady recovery of economic activity. In 2001 and 2002, the growth rate of the Montenegrin economy is estimated to be between 3 to 5% per year. Imperfect statistics and the fact that much of this growth pertains to the grey economy cast doubts on the veracity of these figures.

Real growth and inflation resulted in increasing fiscal revenues in both 2001 and 2002. Central government taxes on domestic activity have increased by 20% in both years and have contributed to an overall improvement in budget performance, although non-tax revenue has been below expectations. The consolidated government accounts, which include the social funds, indicate a significant positive adjustment in 2002. Government expenditures have fallen to 20% of GDP in the first six months of 2002, compared to 27% for the corresponding period of 2001. If these trends can be maintained, the Government structural deficit may reach the target of 4% of GDP in 2002, down from more than 7% of GDP in 2001. However, further

adjustments might be required in order to put public finances on a sustainable footing.

This significant fiscal adjustment has been matched by a substantial improvement in the 2002 current account. The current account deficit fell from 10% of GDP in the first seven months of 2001 to 6 % of GDP in the first seven months of 2002 and the current account deficit for 2002 is expected to fall to about 4% of GDP. The banking system appears to be on a sustainable path to recovery and has begun to grow after many years of decline.

#### **4. PAST EC AND OTHER DONORS' ASSISTANCE**

Between 1998-2002, the EC committed some €188<sup>4</sup> million to Montenegro. These funds were used for emergency and humanitarian relief, developmental activities and for balance of payments support.

- |   |               |
|---|---------------|
| • Humanitarian aid (through ECHO)                           | €35.4 million |
| • CARDS (and Obnova) (through Commission/EAR)               | €76.6 million |
| • Macro Financial<br>(e.g. other subsidies, budget support) | €55.0 million |
| • Other (EC Food Security programme)                        | €21.4 million |

Apart from the EC, individual EU Member States provide bilateral aid, e.g. Germany, Greece, the Netherlands and the United Kingdom (DFID). Apart from the combined EU effort, USAID is the other major donor. The IFIs, specifically the IMF, World Bank, EBRD and EIB have developed important programmes (in some cases with EC funds) to be executed over the next few years. UNDP and UNHCR are also active.

As of 2 December 2002, the global rate of contracting for combined 1998-2001 programme funds was 96% of commitments, with the payment rate corresponding to 72% of commitments; while the corresponding percentage rates for 2002 programme funds are 88% contracted and 37% paid.

#### **5. PROGRAMMING CONTEXT, IMPACT AND LESSONS LEARNT**

##### *Programming Context*

The Country Strategy Paper (CSP) has identified a series of problems that Montenegro needs to address, such as enhancing administrative efficiency, promoting economic growth and developing human capital.

To date, the EC's assistance has focused on addressing Montenegro's structural problems, such as the high budgetary deficits, institutional and political complexities inside the Federation, inefficient public administration, weak judicial systems, and widespread poverty. Progress is being made in promoting sustainable economic development. Projects are underway to rehabilitate infrastructure (particularly in the transport and energy sectors) and to support trade and private sector development.

<sup>4</sup> All figures are rounded to the nearest € million.

In order to promote a truly democratic society and provide adequate social conditions for the population, support is also given to vocational education and training, university education, civil society and media.

Within the 2003 Annual Programme, a further gradual funding shift is taking place from economic development to also embrace the area of institution building. It also places greater emphasis on coordination and harmonisation with similar programmes (e.g., Justice and Home Affairs, food chain safety systems) in Serbia, fostering Union harmonisation.

#### *Progress and Impact of Previous Programmes*

In the *public administration reform* area, the capacity of the Ministry of Justice to implement the reform agenda has been improved. Internal audit and treasury positions in the Ministry of Finance and external audit functions are being created. The rehabilitation of municipal infrastructure and complementary technical assistance within participating Municipalities is well advanced.

The *energy law* is at the final draft stage and work has started on the *energy regulatory authority*. *Tariff increases* have been implemented and coherent sector conditionality is in place. Measures to improve the integrity of the electricity distribution system have commenced.

In the *transport sector*, ongoing construction projects are enhancing the level of service and safety of the critical road link from Podgorica to the port of Bar and the Adriatic coastal road. The capacity of the Ministry of Transport to manage the implementation of construction projects and to rationalise its road development and maintenance programmes continues to be improved.

In the *environmental* sector, measures have been commenced to improve water quality of an inland lake within a designated National Park.

In the *enterprise sector*, implementation of the 'Turn-Around Management' (TAM) restructuring programme has started (with EBRD). The teams for five large enterprises are in place, nine TAM projects have been signed and the business advisory services are starting.

A new set of *media* laws, in line with EU standards, has been adopted by Parliament for implementation in 2003.

#### *Lessons Learnt*

The most *important lessons learned* may be summarised as follows: (i) ensure institutional absorptive capacity, sufficient counterparts and budget allocations; (ii) contract specifications and programmes need to reflect risk management measures; (iii) ensure greater understanding by project partners of the implications of project related conditionality; (iv) donor coordination is an on-going process; and (v) programming and related project preparation (e.g. feasibility/technical preparatory studies) and coordination need to be undertaken as early as possible, including decisions on documentation formats/standards.

## **6. Programme Components / Project Activities – Montenegro 2003**

*A description follows for each programme component to be assisted, preceded in each case by a background justification for the selection of the various project*

*activities within each programme component and a summary of related EC assistance and other donor activities. Further details (including log frames) of individual projects are to be found in a separate set of Project Annexes – having working document status.*

## **6.1 GOOD GOVERNANCE AND INSTITUTION BUILDING (approx. €4 million)**

This section outlines the planned Agency managed projects in justice and home affairs and an EC managed customs and taxation project:

### **6.1.1 Justice and Home Affairs (approx. €3 million)**

#### *Background*

The unresolved distribution of competencies within Serbia and Montenegro, and particularly Montenegro's assumption of state of state-level competencies, have hindered efforts at both state and republican levels to introduce international best practices relating to the area of justice and home affairs.

The Government's judicial reform agenda encompasses three major objectives: (i) adoption of new legislation and regulations; (ii) training for judges, prosecutors, and for other concerned judicial officials; and (iii) modernisation of judicial operations/administration. Despite some positive steps such as the adoption of the new Law on Courts and the foundation of the Judicial Training Centre (JTC), courts are still under-equipped, overburdened, and officials remain poorly trained and under-paid. Reform of the judiciary is a key element to enforce the rule of law, strengthen democracy, fight against crime, etc. It will help to ensure sustainable development and socio-political stability.

Another critical facet of reform in the area of justice and home affairs (JHA) remains border management. Currently, there is an unclear situation between the Montenegrin (Republican) police and the Yugoslav federal army in relation to control of borders. In the near future, this situation will change as the police take over 'green border'<sup>5</sup> management from the military. The Montenegrin authorities have stated their intention to adopt EU best practice standards of border management. Moreover, the recent JHA experts' mission report highlighted the need to take swift and effective action to assist in this process. The border management regime needs to be harmonised throughout the state, strengthened and properly equipped.

#### *Complementary and Past EC Assistance*

The proposed *judiciary reform* project will build upon the results of previous EC funded projects, enhance and develop those results and ensure their sustainability.

The *police reform* project has been devised to improve border management and control systems, so that there are harmonised border controls (based on the

<sup>5</sup> Green border: the sections of land borders stretching between the border crossing points.

Schengen acquis) throughout the state. The project will be closely coordinated with other ongoing initiatives, such as the CARDS regional JHA programme, the activities of the Stability Pact (its 'Table 3') and other initiatives such as the Council of Europe's activities in the legislative field.

#### *Related Activities of Other Donors*

Despite the fact that a number of bilateral donors (e.g. Italy) and multilateral agencies (e.g., OSCE, Council of Europe) are involved in the judiciary and police reform field, their focus has been mainly on delivering ad hoc training to target groups and providing financial aid to ensure the survival of some associations and/or institutions. For example, OSCE is sustaining the training programmes for prosecutors and police; the Open Society Institute (OSI) provided equipment to the Judicial Training Centre and is paying for its running costs; USAID and the American Bar Association funded equipment for the JTC, organised seminars for judges and prosecutors, assisted in drafting new legislation and is providing technical assistance to bar and judges' associations.

Regular meetings with the key multilateral and bilateral donors ensure close cooperation on programme and project activities.

### **Project Activities**

#### **6.1.1.1 Support to judicial reform (approx. €1 million)**

The EC will provide support for training activities in such areas as (i) criminal, civil and commercial law, (ii) judicial skills, (iii) court management curriculum and (iv) European legal curriculum. Experts will assist the JTC in streamlining its implementation management activities. In addition, EC support will be provided for IT systems for the courts.

#### **6.1.1.2 Support to border police reform (approx. €2 million)**

EC funds will assist in organising training sessions and seminars aimed at forming local trainers, and facilitating/building operational capacity of the border police forces in line with EU best practice. The project will assist in procuring specialised border equipment (with a significant IT and networking component) to enable more systematic linkages between border crossing points and the databases of the Ministry of Interior's Information Centre in Podgorica. Training will also be provided for the use of the new equipment. The design of the project is being coordinated at state level with a CARDS project at Serbia and Montenegro /Serbia level, and a similar project in UN administered Kosovo.

The Ministry of Justice and the Supreme Court will support the implementation of the IT strategy for the judiciary and the JTC, assisted by experts, will coordinate project implementation related to judicial training. The Ministry of Justice will continue to provide premises to the JTC and cover its running costs. The Montenegrin Ministry of Interior will assist with the elaboration of the training programmes, the IT equipment's technical specifications and ensure proper implementation.

### **6.1.2 Customs and Taxation (approx. €1 million) – Commission managed**

### *Background*

Since the signing of the 'Belgrade Agreement', customs have become an increasingly important matter because of the requirement that there be a single market and a single economic space within the territory of the state.

The customs and taxation authorities are in the process of implementing comprehensive programmes of modernisation and development, in order to improve revenue collection, to support the fight against fraud and corruption and to facilitate legitimate trade. This project will provide continued assistance to the authorities and ensure that the modernisation is based on EU best practice in the fields concerned.

The assistance will focus on supporting managers of the customs and taxation services in the implementation of a long-term modernisation and development strategy. It aims to achieve a cohesive management of the customs and taxation functions, with a view to promoting the concept of a single economic space within the state along the model of the EC single market.

## **Project Activities**

### **6.1.2.1 Support for Customs and Taxation (approx. €1 million)**

The proposed programme aims to assist local authorities to complete a comprehensive modernisation and development of the *customs* area, based on the EU Blueprints, and notably to support the implementation of the Belgrade Agreement's undertaking to create a single market and a single economic space. Activity in 2003 will provide continuing assistance in many of the Blueprint areas.

The *taxation* authorities are receiving substantial assistance in the areas of both direct and indirect taxation (except excise) from other donors (e.g.USAID / US Treasury, and GTZ-Germany). This project will thus, when required, focus on ensuring efficient co-ordination between the customs and taxation authorities particularly in respect of VAT collected at importation and in the development of modern and effective excise regimes.

As this programme has a state-level dimension it will also benefit of activities which will be funded from the CARDS allocation under the 2003 financing proposal for Serbia.

## **6.2 ECONOMIC RECONSTRUCTION, REGENERATION AND REFORM (approx. €7.5million)**

The sections below deal with proposed Agency managed programmes/projects in energy, environment and the rural economy/agricultural sector.

### **6.2.1 Energy (approx. €2 million)**

### *Background*

Government is undertaking a number of reforms in the energy sector such as: a new energy Law and regulations, tariff increases, demand management policies, establishing an energy efficiency unit, and restructuring of the coal mine/power plant in Plevjia. Montenegro is bound by a medium term electricity market reform plan (written by the European Commission) that needs to be implemented

Montenegro proposes to further implement demand management and energy efficiency measures and, in particular, assist and complement forthcoming IFI investments dealing with the rehabilitation of existing facilities and the implementation of an energy strategy. Top priorities include the optimisation of 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 and the World Bank within an overall Serbia and Montenegro package.

Integration issues of regional energy markets are pursued by the Agency, largely through the work undertaken by the South East Europe Regulatory Forum (SEEERF). The Agency is also actively participating in regional market energy conferences/workshops. Support for promotion of the Regional Electricity Market (REM)<sup>6</sup> of South-East Europe will be reflected in the implementation of the Agency's assistance in the sector, thus assisting Montenegro to implement the sectoral and institutional reforms required by the REM Memorandum of Understanding that was signed by the state and the republics.

### *Complementary and Past EC Assistance*

The 2002 energy programme served as a catalyst for IFI investments and helped to develop a coordinated energy policy framework, sector restructuring, training plans, a project implementation and an energy efficiency unit.

### *Related Activities of Other Donors*

Until 2002, USAID was the major sector donor with its institutional reform project (draft energy law, energy regulation policy) and sizeable amounts of budget support for electricity imports. USAID is gradually withdrawing its direct budget support in the sector as the IFIs (World Bank, EIB) provide increasing amounts of funds for investments.

## **Project Activities**

### **6.2.1.1 Reform and restructuring of the energy sector (approx. €2 million)**

The 2003 project focuses on the extension of previously funded assistance that is presently under implementation and on the sustainability of demand management

<sup>6</sup> A Memorandum of Understanding on the regional Electricity Market in South East Europe and its integration in the European Internal Electricity Market was signed by the energy ministers from all countries in South-East Europe on 15 November 2002 in Athens.

policies in the field of energy efficiency, including the creation of an energy efficiency fund. Assistance will also be given to help establish the Montenegro Energy Efficiency Unit (MEEU) by providing advisory/consulting services, office supplies and equipment, awareness campaigns, demonstration projects, education, training and operating costs on a declining basis. After an initial start-up period of two years, the MEEU will be partially financed through its own revenues (services rendered to final consumers, municipalities and utilities financed by the energy efficiency fund) and partially by the Government budget. The Ministry of Economy, assisted by EPCG, will (i) be closely engaged with finalising the design and creation of the energy efficiency fund, (ii) take a leading role in the institutionalising of the MEEU and the associated social dialogue process, (iii) contribute to drafting of any initial legislation and subsequently, to ensure its enforcement, (iv) be later responsible to ensure that the MEEU is implemented and (v) provide all necessary support to restructuring measures. A high level Steering Group and working groups will manage and coordinate the project's implementation.

The specific activities of the MEEU will target the energy efficiency related objectives of the Athens Memorandum of Understanding on the Regional Energy Market (REM) - the ongoing technical assistance has the remit of establishing activity selection criteria within this context. It is anticipated that activities will be concentrated on: the identification of cost effective and technically feasible policies and measures for the improvement of energy efficiency on both the supply and demand side; the promotion of activities aimed at energy savings and at the reduction of negative impacts on the environment due to the conversion and consumption of energy; the promotion of renewable energy sources and other non-conventional energy sources with a low environmental impact; promotion of an exchange of knowledge and information with similar bodies of other countries and with international institutions and associations active in the field of energy efficiency (IEA, COGEN, RHEVA, etc.); the preparation of conditions to utilise best available technologies and best practices by (i) encouraging continuous know-how transfer, (ii) stimulate joint ventures for equipment production and (iii) training on best practice, and; the provision of policy support and assistance with sector reforms.

### **6.2.2 Environment (approx. €4 million)**

#### *Background*

During the past decade, there has been a deterioration of Montenegro's environmental infrastructure base, with investment levels in water and wastewater, solid waste collection and disposal 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.

In an attempt to address this problem, in March 2001, the Government of Montenegro adopted a document entitled "*The Developmental Directions of Montenegro as an Ecological State*", which represents a long-term sustainable development strategy, the basic principles of which are to integrate environmental consideration into other policy areas, to encourage partnerships and shared responsibility and to enhance the range of policy instruments.

The Government has initiated specific measures to address the water and wastewater treatment problem within the coastal region, which has inherent tourism growth potential. The Ministry of Environment awarded an open tender for private

participation in the water sector and preparations for the establishment of a water utility company are on going. This process is due to be completed late 2002 and the consortium will start operations and investments based on a concession agreement with the Government.

There are currently no strategic development and investment plans for solid waste and wastewater management in Montenegro. Neither is there any regulatory framework consistent with EU norms. The absence of such strategic and regulatory/enforcement environment is severely restricting implementation of the Government's overall development strategy for environmental protection.

The Commission's MIP 2002-2004 recognises that there is an immediate priority to establish a systematic and efficient solution to the problems faced by the solid waste and wastewater sectors in order to facilitate required investment, especially by the IFIs.

#### *Complementary and Past EC Assistance*

The study (Master Plan) component outlined below will complement an EC-funded project titled "*Feasibility Study for Wastewater Treatment In the Coastal Region, Montenegro*" being implemented under the Agency's 2002 Programme. The objectives of the two studies are compatible and their completion will provide a comprehensive wastewater strategy for the entire Republic of Montenegro.

The investment component will enhance the benefits gained from the 2002 funded Virpazar sewerage project, by further improving water quality in Skadar Lake (a designated National Park).

The projects complement the CARDS regional programme component for continued support to the activities to the *Regional Environmental Reconstruction Programme* (REReP), in particular the harmonisation of legislation and establishment of a regional waste strategy and a regional investment strategy. The project will also be implemented within the context of other CARDS programmes that support cooperation between five Balkan states (including Serbia and Montenegro) and the European Environment Agency, and promote environmental investment in the Danube river basins.

#### *Related Activities of Other Donors*

The EBRD has allocated funds for the construction of a new sanitary landfill site in Podgorica. However, following an initial UK-funded study, EBRD's financing decision has been delayed pending establishment of a strategic regional approach to solid waste management. The World Bank is currently funding solid waste initiatives in the coastal region of Montenegro.

Several IFIs, including the World Bank and EIB, have expressed interest in providing loan funding for wastewater and environment related projects in the study area. However, any commitment is dependent upon the formulation of an investment strategy together with institutional restructuring that will enhance sustainability.

### **Project Activities**

#### **6.2.2.1 Support for enhanced *solid waste* management (approx. €2.7 million)**

The project provides EC funds to assist with the preparation of a solid waste development master plan, addressing institutional, environmental, financial and technical issues. The study will include an assessment of the existing waste collection system leading to identification of potential regional catchments, each served by a single sanitary landfill. The project will also assist the line Ministry and Municipal authorities in implementation and project preparation for IFI investment.

EC funds will also be used to procure emergency priority equipment and rehabilitation needs of solid waste service providers. The equipment provided to existing municipal authorities will be subsequently transferred to the future regional service providers.

#### **6.2.2.2 Support for enhanced sewerage & wastewater management (approx. €1.3 million)**

EC funds will be used to undertake a technical, environmental and economic comparison of establishing larger regional treatment facilities in conjunction with (or without) individual community facilities. Alternative technologies will be assessed to optimise the balance between capital investment and effluent quality. Subsequently, a detailed master and investment plan will be developed.

Experts will also facilitate restructuring the line Ministry and municipal authorities, with recommendations on required legislative, regulatory and administrative changes.

Project funding will enable the construction of sewage and wastewater treatment facilities within the communities located adjacent to Skader Lake (a designated National Park).

The Ministry of Environment will be actively involved during preparation of the Terms of Reference and will take a leading role in ensuring active participation and cooperation from the municipal authorities. During project implementation, a Steering Group will ensure effective coordination between the relevant parties and will take on responsibility for facilitating adoption of the institutional and investment strategy.

### **6.2.3 Economic Development: Rural Economy/Agriculture (approx.€1.5 million)**

#### *Background*

Much of Montenegro is a mountainous area in which livestock is the dominant activity in the agricultural sector and the main source of livelihood in rural areas. However, in absolute terms the livestock sector is small – with figures such as 170,000 cattle and 225,000 sheep, 20,000 pigs, 790,000 poultry and 10,000 horses. The field and horticultural crops sector is relatively small, but nevertheless significant in terms of rural incomes. It is dominated by horticulture comprising mainly olives (3000 ha), citrus and grapes (3800 ha) cultivated near the coast and around Podgorica, with extensive vegetables and fruit orchards (pears, plums, etc) inland.

The animal disease situation is similar to that of the neighbouring Balkan countries. The existing disease control programmes are directed to contain the entry and spread of the highly transmissible livestock diseases. The diagnostic laboratories are located in the Biotechnical Institute of the Ministry of Science and Education, which serves all Montenegro.

To date, there has been limited capital investment in equipment and facilities for both veterinary and phyto-sanitary diagnostic laboratories, investments that are necessary to harmonise with EU standards and best practices.

In the implementation phase, the programmes in Montenegro and Serbia will be jointly coordinated so as to ensure compatible strategies, policies and systems are applied within both republics and follow federal policy in this field.

#### *Complementary and Past EC Assistance*

The EC funded the provision of milk testing equipment under its food security programme.

#### *Related Activities of other Donors*

None of particular relevance.

### **Project Activities**

#### **6.2.3.1 Strengthening veterinary and phyto-sanitary services (approx. €1.5 million)**

With the inputs of technical expertise, the project will principally assist in: (i) strengthening the disease surveillance programme and advising on the required diagnostic laboratory facilities; (ii) equipment selection; (iii) preparation of an animal identification and movement control scheme; (iv) providing international training programmes for veterinary and phyto-sanitary staff, and (v) preparation of business plans and on appropriate investment for individual veterinarians wishing to privatise.

The project will also assist in the construction of a new veterinary diagnostic laboratory and services facilities with Government co-financing as well as procure equipment for the phyto-sanitary inspection services.

Project partners will be the Ministry of Agriculture, Forestry and Water Management, the veterinary and phyto-sanitary services. The experts will work in close co-operation with the project partners at all stages of implementation.

Improvements in the veterinary and phyto-sanitary services will be closely coordinated, through cooperation between both Republics and with the state level for policy guidance.

### **6.3 SOCIAL DEVELOPMENT AND CIVIL SOCIETY (approx. €1.5 million)**

The section below describes a planned intervention in support of civil society and media and also the Commission managed Tempus higher education programme:

#### **6.3.1 Support to Civil Society and the Media (approx. €1 million)**

### *Background*

Since 1998 a climate of openness and democratic freedom prevailed in the Republic of Montenegro. However, despite commitment of the government to carry out structural changes and improve economic performance, major and concrete results are still to come, while citizens' discontent with poor living standards is rapidly growing.

The civil society sector in Montenegro is still in its early stage of development. The 1999 NGO law created an open and simple registration procedure that has made it possible for many new organisations to register. In this context, it is important to note that during the recent Balkan wars, when institutions could not sufficiently address community needs, a number of NGOs carried out significant activities and services. This experience provided these NGOs with a relatively high level of confidence, even though they did not yet fully understand their role in a democratic society.

Given the close correlation between democratisation and access to fair and pluralist information, it is imperative that media legislation is also given a sustained and high priority focus. The Montenegrin authorities have launched media reforms by setting up, under the aegis of the Secretariat of Information, a Working Group with the task of promoting changes in the media legal framework. Through a Joint Initiative of the Council of Europe (CoE) and the EC/Agency, expert assistance was provided to this Working Group. The adoption of the media reform package will constitute an important step towards the harmonisation of domestic legislation with EU and Council of Europe (CoE) standards.

### *Complementary and Past EC Assistance*

Since 2001, the European Initiative for Democracy and Human Rights has continued to support non-governmental organisations concerned with the development and consolidation of democracy and the rule of law, respect for human rights and fundamental freedoms, and protection of minorities. The proposed project will complement this assistance with its focus on poverty alleviation and environmental problems.

Transformation of the Montenegrin Public Broadcaster, RTV, into a genuine public service broadcasting organisation was initially carried out by a German TV Channel (ZDF), and subsequently by BBC with EC funds. Co-ordination between the first Joint Initiative CoE/Agency and the BBC project has taken place and will continue.

### *Related Assistance of Other Donors*

USAID is the major donor working on human rights and democratisation issues. Many other bilateral and multilateral actors are also engaged (e.g. OSCE), but largely focus on human rights issues. UNDP is also provide training and small grants (up to €5000) to socio-economic and environmental NGOs.

It is also noteworthy that the proposed project will enable local NGOs to become partners in the decision making process of defining the poverty reduction strategy paper (PRSP) for Montenegro. Close coordination will be ensured with all donors participating in the PRSP process (WB, DFID-UK, UNDP).

Close co-ordination will also be maintained with the activities of the Media Department of the OSCE Mission in FRY, as well as other interested organisations such as IREX Pro Media funded by USAID. Furthermore, the CoE's participation in the work of the Media Task Force (Working Table I) of the Stability Pact will also be used as a forum to secure proper co-ordination with other initiatives.

## **Project Activities**

### **6.3.1.1 Support to civil society and the media (approx. €1 million)**

The proposed EC project for *civil society* will support training of NGOs focusing on socio-economic and environmental issues, through courses on NGO management (business planning, finance, legal matters, PR), civil society development (poverty alleviation, environmental issues, social policy, etc), lobbying and advocacy and other identified related training needs. A grants' programme will promote projects that address the needs of the population (especially vulnerable groups amongst the refugee, IDP and local population), increase citizens' awareness and activities dealing with socio-economic and environmental issues.

EC funds in a joint initiative with the CoE will assist in drafting as well as implementing the *media* legal framework and assess its compatibility with the European norms and standards. Assistance will be provided for drafting the Laws on (i) Access to Information, (ii) Preventing Media Concentration, and (iii) Ownership Transparency, as well as promoting amendments to the Telecommunications Law and to the Law on defamation. The major *civil society* programme partner(s) will be the selected local implementing NGO(s), assisted by the international expert/advisor. The CoE will (i) provide expertise on media legislation and (ii) contribute to ensure its enforcement through training and provision of technical assistance to the future Montenegrin broadcasting regulator. The main project partner for the *media* programme will be the Secretariat of Information and its media reform Working Group which will (i) be engaged in setting up an agenda for the legal reforms, (ii) take a leading role in promoting the reforms, (iii) draft the legal texts that will form the basis of the laws. This work will be carried out in co-operation with other governmental bodies (e.g., Ministry of Justice, Secretariat of Legislation) and relevant NGOs.

### **6.3.2 University Education - Tempus (approx. €0.5 million) - Commission managed**

#### *Background*

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, 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.

A priority for higher education systems in all South-East Europe is the achievement of the objectives of the so called Bologna Declaration, which was originally 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.

## **Project Activities**

### **6.3.2.1 EC Support for the Tempus programme (approx. €0.5 million)**

The programme aims at funding Joint European Projects (JEPs) and Individual Mobility Grants. Joint European Projects can focus on: University Management; Curriculum Development; Institution Building and Multiplier Projects and 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.

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.

## **6.4 OTHER (approx. €0.5 million)**

### **6.4.1 General Technical Assistance Facility (GTAF); and Programme Reserve (combined total of approx. €0.5 million)**

The main purpose of the General Technical Assistance Facility (GTAF) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the Annual Programme, and support the planning process for future Programmes. Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, and tender evaluations; (ii) audits, monitoring, thematic / programme / project evaluations; and (iii) project preparatory and start-up actions

Programme reserve funds will be used to cover unforeseen programme related expenditures.

## **7. PROGRAMME IMPLEMENTATION**

The Action Programme will be implemented as follows:

### *Implementation & Management*

1. The Financing Agreement shall be concluded by 31 December of the year following that of the budgetary commitment.
2. The end of the implementation period of the Financing Agreement is hereby set at **31.12.2007**.
3. Any balance of funds remaining available under the EC Grant shall be automatically cancelled 18 months after the end of the implementation period of the Financing Agreement.

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Agreement in due form by the competent signatories, and no later than 3 years starting from the date of the budgetary commitment. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered into force, having been signed by the signature of all the relevant parties by this expiry date will not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

This annual programme will be implemented under the responsibility of the European Agency for Reconstruction (except for the Customs & Taxation, and Tempus III projects).

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

Tempus III: The European Commission's Directorate-General for Education and Culture has 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.

A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

### *Tendering and Contracting*

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation and other relevant instructions.

#### *Monitoring, Evaluation and Audit*

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

- (i) supervise the implementation of the programme components on the basis of regular reports, contacts with stakeholders and site visits;
- (ii) carry out regular monitoring and evaluation to follow the progress of the programme and its components, as well as ex-post evaluation 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 of the European Antifraud Office (OLAF) and the European Union's Court of Auditors.

### **8. GOVERNMENT COMMITMENT / CONDITIONALITIES**

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation assistance, in particular, the respect of the SAP political and economic conditionality.

In addition to the SAP related conditionality, programme/sectoral/project conditionality may be imposed. Any programme, sectoral and/or project conditionality will be defined in the Financing Agreement / Memorandum to be signed between the Commission and the beneficiary authorities. Failure to comply with any defined conditionality may lead to delay, suspension or cancellation of the planned or committed assistance.

### **9. INDICATIVE DISBURSEMENT SCHEDULE (€ millions, accumulated)**

<b>Sector</b>	<b>June 2003</b>	<b>Dec 2003</b>	<b>June 2004</b>	<b>Dec 2004</b>	<b>June 2005</b>	<b>Dec 2005</b>	<b>June 2006</b>	<b>Dec 2006</b>	<b>June 2007</b>	<b>Dec 2007</b>
<b>JHA</b>	0.1	0.3	0.5	0.7	1.2	2.2	2.4	2.8	2.9	3
<b>Customs &amp; Taxation</b> (Commission managed)	0.1	0.1	0.2	0.3	0.4	0.7	0.8	0.9	0.9	1
<b>Energy</b>	0.1	0.2	0.3	0.5	0.8	1.5	1.6	1.8	1.9	2
<b>Environment</b>	0.2	0.4	0.7	1	1.6	3	3.2	3.8	3.9	4
<b>Rural Economy/ Agriculture</b>	0.1	0.1	0.2	0.4	0.6	1.1	1.2	1.3	1.4	1.5
<b>Civil Society and Media</b>	0.1	0.1	0.2	0.3	0.4	0.7	0.8	0.9	0.9	1

<b>General Technical and Administrative Facility</b>	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5
<b>TOTAL</b>	<b>0.8</b>	<b>1.3</b>	<b>2.2</b>	<b>3.4</b>	<b>5.2</b>	<b>9.5</b>	<b>10.3</b>	<b>11.9</b>	<b>12.3</b>	<b>13</b>

<b>Tempus (Commission managed)</b>	<b>Dec 2004</b>	<b>Dec 2005</b>	<b>Dec 2006</b>	<b>Dec 2007</b>
	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>

**Grand Total: 13 + 0.5 = €13.5 million**