

Annex

Annual Action Programme for 2005 for Community Assistance to Montenegro

1. Identification

Budget heading:	22 05 02 (Assistance to Serbia and Montenegro)
Total cost:	EU contribution : €22.0 million
Legal basis:	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
Annual programming/ implementation:	European Agency for Reconstruction €20.5 million; Commission headquarters (Tempus and Customs) €1.5 million

2. Political and Economic update

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

The implementation of the Constitutional Charter and the Implementing Law foresee the transfer of a large number of competences from the State to the Republican level but also entails the development of new State level mechanisms so as to ensure a functioning state (i.e. Foreign Affairs, Internal Market, External Trade, etc.). Two-year negotiations between the Serbian and Montenegrin Governments to fully harmonise the Internal Market were unsuccessful. Following the adoption of the European Partnership document, the EU Council of Ministers made a decision to help accelerate political and economic reforms in both Republics by proposing a 'Twin Track' approach. The Council's decision, meaning one country but two protocols, was clearly welcomed by the Montenegrin Government. This decision will help unlock reform processes and enable the State Union to move further within the Stabilisation and Association process.

The privatisation of large enterprises in Montenegro i.e. Aluminium plant, Telecom etc. has created political instability within the ruling Government coalition. The smaller coalition partner has withdrawn its representatives from the Privatisation Council claiming a lack of transparency. It is expected that the results of the privatisation of these and other companies could have serious implications on political and economic stability in Montenegro. An additional difference of opinion within the ruling coalition is the intention to move ahead with the preparations to jointly construct with BiH authorities the Hydro Electric Plant Buk Bijela located on the border within the boundary's of the UNESCO protect TARA canyon. The Civil Society has shown massive interest in questioning the environmental impact and justification of this project.

After an 18 month boycott of the Parliament sessions, the major Montenegrin opposition parties have returned to Parliament. The motive to end their boycott was the scheduled opposition-supported legislation on direct elections for the State Union Parliament and, in addition, TV Montenegro's announcement that in the future they would televise directly Parliamentary Sessions. The issue of direct or indirect elections for the State Union Parliament, scheduled sometime in February/March 2005, is beginning to produce serious political tensions and clashes between the opposition parties and the ruling parties. The ruling parties prefer indirect elections, where the Montenegrin Parliament would vote in the State Union Members of Parliament, while the opposition prefers direct elections, that is, a citizens' vote.

Recent economic trends in Montenegro

Imperfect statistics, lack of legitimate GDP estimates and unreliable business register data (output, employment and wages), are a serious obstacle to monitoring the Montenegrin economy. The official figures, for example, clearly pointed to stagnation of the industry sector during the past several years. However, such estimates should be taken with caution, since real activity in the industry was measured without maintaining appropriate sampling standards and because these were largely based on the old, state-run companies.

Other indicators, (retail trade, catering, tourism, electric power) showed that the economy has been developing faster than major official ones (GDP industrial output) seemed to suggest. Growing retail, catering and tourism activity, led by the emerging private sector, suggest that the economy is growing at a positive rate of a few percentage points.

Inflation (consumer price inflation-CPI) has been steadily falling, from 24% in 2001 to around 2,4% in the first nine months of 2004, which has contributed to the macro-economic stability. This positive trend could be furthered if the anti-monopoly legislation is introduced on schedule by the end of 2004.

The Valued Added Tax (VAT), introduced in 2003, has continued contributing to higher budgetary revenues, but this was offset by lower than foreseen revenues from the transit and excise taxes collected through the Customs Authority. Nonetheless, the overall fiscal discipline has resulted in reduction of the budget deficit, now estimated to be below 5%.

The Government's current 'Economic Reform Agenda' 2003 - 2005 involved a series of economic policy measures intended to accelerate enterprise restructuring, privatisation and private sector development but the results so far have not met expectations. The transition process has been slow and is impeded by weak institutions, inefficient SOEs, numerous SMEs handicapped by fragmented ownership and poor corporate governance as a result of mass voucher privatisation, lack of access to finance and of foreign investment inflows, as well as the overall lack of skills required to reform and turn the economy around.

Altogether, substantial results have been achieved in creating a stable legal framework and macro-economic environment for business, but little progress is being made in the structural reforms at the enterprise and institutional level. Lack of political will to address these difficult issues is the main cause of delays. Recent initiatives to privatise the Aluminium Company, the Telecom and the hotel industry, indicate that the Government has decided to be more active in this regard.

3. Summary of the Action Programme

A description of proposed project actions within each programme component is provided in the following sections. Background material is also provided for each sector so as to highlight the justification for the projects subsequently proposed. Further details on individual projects are available in a separate set of Project Annexes.

- **Democratic Stabilisation (approx. €0.7 million)**
A pressing concern continues to be the situation of refugees, IDPs and the Roma community. As such the 2005 programme looks to supporting just and durable solutions in terms of the right to return and building the capacity of government to meet the special needs of these groups.
- **Good Governance and Institution Building (approx. €7.5 million)**
The key objective of the programmes proposed in the area of Good Governance and Institution Building is to assist the Republic of Montenegro in strengthening the administrative capacity of its institutions in line with EU standards and best practices. Activities highlighted in this section include public administration and civil service reform, support to the rule of law, fight against organised crime and further strengthening of the institutions dealing with EU integration issues.
- **Economic and Social Development (approx. €12.8 million)**
The priorities stressed in this section of the Action Programme contribute to economic development of the Republic of Montenegro by improving its transport infrastructure, energy, enterprise, environment and rural development/agriculture sectors. The projects in this section will contribute to rehabilitation of the economy and help establish a regulatory environment favourable to investment and economic growth.

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

The General Technical Assistance Facility (GTAF) will largely be used to fund activities for preparation of future programmes, i.e. feasibility studies, short-term technical assistance, audits, monitoring, etc.

3.1 Democratic Stabilisation

The component outlined below deals with proposed programmes/projects in the sector of Minority Rights and Refugee Return.

3.1.1 Minority Rights and Refugee Return (approx. €0.7 million)

Background and cooperation related policy of the beneficiary country and Republic

During the conflict arising from the break up of Yugoslavia, Montenegro became host to many refugees and Displaced Persons. At one point the number of those seeking refuge from neighbouring territories amounted to 20% of the total population. In the course of time, and with the assistance of international humanitarian organisations as well as that of the Government of Montenegro (GoM) many succeeded in returning to their homes. Nevertheless, a relatively large number of IDPs and Refugees remain in Montenegro, without much hope of return and with a desire to formalise their status. At present, the official registration in Montenegro shows that there are some 8,000⁽¹⁾ refugees from the former Yugoslav Republics, and around 18,000 IDPs from Kosovo including some 6000 RAE, which, in total, represents an estimated 4% of the population.

The desired option of the GoM and indeed of the international community is the provision of assistance to facilitate return. However it is widely recognised that many cannot or will not return for security reasons. Thus there are two parallel directions of implementation of the National Strategy, giving the possibility to refugees and IDPs to choose the most favourable durable solution. The first group of activities is aimed at ensuring conditions for repatriation of refugees and IDPs to the places of their habitual residence in Kosovo, Croatia and Bosnia. The second direction relates to the provision of conditions for local integration, aimed at assisting refugees and IDPs to achieve self sufficiency and a financially and socially equal position to that of the other citizens of the country.

Coherence with EC cooperation policy and the MIP

According to the MIP 2005-06 the specific objectives related to refugees and IDPs recognise that the problem of the displaced must be addressed if the broader development programmes aimed at stability and growth are to be effective. The MIP states that, 'support for economic development must also recognise the need to address the needs of the significant refugee population'.

The European Partnership calls for adequate co-operation between the State Union and Republics as regards the legislative basis and practical protection of the rights of refugees, displaced persons and minorities. It also has as a priority to ensure full respect for human rights, including access to health services, easy access to personal documents; ensure right of a real choice between sustainable return and integration and to facilitate integration for those who choose not to return. In line with MIP/SAP objectives the programme will contribute to achieving SAP recommendations, by ensuring the rights of refugees and IDPs to return to their place of origin, to create sustainable conditions for return; assist in integration and promote regional cooperation.

¹ According to UNHCR the exact figure should be finalised before the end of 2004

Identified projects

3.1.1.1 Support to the Returns and Reintegration Process of Refugees and IDPs in Montenegro

EU funds will provide: (i) Management support unit in place within the MCDP to facilitate its role in bringing about durable solutions in co-ordination with local municipalities, the donor community and implementing NGOs; (ii) The provision of specialist support staff to the Office of the MCDP to provide the necessary institutional development and capacity building so that the MCDP can carry out its central co-ordinating role and be enabled to advocate effectively on behalf of the displaced in the international donor community; (iii) To set the scene for further actions as funding becomes available to redress the problems of the displaced through return and re-integration projects and through local integration projects co-ordinated by the MCDP; (iv) To prepare the way to address the problems of RAE IDPs particularly those resident in Camps KONIK 1 and 2.

3.2 Good Governance and Institution Building

This priority sector includes programmes on general public administration reforms for Justice and Home Affairs and Public Administration Reform. The Customs and Taxation programme is also included in this section.

3.2.1 Justice and Home Affairs (approx. €3.0 million)

Background and cooperation related policy of the beneficiary Republic

The Montenegrin Government's judicial reform agenda has three major objectives: (i) adoption of new legislation and regulations; (ii) training for judges, prosecutors and other judicial officials and (iii) modernisation of judicial operations and administration. Despite some positive steps, such as the adoption of the new Law on Courts, the new Criminal Code and the Law on Prosecutor, the increased activities of the Judicial Training Centre (JTC) and the computerisation of the judiciary, a lot remains to be done to properly implement judiciary reform. Following the adoption of Criminal Codes and a Law on the Public Prosecutor's Office, there is an increasing need for organising training for prosecutors. To that end, negotiations are ongoing for revising the mandate of the JTC in order to include training for prosecutors. The rationalisation of the training can be achieved with one administrative structure to serve the Centre and two separate boards, one for judges and one for prosecutors. In case such an agreement is not reached, the training of prosecutors will be delivered through the Prosecutors' Association.

In the area of prison system reform, progress has been made on the legislative side. The Law on Amendments to the Law on Enforcement of Penal Sanctions (dated 1994) was adopted at the end of 2003 with the Council of Europe's assistance. The following step would be the setting up of a probation service/body to oversee alternative sanctions to imprisonment as well as post release supervision and support. Moreover, there is a need for the improvement of prison infrastructure, which is inadequate given the increasing number of detainees (as a result of the abolishment of death penalty and introduction of long term imprisonment) and gender structure of prison population. Thus, the proposed programme will address some of the mentioned needs by concurrently building upon the results of the 2002 CARDS project in this field (delivery of training to prison staff, support to the prison system training Centre and production of complete layouts for the rehabilitation of prison facilities).

The need to address corruption and organised crime as an obstacle to democratic stability, the rule of law and social and economic development in the countries of South-Eastern Europe has been raised by many international organisations on numerous occasions. Montenegro is used as a transit country for shipments of drugs to Western Europe from Turkey, Albania and Kosovo. The recognition of these threats in Montenegro is reflected, among other things, in the Government's commitment to produce a strategy for fighting organised crime including terrorism as a new form of crime, comprehensive border legislation based on the Acquis of the European Union, a new police legislation tackling professional education in line with European standards and practices. Certain

progress has been made with the support of the CARDS regional programme, which is assisting in strengthening the position of the Agency for Anticorruption and in implementing anti-money laundering legislation as well as through CARDS national programmes in the area of border police. However, as for judiciary reform, additional efforts are needed in order to ensure proper reform implementation.

Professional development of police remains a priority. As envisaged by the Ministry of Interior, it should be addressed through the transformation of the Police School in Danilovgrad into a modern police academy. The rationalisation of the training will have positive financial implications for the budget of the Ministry and will bring the outdated police education system closer to European standards. All types of training (basic, advanced and specialised) for all profiles of police officers, including border and special unit police officers will be placed under the future Police Academy. Apart from that, the Academy will perform research activities to ensure that all requirements of an efficient and professional police service are met through the continuous development of adequate curricula.

Coherence with EC cooperation policy and the MIP

The EC Partnership notes in the medium-term priorities the need to ensure implementation of the State Prosecutor Law, in particular the functional independence of the special prosecutor for organised crime, further training of prison system staff and improvement of facilities; strengthening civilian control of borders (including training, equipment compatible with Schengen).

The MIP 2005-06 states that there is a need for supporting judiciary and prosecution reforms, improving conditions, facilities and management of prisons in line with the Council of Europe (CoE) standards and supporting police education reform with a particular focus on measures agreed in the 28 November 2003 EU-Western Balkans Forum, JHA Ministerial meeting. SAP recommendations promote the overall efficiency and capacity of the judiciary, prosecution and policing systems as well as the improvement of prison conditions.

Identified projects

3.2.1.1 Justice and Home Affairs

To promote justice and prison system reform, EU funds will support: (i) the development and implementation of training programmes for prosecutors; (ii) a special prosecutor's office for organised crime; (iii) strengthening the training centre for prison system staff and working on promotion of alternative sanctions (joint initiative with the CoE); (iv) upgrading of prison facilities. As support to police reform, EU funds will assist in: (i) strengthening the operational capacity of the Police School/Academy; (ii) upgrading Ministry of Interior premises and training facilities; (iii) supporting the implementation of the third phase of Police IT networking.

3.2.2 Integrated Border Management

No activities foreseen in 2005.

3.2.3 Public Administration Reform (approx. €3.5 million)

Background and cooperation related policy of the beneficiary Republic

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

In March 2003 the Montenegrin government adopted a Public Administration Reform Strategy, which lists the main aims and contents of reform activities to be executed within the four years

expected terms of office (2002-2006). The Strategy has been prepared by the Ministry of Justice, together with a technical assistance team provided in the framework of the 2002 CARDS programme, and has been the object of interministerial discussions and public debates including participation of the civil society. The strategy is mainly dealing with the reform of central and local government.

In the Public Administration Reform Strategy the need for issues to be addressed at the central level is clearly stated: there is no real professional career system in place, no continuous training scheme for civil servants, no efforts to recruit and retain young qualified staff for the public administration and no sufficient incentives to retain the civil servants in the system. According to the Strategy, the key element of the reform process is the development of a professional civil service structure. Progress has been made so far on the legislative side. However, implementation remains a critical issue.

The 2004 CARDS project is supporting the implementation of the new administrative legislative framework together with the start up of the Human Resources Management Agency (HRM Agency). The HRM Agency, foreseen in the Law on civil servants, adopted in March 2004, performs all functions of Human Resources Management and Human Resources Development within the Montenegrin Civil Service. A second phase of support is needed to strengthen the new institution through technical assistance and investment and make it fully operational including a follow-up of the young professionals programme.

As for the EU integration process, under the new 'Twin Track' approach the EU will no longer insist on harmonisation of trade and related policies. Once the completion of the Feasibility Study gets underway, negotiations will be opened. The outcome will be one Stabilisation and Association Agreement (SAA) with separate "Republican" protocols. Therefore, special attention will be devoted to strengthening a specific segment of public administration: the Ministry of EU integration and International Economic Relations. Its responsibilities include international trade, European integration and coordination of foreign assistance and promotion of inward investment.

Government ministries, agencies and directorates involved in the economic reform and development process also require additional capacity building in formulation, development, drafting and implementation of policies related to the priority tasks of the economic reform agenda. Particular focus should be put on the strengthening of the Government's Procurement Commission, as suggested by the SIGMA/OECD missions.

Coherence with EC cooperation policy and the MIP

The EC Partnership notes, as its medium-term priorities, in public administration sector: effective implementation of the public administration strategy with a particular focus on civil service reform and adoption of the Law on salaries of civil servants and public employees; increased administrative capacity of institutions dealing with European integration both at the State and the Republican level, implementation of the Law on civil service; a functioning Human Resources Management Agency (HRM Agency) for civil service and developing its training and recruitment policy and strengthening the policy making process.

The MIP 2005-06 states there is a need for promoting an efficient and accountable administrative system while reducing corruption and "brain drain" through establishment of a systematic civil service training and recruitment.

SAP recommendations promote the implementation of laws and appropriate administrative structures required for implementing the Acquis, addressing the reform of the size and efficiency of Public Administration and the strengthening of EU integration structures.

Identified projects

3.2.3.1 Good Governance and Institution Building - Public Administration Reform -

In 2005 EU funds will: (i) assist the Human Resource Management (HRM) Agency by strengthening its capacity to implement civil service reform in line with the new legislative framework, and assisting the Agency in providing training to civil servants including a follow-up of the young professional programme started with CARDS 2002; (ii) assist the Ministry of EU Integration and International Economic Relations by strengthening its capacity to advance preparations for negotiation of the SAA and “communicating Europe” to the citizens, developing and providing IT software and equipment for data base management in the field of legislation harmonisation, implementation of the Action Plan for the European Partnership, etc.; (iii) support capacity building of the Public Procurement Commission in order to improve the existing public procurement legislation in accordance with EU standards. Complementary technical assistance will be provided for administrative reform of the institutions involved in the economic reform management: (iv) provide equipped operational facilities to Ministries and other Government bodies (v) 'support to the statistical office in Montenegro will be covered through the State Union allocation (please, refer to the State Union Action Programme for 2005).

3.2.4 Customs and Taxation (Commission managed) (approx. €1.0 million)

Background and cooperation related policy of the beneficiary country and Republics

The development of the Customs and Tax Administrations in Serbia and Montenegro stagnated during the Milosevic years and from being the leading services in the region they found themselves to be lagging behind and in need of significant modernisation and development. They had also become increasingly corrupt.

Customs

The Customs Service had, prior to the Belgrade Agreement, been a national service with most of the business and the business services being managed from Belgrade (e.g. Training, Accounting) and thus much needed to be done in Montenegro to create a viable service at the Republican level. Thus a number of reviews and studies were essential (including organisation and structure, pay and grading, equipment and infrastructure, law and procedures and trade facilitation) to provide a basis for a comprehensive programme of modernisation and development. The Service is now in the process of implementing the findings of these reviews with the support of technical assistance from the Customs and Fiscal Assistance Office (CAFAO) programme.

The increasing separation of the Customs into two Republican Services placed an increasing importance on the operation of the Joint Customs Office and efforts have also been made to extend their slightly reluctant cooperation into the Enforcement area so as to have a more cohesive approach in the fight against organised crime including illicit trafficking. The equipping by the United Kingdom, on a bilateral basis, of an operational communication and coordination centre in each Republic is facilitating their efforts in this area. The CAFAO programme Enforcement project which is providing identical programmes in both Republics is encouraging and supporting closer working between the two operational centres.

Taxation

Taxation has always been managed at the Republican level and in Montenegro the Service has USAID Montenegro took a very early decision to replace the existing Sales Tax with a 6th Directive compliant VAT. The new VAT; despite fears to the contrary it is operating reasonably well. The CAFAO programme provided the link between Customs and Tax Services in Montenegro to ensure that VAT on importation, which is managed by Customs, was properly collected and that information flows between the two services were effective. The Montenegrin service must now improve its ability in the areas of compliance control and enforcement as inevitably as free trade

agreements increase the revenue yield from Customs will reduce and that from direct and indirect taxation will increase in importance.

Coherence with EC cooperation policy and the MIP

The European Partnership calls for Serbia and Montenegro to ensure the full implementation of the customs reform plan to secure a high degree of administrative capacity, including a specific focus on the observance of the obligations which arise from the granting of preferential trade measures

(origin), notably the strengthening of the Joint Customs Office.

In relation to taxation the Partnership calls for Serbia and Montenegro to continue to review fiscal legislation and administrative procedures in order to ensure the effective and non-discriminatory enforcement of the tax legislation and to continue strengthening the administrative capacity of the tax administrations.

The project directly addresses Section 2.4 of the MIP 2005 to 2006.

The Country Strategy Paper requires that assistance should be provided with a view to the modernisation and development of the services in line with EU standards.

Identified projects

3.2.4.1 Customs and Taxation

Customs

The project will provide support in the following specific areas: further approximation of legislation and procedures with the EU acquis (including their effective implementation), administrative capacity, control procedures (including origin), cooperation with business and with other agencies, management of human resources (including training).

Taxation

The project will provide support in the following specific areas relating to Value Added Tax and Excise duties, approximation of legislation with the EU acquis, policy development, audit procedures, enforcement, internal audit and management of human resources (including staff development and training).

There will also be some supply of specialised equipment to support the implementation of change.

Additionally the existing CAFAO project to support the Joint Customs Office will be strengthened with a view to ensuring that Serbia and Montenegro can meet their joint obligations in the Customs field, notably related to the management of preferential trade measures. This support will be coordinated by one expert to ensure a fully consistent implementation in both Republics.

3.3 Economic and Social Development

This section provides the outline of projects to be done in the areas of Investment Climate.

3.3.1 Investment Climate (part A and part B)

This section of the Action Programme consists of two components: Enterprise Development and Support to Rural Economy and Agriculture. The summary of proposed activities is outlined below.

Part A: Enterprise Development (approx. €2.0 million)

Background and cooperation related policy of the beneficiary Republic

The acceleration of the privatisation and restructuring process, elimination of remaining business barriers and improving access to finance for SMEs, are the declared priorities of the Government's main Economic policy document: 'Economic Reform Agenda 2003 – 2005'. While substantial results have been achieved in creating a stable legal framework and macro-economic environment for business, poor progress is being made in the structural reforms at institutional and enterprise level. The enabling business environment for the emerging SME sector, which generates over 40% of employment and 52% of GDP, remains difficult. Poor access to capital represents the greatest obstacle faced by the sector.

Despite considerable experience in restructuring and privatisation, the institutions involved in this process are still weak. There is no clear demarcation of roles and functions. For example, the mandates of the Montenegro Development Fund (founded in 1995 to support privatisation) and of the Agency for Restructuring and Foreign Investment (formerly founded to support investment promotion) overlap causing major inefficiencies and delays. Investment promotion is now the mandate of the Montenegrin Investment Promotion Agency (MIPA).

The EU technical assistance programme in the period 2002-2004 assisted a number of companies restructure and improve their competitiveness. A national SME Agency, along with a network of regional business centres and a Euro Information Correspondence Centre (EICC) was established with EU support.

Future efforts should be directed at improving enterprise and financial sector policies and legislation; strengthening the capacity of institutions involved in economic development; assisting in the implementation of the European Small Business Charter; supporting the completion of the privatisation programme of SOEs and promoting foreign and domestic investment; catalysing with advisory support SME credit lines provided by the IFIs.

Coherence with EC cooperation policy and the MIP

The EC Partnership underlines the need to rapidly advance the privatisation process and restructuring of state owned enterprises. The MIP 2005-06 identifies the need to strengthen the capacity of related institutions involved in economic development, assist in the implementation of the European Charter for SMEs and to promote foreign direct investment.

Identified projects

3.3.1.1 Enterprise Reform Programme

EU funding will accelerate the reform of the enterprise sector by consolidating and expanding existing technical assistance. EU funding under the 2005 programme will be directed to: (i) advisory support in order to transform the Development Fund and other institutions involved in enterprise restructuring and privatisation; (ii) provide advisory services to establish a credit guarantee fund/scheme and catalyse SME credit line/s provided by the IFIs; (iii) providing technical assistance to support the privatisation process for selected SOEs; (iv) strengthening the Montenegrin Investment Promotion Agency; (v) improve corporate governance and the regulatory environment for business.

Part B: Rural Economy and Agriculture (approx. €1.8 million)

Background and cooperation related policy of the beneficiary Republic

Increasing exports, encouraging private agri-sector development and the development of a rural development strategy through a partnership-based approach are among Montenegro's main priorities.

The 2005 Montenegro Agriculture programme will focus on development of a national animal identification and registration (landR) system and will upgrade laboratory facilities. The foreseen activities will contribute to enhancing livestock production and raising rural incomes, protecting human health in respect of the quality of food of animal origin and transmissible animal diseases and moving towards EU standards for veterinary and food quality controls.

The Ministry of Agriculture, Forestry and Water Management (MoA) estimates that there are approximately 60,000 households with livestock, of which some are in urban areas. In absolute terms, the livestock sector in Montenegro is small. Farm size is predominantly very small, mainly part-time, subsistence holdings, typically comprising 1-3 cows, with very few larger commercial farms with over 10 cows.

The MoA estimates that the actual number of animals is much higher than that given by the official statistics. Livestock may be sold directly from the farm or traded at local markets. Most markets are unlicensed, and a significant proportion of slaughter is uncontrolled. On-farm slaughter is permitted for household consumption.

The animal disease situation is similar to that of the other neighbouring Balkan countries. The existing disease control programmes are directed to: contain the entry and spread of the highly transmissible diseases of livestock (OIE List A) and reduce the prevalence of zoonotic diseases. The success of these programmes has been jeopardised by the events of the past ten years, particularly through deterioration in control during this period (CSF- Classical Swine Fever), the emergence of new disease threats (bluetongue, possibly BSE) and lack of funds for testing animals. Within the Ministry of Agriculture, Forestry and Water Management in Montenegro, the responsibility for veterinary services falls under the Deputy Minister, Veterinary Department (CVO – Chief Veterinary Officer). Altogether there are approximately 80 veterinarians working in the public sector there is currently no animal identification unit.

The animal extension service already identifies the animals in its selection scheme with individual ear tags, but has agreed that it would cease performing its own ear tagging when a national identification scheme is introduced. Currently, only a small proportion of the cattle population is identified in this way.

The new Veterinary Law, introduced in February 2004, has important implications for animal identification and registration, as it has equalised state and public veterinarian status. Under the new Law, private veterinarians will be permitted to perform state duties under contract; including animal identification and registration tasks.

Coherence with EC cooperation policy and the MIP

The EC Partnership, as its medium-term priorities, calls for the adoption of overall strategy covering agriculture, rural development, fisheries and phyto-veterinary matters; increasing capacity building of the Ministry of Agriculture; implementation of the Law on Veterinary Matters (including fishery products) and putting into operation the veterinary and phytosanitary laboratories, as well as the establishment of the other Food-Chain services.

The MIP 2005-06 encourages continued capacity building within the institutions dealing with agricultural and rural development, in particular support to drafting of the laws and regulations in line with EU standards and their implementation; support to the alignment of legislation, including veterinary and food safety legislation with the Acquis, as well as the effective implementation and enforcement of the legislation, including upgrading inspection arrangements, in particular at external borders.

Identified projects

3.3.1.2 Strengthening of Veterinary and Phytosanitary Services

In 2005, EU funds will be used for: (i) development and implementation of an animal identification system; (ii) information system for animal identification and registration and (iii) provision of operational laboratory facilities.

3.3.2 Trade

No activities foreseen in 2005.

3.3.3 Infrastructure (part A and part B)

Proposed activities for the Energy and Transport sectors that fall under the Infrastructure heading are outlined below.

Part A: Energy (approx. €1.5 million)

Background and cooperation related policy of the beneficiary Republic

Montenegro's energy sector is small in size, when compared to other energy networks in the South East European region. Lack of investment, coupled with rapid demand growth, has resulted in a high dependence on imported energy. Transmission and distribution networks require significant investment, while customer service standards need to be established and maintained. Since Montenegro has opted to develop as an ecological territory there are limited new power production opportunities such as hydroelectricity.

The Law on Energy, adopted in July 2003, requires establishment of market and competition rules within two years after the law comes into force, as well as establishment of the Energy Regulatory Agency, an independent regulatory body responsible for the development and competitiveness of the electricity market. During this period, the electricity utility company EPCG should be functionally unbundled and restructured into several independent entities. The unbundled entities should then be legally separated and privatised.

The Government has not yet formulated its energy sector development policy, including the energy efficiency and privatisation policies. This is due in part to the weak institutional capacity of the Ministry of Economy, which has not been able or willing to absorb the advice provided by the technical assistance. The lack of institutional capacity is a significant concern for the signature of Montenegro to the forthcoming Energy Community Treaty for South-East Europe.

Future support activities planned for the sector should result in the strengthening of the energy regulator (with specific reference to tariffs, regional market development / integration and customer service issues), completion of the unbundling and restructuring process and of liberalisation of the internal energy market. Conditions should be created for privatisation and/or development of public/private partnerships in the sector.

Coherence with EC cooperation policy and the MIP

The restructuring of the energy sector are commitments undertaken under the EC Partnership and the SAp process. Namely, to restructure large public utilities, adjust energy prices to cost recovery levels and fulfil commitments under the Athens MOU on a Regional Energy Market. Equally the proposed actions under the 2005 programme reflect the MIP 2005-06 objectives including support to the privatisation process, implementation of energy legislation, support a strategy for unbundling energy utilities and strengthen regulatory authorities.

Identified projects

3.3.3.1 Energy Sector Reform Programme

The overall objectives of the projects are to continue the process of reform in the energy sector and to create the conditions for its long-term development, while ensuring an affordable and improved service to its customers. In 2005, EU funds will provide: (i) technical assistance to the ongoing sector institutions (EPCG, Government, Coal Mine) to implement agreed unbundling, restructuring and privatisation plans, finalise energy sector development strategy and catalyse IFIs; (ii) capacity building of the Regulatory Energy Agency with regard to tariff policies and regulatory environment.

Part B: Transport (approx. €4.0 million)

Background and cooperation related policy of the beneficiary Republic

The Republic of Montenegro's surface transport system, both road and rail, is of strategic regional importance as the network provides the only seaport link to the Republic of Serbia and the major road axis from Croatia and Bosnia and Herzegovina to Albania, Kosovo and FYROM. The transport network has suffered chronic under funding in the past decade. Conscious of the importance of the network to the future economic success of the Republic, the Government has addressed legislative obstacles to investment by adopting new laws governing transport. Road transport legislation rationalises both institutional arrangements and the allocation of available investment between new construction and maintenance. The Transport Ministry prioritises maintenance over new road construction. Rail transport legislation endorsed in 2004 provides for the ending of the State owned monopoly of the Montenegro Railway Company.

This allows separation of investments between infrastructure and operational activities which encourages additional investment from IFIs. The new legislation promotes competition and the opening of markets as envisaged under EU directive 91/440. These road and rail developments are significant actions in terms of developing the transit transport corridor from the Port of Bar to Belgrade.

Coherence with EC cooperation policy and the MIP

The signed MOU on the development of the South East Europe Core Regional Transport Network shall be implemented. In this regard, the rehabilitation of the intermodal operations from the Port of Bar to Belgrade transport corridor will make a contribution to realising the conclusions of the Regional Balkan Infrastructure Study REBIS. The 2004 Rail legislation which encourages IFI is in line with private sector support for infrastructure investment as stated under the Thessaloniki agenda. The overall objective of the programme is to contribute to the economic growth of Montenegro by improving the efficiency and effectiveness of its transport facilities as per the Country Strategy paper. Finally, the need to foster IFI investment and trade facilitation by providing complementary technical assistance is emphasised in the MIP.

Identified projects

3.3.3.2 Support to the Transport Sector

The overall objectives of the projects are to improve the efficiency and effectiveness of the Republic's transport network. EU funds will be used to: (i) support the Ministry of Transport to develop strategic planning capacity and draft secondary legislation; (ii) assist the Railway Company with implementation of structural reforms as embodied under the new legislation, with particular emphasis on enhancing the company's business planning capacity; (iii) continue to support implementation of IFI funded road and rail infrastructure programmes; (iv) provide equipped operational facilities for the road sector administration; (v) improve priority sections of the core road network.

3.3.4 Environment (approx. €3.0 million)

Background and cooperation related policy of the beneficiary Republic

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

The existing Environment Law is based on modern principles of environmental protection and management, and is broadly consistent with EU principles of environmental management. Progress has already been made in drafting amendments which clarify the articles concerning waste management and bring it into conformity with the Waste Framework Directive. The Ministry has also prepared three draft laws and a number of implementing ministerial by-laws which are intended to transpose three of the most important "horizontal" directives into Montenegrin law – the EIA Directive, the Directive on strategic environmental impact and the Directive on Integrated Pollution Prevention and Control. Associated secondary legislation has yet to be drafted.

Programme monitoring to date in the sector has identified a need for extended assistance to support the introduction of the necessary structural reforms and to align legislation, practises and procedures with EU standards. A major obstacle is that the Ministry is severely constrained by limited staff resources. There is a need to introduce training and/or other activities to provide career incentives for civil servants as a means to retain staff. Monitoring has also highlighted that success in implementing environment protection actions is highly dependent on a public participatory approach to ensure stakeholder ownership.

Coherence with EC cooperation policy and the MIP

The EC Partnership identifies the medium-term priority of developing an overall environmental strategy with a view to adopting environmental protection framework legislation approximating with the Acquis and setting up an environmental protection agency. Interventions planned under the 2005 Action Programme will address these priorities. The MIP 2005-06 highlights the need to protect citizens from health risks linked to toxic pollution of air, water and soil by aligning legislation with the Acquis as well as the effective implementation of the legislation and by strengthening capacity of environmental authorities and their institutional coherence.

Identified projects

3.3.4.1 Support to the Environment Sector

EU funds will be used (i) to provide technical assistance to the Ministry of Environment and Urban Planning to support the harmonisation of existing framework environmental legislation with the Acquis. Secondary legislation targeting such issues as water and wastewater, solid waste and air pollution will be drafted; (ii) Technical assistance will be provided to further promote previously developed strategies in wastewater and solid waste. An institutional restructuring strategy within the line Ministry will be finalised and implemented, including support to the establishment of an Environmental Protection Agency and a Project Implementation Unit to catalyse IFI investment. Formal training of staff will be instigated. (iii) Investment to upgrade priority environmental infrastructure.

These projects will result in beneficiary institutions acquiring a greater capacity to operate effectively within an improved institutional framework with an emphasis on the separation of legislative and enforcement responsibilities. Existing environmental framework legislation will be developed in line with the Acquis. The line Ministry will be provided with the means to develop

rationalised strategic investment plans and to monitor implementation of investment programmes. The ability to attract external sources of investment funding will be enhanced. Environmental infrastructure will be upgraded based on the priority needs identified in strategic investment studies.

3.3.5 Education and Employment

This section of the Action Programme is comprised of Tempus which is an EC managed programme.

3.3.5 Part A: *Tempus (Commission managed)* (approx. €0.5 million)

Background and cooperation related policy of the beneficiary Republic

Tempus is a highly visible programme that has successfully supported the efforts of the partner countries to modernise higher education institutions and systems. It has contributed to reinforcing academic exchanges between the EU and partner countries since 1990. In 1999 the Tempus programme was extended to the non-associated countries of south-east Europe and the Partner States of Eastern Europe and Central Asia. Within the framework of the general economic reform, objectives of the European Commission's programmes for support to these countries, Tempus III aims to support the modernisation of higher education both with a bottom up and a top down approach in the partner countries through balanced co-operation between higher education institutions in the partner countries and EU Member States. Tempus is also becoming a unique tool to disseminate the Bologna process.

After a prolonged period of isolation, Montenegro is currently undergoing a process of institutional and economic reform, which necessarily has to be accompanied by a reform of higher education. This reform may play a significant role in enhancing the country's social cohesion and understanding of democracy and in promoting the economic recovery and transition to the market economy.

Coherence with EC cooperation policy and the MIP

A priority for higher education systems in all South East Europe is the achievement of the objectives of the Bologna Declaration, which was recently signed by Montenegro and which aims at the establishment of a common European higher education space by 2010.

The Tempus programme will further contribute to the strengthening of regional co-operation between higher education institutions in south-east Europe. The Tempus activities contribute to the main CARDS priorities, in particular public administration reform, rule of law, economic reform, environment, water and waste management.

Identified projects

3.3.5.1 Tempus - Multilateral co-operation for the development and restructuring of higher education - Montenegro

The programme aims at funding Joint European Projects (JEP) and Structural and Complementary Measures and Individual Mobility Grants. Joint European Projects can focus on one of the following areas: (i) University management; (ii) curriculum development; (iii) institution building.

3.4 Opening of the EC Community Programmes

No activities foreseen in 2005.

3.5 GTAF (General Technical Assistance Facility) and Programme Reserve

The main purpose of the General Technical Assistance Facility (GTAF) is to support the preparation and early implementation of activities under the Action Programme and support the planning process for future Programmes. The Programme Reserve may be used to cover unforeseeable programme and other priority expenditures.

4. Past EC assistance and lessons learnt

Between 1998-2004, the EU committed over €233 million to Montenegro. The funds were used for emergency and humanitarian relief, reconstruction and development activities and balance of payments support. Furthermore, the EU assistance has gradually shifted to more development type of activities, especially with regards to institution building and sectoral capacity building measures linked to EU integration.

Reconstruction and development assistance (CARDS/OBNOVA)	€102.8 million
Humanitarian assistance (ECHO)	€74.5 million
Macro financial assistance	€35.0 million
Others (EC food security programme)	€21.4 million

As of 21 December 2004, the Agency's global rate of contracting for combined 1998-2004 EC funds was 92% funds contracted and 79% disbursed. Although 2004 funds only became available in August, the Agency percentages for the 2004 programme funds are: 73% funds contracted and 21% disbursed. The table below summarises progress on the implementation of previous Action Programmes:

	Funds Committed (EAR managed) M€	Contracted	Paid
Action Programme 2001	16.2	99%	98%
Action Programme 2002	11.9	96%	91%
Action Programme 2003	12.0	89%	70%
Action Programme 2004	16.5	73%	21%

Lessons Learnt

Some of the most valuable lessons learnt during the preparation of the 2005 Action Programme may be summarised as follows: (i) only proposals and projects that are mature and can be implemented in a reasonable time frame and with tangible results should be developed; (ii) the wider mobilisation of civil society actors would prove valuable in Montenegro to generate greater support for the reform process. This would contribute to addressing the slow pace of project implementation in key sectors such as Public Administration Reform and Justice and Home Affairs; (iii) when doing physical rehabilitation, all permits (i.e. land rights and building permits) and detailed designs must be in place and received on time; (iv) in the case of Montenegro it is clear that the passing of legislation is not sufficient to ensure the necessary enabling environment for project success. New legislation must also have a clear implementation strategy; (v) proper coordination and cooperation from other donors must be ensured when trying to deliver important messages to the Government; (vi) the EU and other donors must push for adoption of laws vital for smooth implementation of projects; (vii) a Memorandum of Understanding should be signed whenever competencies and responsibilities between stakeholders are unresolved or not clear; (viii) the Montenegrin administration should be encouraged to develop a greater inter-sectoral awareness with utilising EU co-funding. This is particularly the case with the sectors of environment and economy.

5. Complementary actions⁽²⁾

The main objectives of EU-funded programmes managed by the Agency are: (i) to support good governance, institution building and the rule of law; (ii) to continue supporting the development of a market economy while investing further in vital physical infrastructure and environmental actions and (iii) to support democratic stabilisation, social development and strengthening of civil society. These objectives contribute to the all-encompassing goal of this Action Programme which is to help the Administration prepare for subsequent EU accession.

All ongoing and future projects implemented by the Agency reflect the objectives outlined above. The present Action Programme relies on lessons learnt and experience from the previous CARDS national programmes and the regional CARDS programme. CARDS regional and national programmes complement each other in the areas of institution building, justice and home affairs, environment, integrated border management, transport, civil society, etc. Preparation of the 2005 programme was also closely coordinated with the EC Delegation in Serbia and Montenegro. Activities of other donors have also been taken into account during the preparation of this programme. During the design of projects it is of the utmost importance to make sure that no overlaps with activities of other donors occur. The donor coordination process is described in the section below (section 6. of the Action Programme).

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

Operational links will be established with the EC's Joint Research Centre and have already been established with the European Environmental Agency in Copenhagen. These will be further strengthened in 2005.

6. Donor coordination

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

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

² Detailed information on complementary activities, activities of other donors and the Government can be found in the individual project annexes

7. Cost and financing

Priority Sectors (titles as per draft MIP 2005-06)	EUR million (+/- 20%)
1. Democratic Stabilisation	
1.1 Support to Returns and Reintegration Process of Refugees/IDPs	0.7
2. Good Governance and Institution Building	
2.1 Justice and Home Affairs	3.0
2.2 Integrated Border Management: No activities foreseen in 2005.	
2.3 Public Administration Reform	3.5
2.4 Customs and Taxation	1.0
3. Economic and Social Development	
3.1 Investment Climate	
Enterprise Reform	2.0
Agriculture and Rural Development	1.8
3.2 Trade: No activities foreseen in 2005	
3.3 Infrastructure	
Energy	1.5
Transport	4.0
3.4 Environment	3.0
3.5 Education and Employment	
Tempus	0.5
Opening of the EC Community Programmes: No activities foreseen in 2005	
4. GTAF	0.5
5. Reserve	0.5
Total	22.0

Note: Excludes EAR running costs estimated at €1.5 million.