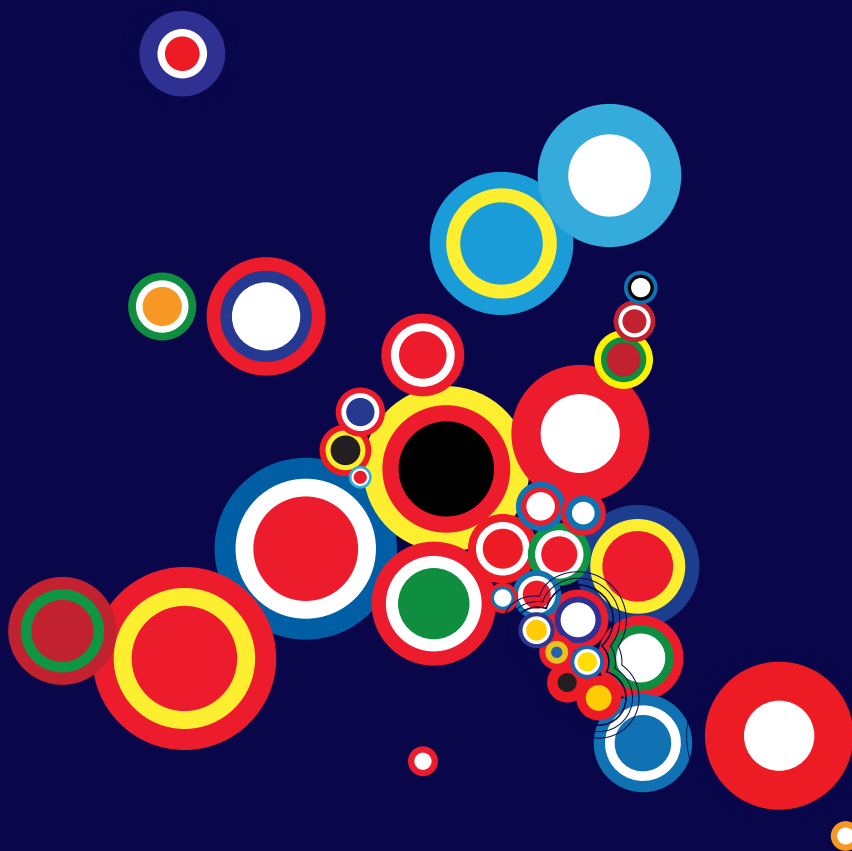




# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



## INDICATIVE STRATEGY PAPER FOR **MONTENEGRO** (2014-2020)

ADOPTED ON DD/MM/YYYY

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## PART I: INTRODUCTION

### 1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Montenegro on its path to EU accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful for the country to meet the accession criteria.

The Instrument for Pre-accession Assistance (IPA II)<sup>1</sup> is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and regional development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet the accession criteria and tailored to take into account the capacities of the country to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address, as appropriate, the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions (IFIs). In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitates cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Montenegro for the coming seven years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds from 2014 to

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<sup>11</sup> OJ L 77, 15.03.2014, p. 11.

2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a 'reward', on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper shall be reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

## **2. Consultations on this Strategy Paper**

The priorities and objectives for IPA II support for the 2014-2020 financial perspective have been decided on the basis of a joint assessment by the Government of Montenegro and the European Commission of the needs of the country, in the light of the on-going accession negotiations. The following elements have been taken into account in the preparation of the Strategy Paper: existing national strategic documents, review of past and on-going IPA assistance and lessons learned, documents produced in the context of EU accession negotiations, and the results of consultations, held in Brussels and Podgorica, between the European Commission, the Montenegrin national and local authorities, representatives of EU Member States, international donors as well as with independent bodies and civil society organisations (CSOs).

A strategic dialogue with the European Parliament has also been conducted.

# **PART II: ANALYSIS OF THE NEEDS AND CAPACITIES**

## **1. Political and economic context**

Montenegro has a population of approximately 620,000 distributed on a largely mountainous territory of 13,812 square kilometres. The country achieved independence in June 2006, after a successful referendum on the separation from the State Union of Serbia and Montenegro.

As regards its political structure, Montenegro is a parliamentary republic, with a unicameral assembly directly elected every 4 years. The last parliamentary elections were held on 14 October 2012, following which the government was formed by a coalition of the Democratic Party of Socialists (DPS), the Social Democratic Party (SDP), the Liberal Party of Montenegro, as well as minorities' parties.

As a small, open economy, with a high level of trade and investment integration with the EU and countries of the Western Balkans, Montenegro has been strongly affected by the global financial crisis and financial turbulences in the EU. The country benefits from rich mineral resources and significant renewable energy potential, as well as from impressive natural landscapes. Montenegro is reliant on income from the tourism sector and has only a narrow industrial base. Although their share of GDP has diminished in recent years, the manufacturing sector remained dominated by two main industrial producers, the Aluminium Plant Podgorica (KAP) and the Steelworks in Nikšić. Despite recent improvements, the external imbalances of Montenegro still remain very large, posing a risk to the macro-economic stability of the country.

The gross domestic product of Montenegro (GDP) in 2012 was EUR 3.34 billion and the GDP per capita in purchasing power standards (PPS) reached 42% of the EU average. Despite the economic contraction of 2.5% in 2012, Montenegro continued the process of fiscal consolidation, with the budget deficit going under 4% of GDP.

The distribution of both population and income reflects regional disparities between a more populated and richer south (coastal and capital areas) and the less developed northern municipalities. Furthermore, high unemployment represents a significant problem for Montenegro, with an average unemployment rate since 2009 of approximately 20%. Socio-economic problems are exacerbated for the long-term unemployed, pensioners, women, as well as groups with a history of social exclusion, sexual minorities, people with disabilities, the Roma community, and refugees and internally displaced persons. As regards gender equality, the inclusion and participation of women at all levels of society remains a key challenge.

Following its independence, Montenegro sought close relations with the European Union, actively participating in the Stabilisation and Association Process. Since June 2012 Montenegro has been engaged in accession negotiations with the EU. The political and reform agenda of Montenegro needs to address, over the next period, multiple and complex challenges in order to achieve the necessary political and economic reforms – including through the implementation of the "new approach" on the rule of law - as well as the full implementation of the EU *acquis*.

## **2. Context for the planning of assistance**

### **2.1 EU Enlargement Strategy**

The Stabilisation and Association Agreement (SAA) with Montenegro was signed on 15 October 2007 and entered into force on 1 May 2010. Since December 2009, a visa-free regime has been in place for Montenegrin citizens. Montenegro applied for EU membership in December 2008. In view of the progress made in meeting the political criteria for membership of the EU, the Commission proposed opening accession negotiations with Montenegro in October 2011. In its May 2012 spring report, the Commission reiterated its recommendation that accession negotiations be opened in the light of the further progress achieved by the country in the areas of rule of law and fundamental rights. On 29 June 2012, following the endorsement by the European Council, the accession negotiations with Montenegro were opened, marking the start of a more intensive phase in the accession process. The Commission and Montenegro embarked on a screening process of all national legislation in the light of the EU *acquis*, which resulted in screening reports for 33 negotiations chapters outlining the state of Montenegro's preparations in each area and the conditions to be met for opening and closing the respective chapter. The screening meetings were completed in June 2013. The screening process was completed in May 2014, when the last screening report was processed by the Council.

Montenegro's efforts in the context of accession negotiations will have to focus on fully meeting the political and economic Copenhagen criteria for EU membership, as well as the ability to assume the EU *acquis*.

As regards the political criteria, the democratic transformation of the country needs to continue, through strengthening the rule of law, tackling corruption and organised crime, and ensuring the respect of fundamental human rights and protection of minorities. Particular focus should be given to reforms improving the independence, accountability, professionalism and efficiency of

the judiciary, as well as enhancing the functioning of the police and other law enforcement authorities in the fight against organised crime and corruption. Increased attention is also required to tackle the shortcomings in the protection of fundamental human rights, in particular as regards vulnerable minorities, but also migrants and asylum-seekers. The full and timely implementation of the Action Plans of the Government of Montenegro for Chapter 23 – *Judiciary and Fundamental Rights* and Chapter 24 – *Justice, Freedom and Security* will be essential for achieving substantial progress in this area. Strengthening democratic institutions and ensuring more inclusive democratic processes remains very important for the country's successful accession process. In addition, Montenegro needs to continue reforming its public administration and enhancing trust in public institutions, protecting the freedom of the media and supporting the development of civil society.

As regards the economic criteria, Montenegro is not yet a functioning market economy. Montenegro needs to implement sustained reforms to promote economic competitiveness and recover from the global economic and financial crisis, which significantly affected the Western Balkans. The high unemployment rate in Montenegro represents a serious challenge and will require improvements in the area of education and human resources development in order to reduce the mismatch between the supply and demand of skills in the labour market. Furthermore, the development of the private sector needs to be further supported through improvements to the business environment and by allowing competition and market forces to operate. Economic growth needs to take place while maintaining stable fiscal and monetary conditions and continuing on the path of fiscal consolidation. The Enlargement Strategy invites Montenegro to enhance its economic policy and governance through the development of an annual National Economic Reform Programme and a biennial Competitiveness and Growth Programme. They will be reviewed by the Commission, which will provide guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria. As part of this approach, countries are invited to engage in a comprehensive public financial management reform, which will provide the basis for sustainable structural economic reforms.

As regards the ability to assume the obligations of EU membership, Montenegro will undergo an intensive process of aligning its national legislation with that of the EU. While these efforts will cover all 33 negotiating chapters, particular efforts will be needed in areas such as *Environment and Climate Change* (Chapter 27), *Agriculture and Rural Development* (Chapter 11) and *Food safety, veterinary and phytosanitary policy* (Chapter 12), as alignment in these areas requires substantial investment and technical assistance. In addition to legislative alignment, Montenegro has to build up the administrative capacity needed to ensure proper implementation of EU legislation. In this respect, the process of public administration reform (PAR) should continue, focusing on the better organisation of the public sector and the development of a professional public administration, both at national and local level.

## **2.2 Relevant national/regional strategies**

As part of the preparations for the accession negotiations, the Government of Montenegro has engaged in the process of developing new strategies or updating existing ones in order to better focus and sequence the reform efforts of the country in the next period. This is also a requirement stemming from the opening benchmarks for certain negotiating chapters.

The planning of IPA II assistance for the period 2014-2020 will seek to support the implementation of the national strategies of Montenegro in line with the priorities identified in this document, as well as in the annual Progress Reports prepared by the European Commission.

Montenegro's main overarching strategies are as follows:

- The Accession Programme of Montenegro (2014-2018) plans the legislative alignment and administrative capacity needed for Montenegro to be able to assume the obligations of membership.
- The Montenegro Development Directions (MDD) 2013-2016, adopted by the Government in March 2013, represents a first attempt by Montenegro to prepare a national development plan. The MDD set out a vision of socio-economic development, including the required investments and development measures to achieve smart, sustainable and inclusive growth. It identifies three priorities for development: Tourism, Energy, and Agriculture and Rural Development, which will be addressed through interventions in 18 individual sectors.
- The Pre-accession Economic Programme (PEP) 2014-2016, adopted in January 2014, aims at determining the appropriate economic policy and structural reforms, as well as at developing institutional and analytical capacities for participating in the multilateral surveillance procedures of the Economic and Monetary Union (EMU). The PEP will be further developed and replaced by an annual National Economic Reform Programme and a biennial Competitiveness and Growth Programme.

In addition to these overarching strategic documents, relevant strategies are in place to define more focused reform and development plans for each respective sector. In certain cases, detailed action plans have already been prepared for the implementation of such strategies.

Montenegro participates in the South East Europe (SEE) 2020 Strategy for "Jobs and Prosperity in a European Perspective". Modelled on the Europe 2020 strategy, this initiative seeks to promote a holistic approach to the economic development of the region by stimulating key long-term drivers of growth – innovation, skills and trade integration. Regional headline targets to be achieved by 2020 have been set for five development priorities: integrated, smart, sustainable, and inclusive growth, as well as governance for growth. The regional targets are being translated into national targets and action plans.

Montenegro is also part of two EU macro-regional strategies, namely the EU Strategy for the Danube Region (EUSDR) and the EU Strategy for the Adriatic and Ionian Region (EUSAIR). These strategies seek to bring together EU Member States and non-EU countries to address common challenges in the concerned macro-regions. They are focusing on innovative maritime and marine growth, improved connectivity of transport and energy networks, better environmental protection, sustainable tourism actions, and socio-economic development measures in the geographically specific context. Macro-regional strategies improve cooperation with neighbouring countries and facilitate the preparation of candidates and potential candidate countries for EU integration.

### **2.3 Conditions for managing pre-accession assistance**

The implementation of pre-accession assistance programmes is currently managed by the EU Delegation in Podgorica. Montenegro applied to the European Commission for the conferral of management for the implementation of the current IPA programmes under IPA components I-IV and the preparation of the necessary structures and administrative capacity is well advanced.

To increase the effectiveness of IPA II, all management modes, including direct management by the European Commission, indirect management by Montenegro or accredited international organisations will be available. The decision on which mode to use will be made on a case-by-case basis with due regard to the management capacities of the beneficiary institution. Linked to this is also the capacity of the Montenegrin national authorities to prepare mature projects and manage the implementation of EU funds in accordance with EU procurement and financial control standards.

Montenegro currently meets some of the criteria for the sector approach in most of the sectors included in this Strategy Paper. A lead institution has generally been identified and sector working groups have been established. Comprehensive sector strategies are well developed for most sectors, except notably for long-term and overarching strategies in the field of environment, agriculture and competitiveness and innovation. However, the capacity to implement, monitor and evaluate the sector strategies, as well as medium-term budget planning, need to be further improved.

IPA II support may also be delivered through sector budget support programmes upon meeting the eligibility criteria: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy. Once these conditions are in place, sector budget support can be provided in those sectors where there is a good strategic basis for implementation of reforms.

#### **2.4 Donor coordination and complementarity with other EU assistance**

There is limited formal or structured overall donor coordination either at sector or sub-sector level managed by the national authorities. Overall donor coordination is organised in an informal way principally by the Ministry of Foreign Affairs and European Integration, or among donors themselves. The EU Delegation, UN agencies and the Organisation for Security and Cooperation in Europe (OSCE) are some of the main donors and coordinate closely amongst themselves and with the other donors. There are also coordination groups organised by line ministries at sector level whose role should be further enhanced to reflect the sector approach. In addition, a number of important IFIs such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (WB) are active in Montenegro providing development targeted lending opportunities, which can complement IPA grant funds.

As regards complementarity with other EU instruments, Montenegro has also benefitted in the past from assistance under the European Instrument for Democracy & Human Rights (EIDHR) in the area of human rights and fundamental freedoms and strengthening the role of civil society and will continue to benefit from this complementary instrument during the period 2014-2020. Montenegro may also be covered by actions under the Instrument Contribution to Stability and Peace, which is a key instrument of the EU for crisis response and security threats, as well as under the Instrument for Nuclear Safety Cooperation, which contributes to the improvement of nuclear safety levels and efficient and effective nuclear safeguards in non-EU countries.

#### **2.5 Consistency with EU policies**

Financial assistance in the priority areas identified in this Strategy Paper will be granted in line with and in support of the enlargement strategy for Montenegro. It will be shaped to be consistent with other EU policies in the same area, in particular with the applicable macro-regional EUSDR



and EUSAIR strategies and the Europe 2020 strategy and its flagship initiatives, such as the Digital Agenda for Europe, to boost growth and jobs. Furthermore, IPA II support will be designed in line with the objectives of the EU environment and climate policy.

The objectives set in this paper have been selected taking into account Montenegro's level of economic development, as well as the stage the country has reached in the accession negotiations and the challenges it needs to address in order to advance in this process.

Furthermore, the objectives agreed under the SEE 2020 Strategy represent important benchmarks for the reform efforts of Montenegro and the financial support under IPA II will be used to support meeting these targets.

### **PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY**

The programming of IPA II for the period 2014-2020 will be framed by Montenegro's strategic goal of joining the European Union. The European Commission's 2013-2014 Enlargement Strategy<sup>2</sup> emphasises the need for addressing fundamental reforms first. This translates into a renewed focus on democracy and governance, the rule of law and fundamental rights, as well as on measures improving economic governance and competitiveness. Progress on the accession path will require Montenegro to implement an ambitious reform agenda, aimed at respecting the Copenhagen criteria for membership of the EU.

The financial assistance to be provided under IPA II will assist Montenegro in this process and will complement national reform efforts and the interventions of other international donors. IPA II support will be warranted for actions that have a clear relevance for the accession process or make a substantial contribution to the socio-economic development of Montenegro, with a view to converging with EU levels and aligning with EU legislation. Montenegro's needs as regards the process of institutional and legislative reforms, but also as regards investments in infrastructure, are far greater than the resources available from national funds, IPA or support from other donors. A prioritisation of EU support is therefore essential.

Pre-accession financial assistance for the period 2014-2020 will be focused on the following two pillars:

#### **Democracy and Rule of Law**

In line with the new approach to accession negotiations, which puts the rule of law chapters at the heart of the enlargement process, reforms in the rule of law and fundamental rights sector will be a key priority for Montenegro. To achieve the deep and lasting political reforms necessary for accession, sustained efforts from the Montenegrin national administration will be required. IPA II will provide support for these requirements early in the accession process. In the rule of law and

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<sup>2</sup> COM(2013)700 of 16.10.2013 - Communication from the Commission to the Council and the European Parliament, "Enlargement Strategy and Main Challenges 2013-2014" and corresponding progress reports

fundamental rights sector, pre-accession assistance will support the implementation of the Action Plans for Chapters 23 and 24. Particular attention will be paid to reforms improving the independence, accountability and professionalism of the judiciary, strengthening the fight against corruption and against organised crime, enhancing border control and managing migration flows, as well as to reforms tackling the shortcomings in the protection of fundamental rights and minorities.

In the democracy and governance sector, strengthening the democratic institutions and reforming the public administration, both at central and local level, represent key priorities for EU assistance. IPA II will support developing the capacity of Montenegro to apply the *acquis*, to tackle de-politicisation and increase the transparency and professionalism of the civil service, promote the involvement of civil society. A specific focus will be the support to the reform of the public financial management system, which is an integral part of the public administration reform efforts as well as the basis for economic governance and sustainable socio-economic reforms.

Furthermore, following the process of screening the national legislation in relation to the EU *acquis*, Montenegro needs to embark on an intensive process of legislative alignment and development of the administrative capacity necessary to ensure its proper implementation. IPA II support in this regard may span all 33 negotiating chapters, as needs are identified during the negotiations process.

### **Competitiveness and Growth**

Montenegro faces significant challenges with a GDP per capita (PPS) of 42% of the EU average, an unemployment rate reaching 19.7% in 2012 and with substantial regional disparities. IPA II will seek to improve the economic governance and competitiveness of the country.

The upcoming economic reform and competitiveness programmes will outline the main reform needs of Montenegro needed for meeting the economic criterion for EU membership. These programmes will aim to improve policy-making and implementation of reforms in the area of economic governance, competitiveness and human resources development, and will reflect on the interventions in other sectors, such as transport, energy and rural development. This process will target improving the business environment for Small and Medium Enterprises (SMEs), addressing skills gaps and mismatches between the labour market and the education system, as well as strengthening social inclusion. These efforts will ultimately contribute to the increased competitiveness of the economy and the fulfilment of the second economic accession criterion.

To strengthen the country's economic growth potential in view of the investment-intensive and technically demanding nature of certain sectors, IPA II will furthermore focus on improving the interconnection with the other countries of the region, promote sustainable development and the protection of the environment, and contribute to the efficiency of the agriculture sector while maintaining rural communities, also with regional support from the Western Balkans Investment Facility (WBIF).

Montenegro is bordering five other Western Balkan IPA beneficiaries, as well as it belongs to the wider Adriatic region. Therefore, continuing cross-border and territorial cooperation represents an important priority for Montenegro under IPA II. Efforts in this area will focus on regional integration and local development of border areas, as well as on wider reconciliation and the development of good neighbourly relations. Montenegro is also participating in the relevant macro-regional strategies.

In order to improve the overall efficiency and effectiveness of delivering assistance to Montenegro, the European Commission is making a gradual transition from a project-based approach under IPA I (2007-2013) to a sector-based approach under IPA II (2014-2020). IPA II support will seek to strengthen the capacity of the national authorities to prepare national strategic documents, ensure sector coordination and monitor the implementation of such strategies and move towards multi-annual, performance-based budgeting.

In addition, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the course of accession negotiations, which do not fall under the aforementioned priority sectors. This may include, but will not be limited to, *ad hoc* and short-term technical assistance (TAIEX) and twinning projects or grants to the civil society.

In line with the Communication from the Commission to the Council and the Parliament "Enlargement Strategy and Main Challenges 2008-2009" of 5 November 2008, IPA II may continue to co-finance Montenegro's contribution for its participation in Union Programmes and Agencies in the context of the on-going policy dialogue under the relevant sectors and accession negotiations chapters.

Finally, while programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action across a number of sectors. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, strengthening of democracy, human rights and civil society participation as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

The indicative financial allocations per policy area and sector resulting from the priorities defined in this Strategy Paper are set out in Annex 1.

## **PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020**

### **1. Democracy and governance**

#### **1.1 Needs and capacities in the sector**

The reform of the public administration represents one of the cornerstones of Montenegro's EU integration process. A professional, efficient and transparent civil service is a necessary condition for good governance, contributing to a stable economic framework favourable to growth, as well for ensuring the administrative capacity needed for the proper implementation of the EU *acquis* across all 33 negotiating chapters.

Montenegro's public administration is facing challenges and undergoing wide-ranging readjustments. A comprehensive reform of the public sector was launched under the Public Administration Strategy for the period 2011-2016. In addition, the European Commission and the Government of Montenegro established in 2014, within the framework of the SAA, a Special Group on Public Administration Reform that will meet regularly to monitor the progress of Montenegro in this sector.

The main challenges in this sector can be grouped under the following main topics: strengthening of democratic institutions, policy-making capacity and reform of the civil service both at central and local level; and economic governance as well as public financial management, which includes the following sub-systems: revenue administration and collection, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit. Furthermore, customs and taxation are part of negotiation chapters with a number of EU accession related requirements, especially in terms of IT interconnectivity and interoperability. Statistics is a key cross-cutting area in this sector. In addition, the civil society is an important element, balancing and complementing the activity of the public administration.

As regards the civil service reform, there is a need to improve the professionalism, transparency and integrity of the public administration, including the capacity of the Parliament to exercise democratic oversight. Administrative structures and procedures need to be streamlined and e-government solutions used to increase the efficiency and transparency of the public administration. A merit-based management of human resources is needed to address the poor distribution of resources across institutions, the mismatch of professional skills and the high level of turnover. The changes introduced by the new law on civil servants and state employees, in force since January 2013, and by the planned new law on general administrative procedures present a genuine opportunity to improve the management and the organisation of public sector human resources. The implementation and application of these laws across the administration constitutes an immediate challenge for Montenegro, as they represent a precondition for the further development of an effective public administration.

As regards policy-making capacity, Montenegro has established a basic policy management system, comprising of a legal framework and the bodies necessary to perform the required planning and policy coordination tasks. The main weaknesses include the poor medium- and long-term horizontal planning, the poor analyses included in the regulatory impact assessments and the absence of follow-up of through monitoring and evaluation of public policies. Therefore, improvements in this area are essential in order to be able to transpose properly and implement the EU *acquis* in all sectors.

With regard to decentralisation, the local self-governments face many of the same challenges as the central administration to ensure effective governance. Particular attention is needed to guarantee the professionalism, efficiency and effectiveness of local civil servants, their ethics and integrity, and the transparency of the work of local self-governing units. It is necessary to harmonise the sectoral legislation in the light of the devolution of competences and to improve the coordination between central and local administrations, as well as among local self-governments, notably in the areas of investment, project planning and implementation.

The recent financial and economic crisis has highlighted the importance of good economic governance, fiscal sustainability and good public financial management. Returning to a sustainable path for public finances is therefore one of the key stated objectives of the government. Improving economic governance requires strengthening institutions, processes and procedures for sound macroeconomic policies and better medium-term planning in key sectors, linked to the fiscal framework. Montenegro will prepare a new National Economic Reform Programme, which will replace and further develop the existing PEP and will provide the strategic framework for EU assistance in the economic field.

As regards public financial management, there is not yet a comprehensive public financial management reform strategy and an action plan (a public financial management reform programme) in place that would cover all relevant sub-systems and sequence reforms accordingly. There are rather a number of more specific strategies at sub-system level, such as the one on Public Internal Financial Control (PIFC).

Customs and taxation have a significant impact on good governance, in particular in the economic area, ensuring an efficient collection of budgetary revenues. The main challenges will be in strengthening revenue administration and collection, reinforcing the administrative capacity and improving the monitoring and control over tax/customs collection.

The overall legal framework for budget management is in place, with plans under preparation to establish a formal Medium-Term Budgetary Framework and to strengthen fiscal rules. While the central capacity for macroeconomic projections is satisfactory, a key concern relates to the weak capacity for budget planning and fiscal analysis in line ministries. Long-term efforts are needed to introduce accrual accounting and budget reporting based on economic, programming and administrative classification. Montenegro also needs to invest in upgrading the IT systems it uses in financial management. Public procurement in Montenegro amounted in 2012 to EUR 323 million or approximately 10% of GDP. Montenegro's public procurement system is broadly aligned with the *acquis*, but further efforts are needed as regards concessions, utilities, and defence procurement.

A key challenge for Montenegro will be to strengthen implementation and enforcement capacities at all levels, and to introduce e-procurement. Implementation of PIFC is at early stages. Attention needs to be given to improving managerial accountability, improving the quality of financial management and control and prevention of fraud and irregularities. PIFC will also need to be implemented at local level and in the state-owned enterprises. As concerns external audit, the State Audit Institution recently adopted a strategic development plan for its institutional development, but its audit capacity remains limited for implementation of both financial and performance audits. In addition, since some of the public financial management sub-systems are covered under specific accession negotiating chapters (economic and monetary policy, public procurement, public internal financial control, external audit, customs and taxation), there is a need to also address these accession specific aspects. This concerns, particularly, the IT interconnectivity and interoperability of customs and tax administration systems with the EU systems.

Statistics is an important cross-cutting element, linked closely to PAR. It provides data allowing for informed decision-making throughout the policy-making and implementation cycle. While Montenegro registered progress in this area, it still needs to improve its capacity for collecting accurate statistics, increase the use of administrative data and better coordinate the various data administrators. The national statistical office of Montenegro (Monstat) needs to gradually introduce the European System of National and Regional Accounts (ESA 2010). The capacity of Monstat to operate as the main statistical coordinator and to ensure the functional quality assessment of the data provided needs to be strengthened, particularly in the accession context, as Monstat is involved in 14 negotiating chapters. In this regard, the good cooperation between Monstat and Eurostat needs to continue.

Finally, in a participatory democracy, an effective public administration needs to be complemented by well-developed and active civil society organisations, as well as independent

and professional media. CSOs and social partners can make a substantial contribution to addressing many of these issues through their lobbying, advocacy and oversight activities at national and local level in every sector. They can create demand for enhanced transparency, accountability and effectiveness of public institutions and facilitate a greater focus on the needs of citizens in policy-making. Citizen participation can be fostered through e-government and e-inclusion. The involvement of civil society in the pre-accession process can contribute to deepening citizens' understanding of the reforms Montenegro needs to complete in order to qualify for EU membership.

As regards the responsibilities for this sector, the main institutional actors are the Ministry of Interior and the Ministry of Finance. However, virtually all state institutions, as well as the civil society, are stakeholders in this area, making effective coordination a real challenge.

Previous IPA support in the public administration reform sector addressed the reform of the civil service and its legal framework, both at central and local level. Furthermore, IPA supported the strengthening of the management and control systems, including EU funds, of policy development and coordination, implementing structures and capacities, as well as programming and project preparation. In terms of the other donors involved, the United Nations Development Programme (UNDP) has been actively working with the Government of Montenegro on enhancing good governance and participatory democracy. OECD, through the EU-funded SIGMA programme, is a key partner in the country for its assessment on public governance systems and public administration capacities.

## **1.2 Objectives, results, actions and indicators**

Under IPA II, a key objective for EU assistance in this sector will be to support the development of an independent, professional and efficient civil service in line with the European standards and best practices. In addition, important efforts will be invested to implement a comprehensive public financial management reform programme, including support to meet the EU requirements on budgetary frameworks, and to improve the economic governance of Montenegro. A further objective is to enhance administrative capacity for the implementation the EU *acquis*, in particular as regards statistics, customs and taxation, as well as to manage and absorb EU funds, both at the central and local government level. With regard to civil society the objective is both to promote an environment that is conducive to civil society activities and to build up the capacity of civil society organisations to be effective and accountable independent actors.

The expected **results** are the following:

- Improved policy-making and coordination capacity, both at central and local level;
- A merit-based civil service system with integrity as well as with adequate human resources management is in place, both at central and local level;
- Improved functioning of democratic institutions;
- Strengthened macroeconomic surveillance, following Montenegro's participation in multilateral surveillance and the implementation of the National Economic Reform Programme;
- Improved public financial management, following the implementation of a comprehensive multi-annual public financial management reform programme;
- Improved IT interconnectivity and interoperability, administrative capacity and alignment with EU standards in the field of taxation and customs; Montenegro becomes a full member of the Common Transit Convention;

- Improved administrative capacity and alignment with EU standards achieved in the field of statistics;
- Improved level of participation of CSOs in the policy-making process.

IPA II support will be provided for the implementation of the PAR strategy as regards the professionalisation of the civil service and to strengthen the policy-making and coordination capacity of the public administration, in particular as regards developing a coherent medium-term outlook. Capacity will also be strengthened as regards the regular analysis and monitoring of implementation, including mechanisms and capacities needed for transposing the EU *acquis* and handling the EU accession process. Support will also be extended to institutions and independent agencies involved in the EU *acquis* and democratic institutions, particularly the Parliament.

IPA II actions will assist with the preparation/implementation of the comprehensive public financial management reform programme, covering sequenced reforms in the different public financial management sub-systems, including revenue administration and collection, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit. In addition, in the public procurement, financial control and customs and taxation fields the specific needs arising from the EU accession process will be supported. In particular, in the customs and taxation fields it is necessary to ensure the interconnectivity and interoperability of IT systems in line with the EU standards, as well as automatic exchanges of information with other tax and customs administrations.

In addition, technical assistance and capacity building measures may be provided to address needs identified in the EU accession negotiations, which do not fall under the other sectors in the Strategy Paper, as well as to develop the capacity of the national authorities, both at central and local level, to manage and absorb future EU structural and cohesion funds.

As concerns civil society, the Commission will offer a combination of political and financial support to meet these objectives, employing a more strategic, effective and results-focused approach to deliver maximum impact. The approach, including indicators and baselines and targets, will be specified in the Guidelines for EU support to civil society in enlargement countries in the period 2014-2020<sup>3</sup>. Monitoring of results and indicators will be realised on an annual basis.

The **indicators** to measure the achievement of the objectives will include (see full list of indicators in annex 2):

- Progress made towards meeting accession criteria (EC);
- Composite indicator Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Statistical compliance (Eurostat).

### 1.3 Types of financing

The reform and administrative capacity-building process will be supported through the procurement of technical assistance, twinning, services, works, supply and grants. Sector budget support may also be considered if the preconditions have been met.

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<sup>3</sup> [http://www.tacso.org/doc/doc\\_guidelines\\_cs\\_support.pdf](http://www.tacso.org/doc/doc_guidelines_cs_support.pdf)

Montenegro will also benefit from the dissemination of best practices and expertise from regional support instruments, such as SIGMA, TAIEX and the Regional School for Public Administration (ReSPA).

As regards support to CSOs, the Civil Society Facility, using financial resources from both multi-country and national IPA II envelopes, will use an appropriate mix of funding instruments to respond to different types of CSOs, needs and country contexts in a flexible, transparent, cost-effective and results-focused manner across the sectors of the Strategy Paper.

#### **1.4 Risks**

The reforms that need to be implemented in this sector will need both sufficient political will and favourable macro-economic conditions to allow the implementation the necessary measures. However, the on-going accession negotiations process will continue to provide an important impetus for both political and economic reforms, mitigating these risks.

Furthermore, given the features of this sector, ensuring the necessary sector coordination will be challenging. This situation is addressed by the implementation of the sector approach in the delivering of IPA support, which contributes to improved capacity for sectoral planning and coordination.

As regards the support to the CSOs and social partners, the risks associated with their involvement in the policy-making process will be mitigated by the functioning of the Civil Society Facility and by technical assistance at national and regional level. This will provide coordinated policy and financial assistance to the support to civil society and its dialogue with the Government.

## **2. Rule of law and fundamental rights**

### **2.1 Needs and capacities in the sector**

This sector will address the priorities identified for the implementation of the "new approach" to the area of rule of law, in line with the Negotiating Framework for Montenegro. It includes the areas of the judiciary, anti-corruption, and fundamental rights, which are covered in negotiating chapter 23 (Judiciary and fundamental rights), and the areas of police cooperation and the fight against organised crime, migration, asylum, visa policy, external borders and Schengen, which fall under chapter 24 (Justice, freedom and security). In addition, ensuring an effective rule of law will contribute to improving the business environment and promoting economic growth.

In June 2013, the Montenegrin government adopted comprehensive Action Plans for Chapters 23 and 24, which address the recommendations made in the Screening Reports and constituted the benchmarks for opening negotiations on these chapters. The Action Plans will guide the country's reform process on the rule of law and cover all the areas included under this sector. The two Action Plans contain links to all existing strategies already prepared by the government in the different areas covered by the respective negotiation chapter. The Plans, developed in close consultation with the European Commission and the relevant stakeholders, contain detailed legislative alignment and capacity building measures required to meet EU and international standards and align with the *acquis* in these areas.

As regards judicial reform, Montenegro needs to strengthen the independence and accountability of the judiciary as well as to increase its efficiency and professionalism, on the basis of the



constitutional amendments adopted in July 2013. Montenegro needs also to take further steps to improve access to justice and to strengthen the independence and capacity of the Judicial Training Centre. Further reform priorities in this area include the need to rationalise the judicial network, further reduce the backlog of court cases, and strengthen the enforcement system as well as the introduction of a reliable and comprehensive system of judicial statistics.

As regards the fight against corruption, Montenegro needs to further improve and strengthen its legal and institutional framework for the prevention and repression of corruption and enhance its overall capacity to effectively implement and monitor all measures foreseen in the pertinent strategic documents and action plans. Reforms in the area of prevention of corruption should aim at putting in place effective systems for preventing conflicts of interest as well as for controlling asset declarations of public officials and political party financing. A priority reform in this respect is the establishment of a new Anti-Corruption Agency and of a Special Prosecutor's Office for the fight against corruption and organised crime. Montenegro needs to effectively implement the rules on free access to information and strengthen the protection of whistle-blowers. Montenegro also needs to step up anti-corruption measures at the local level and, in particular, in sensitive areas such as public procurement. Montenegro needs to develop a track record of substantial results based on efficient, effective and unbiased investigation, prosecution and court rulings in corruption cases at all levels, including high -level corruption and in vulnerable sectors such as public procurement. All investigation and judicial authorities need to be provided with adequate resources, and inter-agency cooperation needs to be improved. Capacities and expertise need to be strengthened, in particular for financial investigations and in the area of seizure, confiscation, and management of proceeds of crime.

The protection of fundamental rights is based on the Constitution, which guarantees civil and political rights as well as social, economic and cultural ones. There is also a comprehensive legislative framework on anti-discrimination in place; however, provisions are not yet fully aligned with the EU *acquis* and international standards. The institutional framework to protect fundamental rights and combat discrimination is also in place, but the financial and human resource capacities are limited. A key issue remains the enforcement of fundamental rights and the investigation and prosecution of their violations by law enforcement and judicial authorities, including on threats and attacks against media and journalists. Discrimination is prevalent particularly against the Roma community, LGBTI persons, women and persons with disabilities.

In the area of freedom of expression, it is necessary to raise the awareness not only of the judiciary, but also of journalists, about article 10 of the European Convention on Human Rights (ECHR), as well as about the ECtHR case law. Additional training is required to raise awareness and increase standards, *inter alia*, on data protection, children's rights and gender equality. In relation to gender-based and domestic violence, a needs assessment is required to get a better picture of the situation in the country; an SOS line is also expected to be established to assist victims. In the area of prisons and prevention of ill-treatment, training will focus on European and international standards, while investment will be required to provide adequate infrastructure to implement these standards, particularly in terms of health care in the penitentiary system.

In the area of migration, asylum, visa policy, external borders and Schengen, Montenegro has faced an increasing pressure from an influx of irregular migrants and asylum seekers. Taking into account the experience of Croatia, this pressure will certainly increase towards the time of EU accession. The basic legal and institutional framework in these areas is already in place. However, to achieve full alignment with EU and international standards in both asylum and

migration, major efforts are needed in terms of legislation, policy-making and enforcement. Accommodation capacity needs to be improved, as well as the awareness of the authorities in detecting irregular migrants and identifying asylum seekers, and in adequately protecting vulnerable migrants. Alignment with the EU *acquis* in the field of visa and borders/Schengen will be a major technical and financial challenge for Montenegro. The current legislative and administrative framework does not fully meet the EU standards. A thorough analysis leading to the preparation of a comprehensive Schengen Action Plan, covering visa policy and Schengen *acquis* alignment, is foreseen in the next period. Montenegro also needs to implement the new strategy and action plan based on the EU concept of Integrated Border Management (IBM). Substantial investments will be required to modernise equipment and facilities at the border. Inter-agency cooperation and cooperation with the neighbouring countries has to continue and increase, notably to counter cross-border crime and to fight against corruption at the borders. A specific plan is expected to be developed on this latter topic.

Fight against organised crime is one of the major challenges faced by Montenegro. Criminal groups originating in Montenegro or having links to Montenegro operate within and beyond the borders of the country. Key issues are the fight against drug smuggling, trafficking in human beings and money-laundering. The existing legal framework requires changes to reach full alignment with the EU and international standards in this area. Institutional capacities have been strengthened in the past years and IPA support has played an important role in policy and capacity development in this area. However, the capacity of the authorities to effectively counter organised crime remains limited and requires improvement, especially for running complex investigations and dealing with difficult cases. Efforts will be required to improve technical equipment, including IT databases, adequately train human resources and reinforce inter-institutional cooperation. In the areas of customs cooperation and euro counterfeiting, Montenegro will need to align with the relevant *acquis* by ensuring the necessary IT equipment is in place, and sufficient training is delivered.

As regards the administrative framework, there are three Ministries with responsibilities in this area. The Ministry of Justice defines, manages and coordinates the implementation of policies in the fields of justice and anti-corruption, while the Ministry of Interior is responsible for the implementation of reforms relating to border management, asylum and migration, and fight against organised crime. Fundamental human rights fall mainly under the responsibility of the Ministry of Human Rights and Minorities.

The focus of past and ongoing IPA financial assistance has been on strengthening the policy, legal, regulatory and administrative framework to counter organised crime and corruption. In the area of human rights, IPA supported gender equality and sustainable solutions for the Internally Displaced Persons (IDPs), including Roma. IPA assistance also contributed to the construction of the reception centres for migrants and for asylum seekers. This sector has been the focus of substantial donor activity. In addition to the assistance provided by the EU and its Member States, the OSCE, UNDP, the United Nations Children's Fund (UNICEF), the Office of the United Nations High Commissioner for Refugees (UNHCR), the Council of Europe Development Bank (CEB), the Council of Europe, the Government of Norway, the International Management Group, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the World Bank are involved in this sector.

## 2.2 Objectives, results, actions and indicators

Under IPA II, EU financial assistance will support the implementation of the Action Plans for Chapter 23 and 24, as well as the upcoming Schengen Action Plan. As the majority of the actions foreseen in these Action Plans will be implemented with national resources, sector budget support may be envisaged to support directly the national authorities in their implementation of the political reforms comprised in the Action Plans. Complementary to this, technical assistance will be used to provide expertise or investment needed to ensure alignment with European standards.

The main **results** to be achieved under this sector with the help of IPA II support are as follows:

- Enhanced independence of the judiciary and strengthened integrity safeguards;
- Increased efficiency of the judiciary, in particular the duration of proceedings is substantially reduced;
- Strengthened professionalism, through merit-based and transparent criteria for appointments of judges, prosecutors and court administrators as well as through evaluations of performance, merit-based promotions and court inspections;
- Improved coherence and consistency of jurisprudence;
- Improved legal predictability, timeliness and enforcement of judicial ruling's;
- Improved legislative framework and administrative capacity for the prevention and repression of corruption and reduced level of corruption;
- Increased efficiency and co-operation between the law enforcement agencies;
- Reduction of the level of organised and serious crime and a solid track record of investigations, prosecutions and final convictions in corruption and organised crime cases developed;
- Broad compliance with fundamental human rights;
- Alignment with EU standards in the area of migration and asylum achieved;
- Integrated Border Management plan implemented and implementation of the Schengen Action Plan on track.

As regards the judiciary, IPA II can be used to finance expert support for enhancing the independence, accountability and professionalism of the judicial system. IPA II may be used to support the establishment of a single, countrywide recruitment system for judges and prosecutors and an objective and merit-based promotion system and the development of the State Judicial Council and State Prosecutorial Council. Furthermore, assistance could be used for the rationalization of the court network, for increasing the capacity of the judicial system to reduce the backlog of cases and for ensuring the effective functioning of the Judicial Training Centre. Finally, strengthening the enforcement of judgements, as well as the introduction of a reliable system of judicial statistics, which will provide all relevant data on the performance of the judicial system and will also be used as a management tool, are important measures that may be supported for their contribution to the increased efficiency of the judiciary in Montenegro.

IPA II will be used to assist the efforts of Montenegro in the fight against corruption. Potential action may be to support the functioning of a strong and independent Anti-Corruption Agency and of an effective system for the prevention of conflicts of interest at all levels of the public administration, or help improve the effectiveness of the asset declaration and verification system. The legislative framework relating to the financing of political parties and election campaigns needs to be improved and the capacities of the oversight and supervision institutions have to be strengthened so as to ensure effective control and sanctioning. In the area of free access to

information, measures will focus on training and awareness-raising. A priority for assistance is the revision and implementation of the Criminal Procedure Code with a view to making pre-trial investigations more effective. Other priorities are the improvement of inter-agency cooperation, building up capacities and expertise in the area of financial investigation and improving the legal framework and implementation of seizure, confiscation, and management of the proceeds of crime.

As regards fundamental rights, IPA II assistance will support Montenegro to implement a wide range of actions in the area of fundamental rights, to ensure alignment with the EU Charter of Fundamental Rights and with the other EU legislation and international obligations. Support will be provided to help Montenegro improve anti-discrimination policies through the implementation of the Ombudsman's Law, including with specific training on the rights of the LGBTI persons. IPA II support may also be used to raise public awareness in the area of fundamental rights, including gender equality, as well as to provide the necessary training of public officials charged to maintain the highest standards in this regard.

On migration and asylum, IPA II will support the plans of Montenegro to bring its legislation and practices up to EU and international standards, so as to offer an appropriate response to future large influxes of migrants and asylum seekers, in full respect of fundamental human rights standards. Specific attention will be devoted to investments in increased accommodation capacity, strengthening the human resources of relevant authorities by means of training and by upgrading IT systems, and offering *ad hoc* accommodation and integration solutions for vulnerable groups of migrants (including unaccompanied minors).

Montenegro will continue its participation in the Regional Housing Programme, an integral part of the Sarajevo process, in the context of which the Western Balkan countries have agreed to work jointly to find sustainable solutions for the remaining refugees and displaced persons, and further support will be provided for the social integration of Roma. The Commission has pledged to support financially this process under the IPA II instrument.

With regard to border control and visas, the key objectives will include the implementation of the Schengen Action Plan, which is currently under development. Moreover, Montenegro will need to align its Integrated Border Management Strategy and Action Plan with the EU model and ensure their swift implementation. In both cases, IPA II may help with the substantial investments required in terms of infrastructure, purchase of technical equipment and improvement of human resources management.

As regards fight against organised crime, IPA II may assist with the transposition of the EU *acquis* into national legislation, which will require a needs assessment prior to any legislative amendments. In addition IPA II funds will assist in developing robust implementation capacity, with functioning technical equipment (e.g. IT networks and databases), adequately trained staff from the Ministry of Interior and other competent institutions, and strong inter-service cooperation. Key areas for support will be: anti-money laundering, trafficking in human beings, and the fight against drugs smuggling.

The **indicators** to measure the achievement of the objectives/results will include (see full list of indicators and targets in annex 2, table 2):

- Progress made towards meeting accession criteria (EC);
- Judicial Independence (WEF);

- Composite indicator Global Corruption (TI) and Control of Corruption (WB);
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB).

### **2.3 Types of financing**

The reforms will be supported through short-term technical assistance – TAIEX, twinning, service, supply, work, and grant contracts implemented under direct and/or indirect management. If the preconditions are met, sector budget support may be used to support the implementation of key national strategies and the Action Plans for Chapters 23 and 24, complementing technical assistance for activities for which EU expertise is needed.

Regional support could be envisaged in the following areas as a possible continuation of the ongoing programmes: international cooperation in criminal justice (fight against any form of organised crime, cybercrime, irregular migration, witness protection), and the Regional Housing Programme.

### **2.4 Risks**

The main risk under this sector is that the majority of the reforms in this area, including those that will be supported under IPA II, require sufficient political will in order to achieve the desired results. Furthermore, the human and financial resources and technical capacity of the beneficiaries of IPA II support in this area are limited. However, the on-going accession negotiations process will continue to provide an important impetus for both political reforms and ensuring the necessary resources, mitigating these risks.

## **3. Environment and Climate Action**

### **3.1 Needs and capacities in the sector**

EU environment and climate change policies aim at promoting sustainable development, the shift to a low carbon and resource efficient economy and the protection of the environment for present and future generations; they constitute Chapter 27 of the accession negotiations. Firstly, Montenegro has the challenge of transposing a huge amount of EU *acquis* into national legislation to catch up with the continuously developing body of EU environmental legislation. Secondly, the implementation of this legislation implies costly investments in environmental infrastructure, in particular in relation to waste management and water treatment.

Montenegro is at a very early stage of alignment with the *acquis* in these areas. The main weaknesses identified are the lack of strategic planning, underdeveloped infrastructure and a lack of systematic integration of environment, climate action and disaster management in all sectors policies. A National Environment Approximation Strategy and National Strategy and Action Plan for Combating Climate Change are currently under preparation. In particular, it is important that investments are made in full compliance with the Environmental Impact Assessment and the Strategic Environmental Assessment Directives, and also that public consultations are effectively conducted. Montenegro will also need to integrate disaster resilience and risk prevention and management in the planning, preparation and implementation of projects.

Water and waste management are the most challenging sectors. The development of an integrated waste management system is still at an early stage and most waste is disposed of in open sites or in multiple unauthorised dumps. No data is available on the actual waste produced in Montenegro. There is a strong reliance on landfills, with reuse, recycling and separate collection

system/infrastructure lagging behind. Montenegro needs to move to more resource efficient circular economy by turning waste into a resource. This requires shifting the focus from landfilling to separate collection and management of all waste streams, in line with the EU waste policy objectives and waste hierarchy. Alignment with the EU water legislation is at a very early stage. Monitoring networks are poorly maintained and lack real time data on water quality. River basin management plans need to be developed in line with the EU Water Framework Directive, in particular taking into account the plans to substantially expand hydropower capacity. Montenegro needs support in complying with the Water Framework, Urban Waste Water, Drinking Water, Groundwater, and Water Quality Standards directives; this requires substantial investment in the relevant water management and wastewater treatment facilities.

Regarding climate action, further alignment with EU policy and legislation - with effective implementation – needs to be ensured. This particularly refers to climate legislation on the EU Emissions Trading System (ETS); monitoring, reporting and verification of greenhouse gases (GHG) emissions; effort sharing decision; fluorinated gases and ozone-depleting substances, and other relevant legislation (why relevant? Do you mean 'and related legislation' i.e. related to the previously mentioned areas?). Montenegro is vulnerable to climate change impacts, and adaptation to these conditions necessitates building resilience and strengthening of disaster risk management. The needs regarding climate change adaptation and mitigation have been identified in the context of the preparation of the National Communication report to United Nations Framework Convention on Climate Change (UNFCCC). In the area of mitigation of climate change, institutional capacity should be strengthened regarding the design, implementation and monitoring of mitigation policies and measures, with particular attention to GHG emission reduction activities. These areas also have a strong impact and links on policy making and investment in other sectors, like transport, energy and agriculture; the integration of climate change relevant issues into the national (sector) development strategies will be crucial in this respect.

The overall responsibility for the development, management and coordination of environment and climate change policies lies with the Ministry of Sustainable Development and Tourism. In addition, the Ministry of Agriculture and Rural Development is responsible for the water management and forestry policies; the Ministry of Interior deals with disaster management; and the Ministry of Economy with the energy policy.

Past IPA assistance in the areas of environment and climate change focused on alignment with the *acquis* and administrative capacity building, as well as on creating a cleaner, safer environment. Investments were mainly in the area of wastewater management and solid waste management. As regards international donors, other than the EU, Kreditanstalt für Wiederaufbau (KfW) and the EIB support Montenegro in wastewater management, solid waste disposal, and energy production and energy efficiency measures; EBRD supports sustainable tourism and associated environmental and infrastructure needs; UNDP has been active in the area of environmental remediation and the transition towards a low-emission and resource-efficient economy; and OSCE in environmental awareness-raising and implementation of procedures related to environment impact assessment.

### **3.2 Objectives, results, actions and indicators**

The objectives of IPA II support in this sector will continue to focus on alignment with the EU *acquis* under Chapter 27 of the accession negotiations, as well as to build up the necessary

administrative capacity for its implementation and enforcement. Finally, it is important to support public awareness-raising on issues relevant to environmental protection and climate change action, as well encourage the "greening" of public procurement.

The main **results** to be achieved under this sector with the help of IPA II support are as follows:

- Harmonisation of Montenegrin legislation with the environment and climate change *acquis*, and strengthening of the institutional framework and administrative capacity to ensure implementation both at central and local government level;
- Water management and municipal waste water collection and treatment improved for the most important agglomerations, including physical infrastructure;
- Effectively implement the Environmental Impact Assessment and Strategic Environmental Assessment directives;
- NATURA 2000 network prepared on the basis of sound scientific data, and implementation has started accordingly;
- National waste management plan prepared in line with the EU requirements; waste collection and management of all waste streams improved (including the necessary physical infrastructure) and recycling rates increased;
- Strategic framework for adaptation and mitigation of climate change, including disaster risk management, developed and capacity improved.

As compliance with the *acquis* in this area requires significant investment in environmental infrastructure, IPA II grants will finance investments in the most critical areas where support is needed to meet EU environmental standards. IPA II will also support the development of the national authorities' capacity for preparing mature infrastructure projects to be financed by international financial institutions, EU funds, or national sources. Furthermore, it will ensure adequate capacity of the local administration for planning, permitting, inspection, enforcement, monitoring, as well as project management, including project preparation for large investments.

IPA II support will focus in particular on the transposition and implementation of the water *acquis*, preparation of river basin management plans and creating conditions for establishing an efficient and effective water management system. In addition, IPA II actions may also assist Montenegro in preparing its NATURA 2000 network and to align with the EU standards in the field of industrial pollution, air quality, chemicals or noise, as well as nuclear safety and radiation protection. It is necessary to strengthen capacities for monitoring and data collection, and to ensure the proper implementation of the Environmental Impact Assessment and Strategic Environmental Assessment legislation, including effective and transparent public participation.

In the area of climate change mitigation and adaptation, IPA II actions will concentrate on strengthening the institutional capacity to design, implement and monitor mitigation policies, as well to enhance the resilience of vulnerable economic sectors and infrastructure to climate change. Furthermore, IPA II may support the promotion of energy efficiency and the use of renewable energy sources.

As regards investment needs, the priority areas are to improve the solid waste management and waste water treatment and water management facilities in line with the EU standards, i.e. focussed on the largest and strategically most important agglomerations (densely populated and industrialised territories) and environmentally sensitive areas, where both national and local authorities demonstrate clear ownership and commitment for timely design and implementation, as well as eventual maintenance of investments.

The WBIF will provide additional support to investment in the environment sector, with a focus on wastewater collection and treatment and waste management in the largest agglomerations (densely populated and industrialised areas) and environmentally sensitive areas, as well as energy efficiency. For this purpose, a consistent (single) project pipeline of investment priorities will need to be set up as a precondition.

Montenegro will also participate in the Environment and Climate Regional Accession Network (ECRAN), funded under the multi-country programme, which provides an interface between regional aspects and national priorities in this sector. Furthermore, the Union Civil Protection Mechanism represents the EU framework for cooperation in the field of disaster prevention, preparedness and response, and it is open for the participation of Montenegro. IPA II assistance will also support the achievement of the objectives established by Montenegro and the other participating countries in the context of the EUSDR and EUSAIR macro-regional strategies, e.g. the protection of marine and coastal ecosystems, as well as transnational terrestrial habitats and biodiversity.

The **indicators** to measure the achievement of the results will include (see also table 2 in annex 2):

- Progress made towards meeting accession criteria (EC).

### **3.3 Type of financing**

The reform and administrative capacity building process will be supported through TAIEX, and the procurement of technical assistance, twinning, services, works, supply, and grants. Sector budget support may also be considered if the preconditions have been met. It is important to consider innovative financing possibilities such as blending loans and grants, as well as creating incentives for the participation of the private sector. Regional financing mechanisms also need to be considered, in particular for large infrastructure projects where a cross-border element or regional impact is evident.

### **3.4 Risks**

One of the main risks identified relates to the lack of human resources and administrative capacity for strategic planning, as well as project preparation and implementation, in particular for infrastructure projects. Cost estimates for the investment needed can be inaccurate, leading to delays in implementation. Important support will therefore be needed as regards technical assistance and project preparation.

Furthermore, the limited financial capacities of the country represent an important risk as regards ensuring sufficient funds to co-finance investments, but also to ensure the sustainability of the realised investments by providing sufficient operating and maintenance budgets. The on-going accession negotiations process will continue to provide an important impetus for both political and economic reforms, as well as provide the necessary administrative and financial resources needed to achieve the proposed reform in this sector.



## 4. Transport

### 4.1 Needs and capacities in the sector

Montenegro suffers from the constraints of a difficult topography, which require increased investments and maintenance expenditure, particularly for railway and road infrastructure. The poor quality of the transport infrastructure hampers economic growth due to the low quality and high cost of transportation, as well as low safety standards. Improvement of transport connections will facilitate the integration of Montenegro in regional trade flows and further political cooperation and links between people.

Enhancing road transport connections represents a national priority for Montenegro, in particular as regards the corridor linking Bar, the main port of Montenegro, to the border with Serbia at Boljare. Attention should be given to aligning investments with actual traffic projections. However, Montenegro should also increase its investment in low-emission and in long-term sustainable alternatives to road transport. In this regard, the rail transport network needs to be improved to ensure adequate connections for multi-modal maritime-railway transportation from the port of Bar. Multi-modal transport solutions should be promoted in order to increase the quality of transport services, reduce road congestion and the environmental impact of the transport sector. As regards maritime transport, investment is needed in ports and coastal infrastructure in order to improve maritime safety and security, as well as the protection of the marine environment.

In addition, improvements to cross-border transport links are needed to improve the economic integration of Montenegro with its neighbours and with the EU Member States. It is also important to consider the regional dimension and, where needed, to improve the quality of cross-border sections and to ensure that links are in place between the various national priority corridors. In this respect, Montenegro participates in the South East Europe Transport Observatory (SEETO) that defines the regional transport network for road, rail, air and waterborne transport and connects to the neighbouring EU Member States and the Trans-European Transport Network (TEN-T). SEETO defined the development of the comprehensive transport network in a multi-annual plan including priority projects in the region.

In the context of the accession negotiations, Montenegro still needs to further align its legislation with the EU legislation in the transport sector and establish the specific administrative structures required by EU *acquis*, in particular regulatory and accident investigation bodies. Continued support will be needed to promote compliance with the EU safety *acquis* in the fields of road, rail and maritime transport. Alignment with the *acquis* in relation to inland waterways will require additional efforts, as currently this area is regulated under maritime transport legislation.

As regards the administrative structures, the overall responsibility for the development, management and coordination of the transport sector in Montenegro lies with the Ministry of Transport and Maritime Affairs. Administrative bodies have been established under the umbrella of the Ministry to act as public authority, regulator or safety and security authority for the different modes of transport. The Ministry of Interior and the Police Directorate have responsibility for the safety and security of road transport, dangerous goods, roadworthiness tests, registration of vehicles and driver licensing. The strategic planning for the development of the transport sector is elaborated in the Transport Development Strategy, adopted in 2008, as well as in the Montenegro Development Directions 2013 – 2016.

In the transport sector, IPA focused previously on the development of the Bar-Belgrade corridor offering combined maritime-railway transport, but also assisted in the restructuring process of the Railway Directorate and implementing the first phase of the Vessel Traffic Monitoring and Information Systems (VTMIS). In the area of road transport, IPA funded improvements to border crossing points in the North of Montenegro and improvements to regional traffic flow conditions. As regards other donors active in the transport sector, EBRD, together with bilateral donor organisations in the Czech Republic, Germany, France and Italy, and the EIB, are also working actively on infrastructure projects. KfW is also ready to support Montenegro in both road and railway infrastructure. In addition, Montenegro has signed an agreement with China for the financing and construction of the Smokovac-Mateševac segment of the Bar-Boljare highway.

#### **4.2 Objectives, results, actions and indicators**

IPA II priorities for 2014-2020 will focus on alignment with the transport *acquis*, and on improving the inter-connection of Montenegro with its neighbours and internal mobility in the country, as set out by the Union guidelines for the development of the trans-European transport network. IPA II will finance measures to ensure alignment with the EU *acquis* under chapter 14 and 21 of the accession negotiations, and to build up the necessary administrative capacity for the implementation and enforcement of the legislation in this field.

The main **results** to be achieved under this sector with the help of IPA II support are as follows:

- Improved capacity of the administration for defining an appropriate sector strategy and drafting appropriate legislation, as well as capacity building for the preparation and implementation of complex infrastructure projects;
- Existing and new national laws aligned with the EU *acquis* in all areas (liberalisation and internal market, technical harmonisation, accident investigation and safety);
- SEETO routes and interconnections with neighbouring countries further advanced;
- Railway transport safety on the line Bar-Vrbnica further improved;
- Vessel Traffic Monitoring and Information System fully operational by 2020;
- Enhancement of the opportunities for developing combined transport;
- Reduced negative environmental impacts, pollution and GHG emissions in the transport sector.

IPA II actions on institution building and alignment to the EU *acquis* will focus on ensuring compliance with safety and security standards for all modes of transport, in particular road safety, the establishment of an independent accident investigation body, alignment with and implementation of the third (and the upcoming fourth) railway package, as well as adoption of new legislation for combined transport, clean vehicles and intelligent transport systems. Furthermore, IPA II will support the implementation of the Single European Sky and the alignment with and implementation of the *acquis* on maritime and inland waterways transport.

The main IPA II priorities for investments in the field of transport will focus in particular on the railway corridor Bar-Belgrade and developing the potential for multi-modal maritime-railway transport. Finally, IPA II will also support the development of the capacity of the national authorities for preparing mature infrastructure projects to be financed by international financial institutions, EU funds or national resources and will support the identification and implementation of climate change adaptation and mitigation measures.

Furthermore, IPA II may also support in road transport and interconnection with the neighbouring countries. In this regard, the WBIF instrument will provide additional regional support to investment in the transport sector, focusing on the extension of the TEN-Ts/SEETO Comprehensive Network and on improving cross-border points. For this purpose, a consistent (single) project pipeline of investment priorities will need to be set up as a precondition. IPA II assistance will also support the achievement of the objectives established by Montenegro and the other participating countries in the context of the EUSDR and EUSAIR macro-regional strategies in the transport sector.

The **indicators** to measure the achievement of the objectives will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Logistics performance indicator, score (WB).

### **4.3 Types of financing**

The *acquis* approximation and administrative capacity building in the transport sector will be supported through TAIEX, twinning, technical assistance, supplies of equipment and support to investment (design and supervision of works, as well as gap financing). Sector budget support may also be considered if the preconditions have been met.

As regards investments in infrastructure, since the needs of the Montenegrin transport sector exceed the available national and IPA II funds, the funding strategy will aim at blending IFI loans and IPA II grants through the WBIF for strategically relevant and technically viable priority projects. Additional technical assistance will also be provided for capacity building and for the preparation of a mature project pipeline under the IPA II multi-country programme, including through the continuation of the "Joint Assistance to Support Projects in European Regions" (JASPERS) in Montenegro.

### **4.4 Risks**

One of the main risks identified relates to the lack of the human resources and administrative capacity for strategic planning, as well as project preparation and implementation, in particular for infrastructure projects. In particular, the cost estimates for the investment needed may not be sufficiently accurate, leading to delays in implementation.

In addition, the limited financial capacity of the country represents a significant risk as regards ensuring sufficient funds to co-finance investments, but also to ensure the sustainability of the realised investments by providing sufficient operating and maintenance budgets. The financial capacity as well as targeted investment in transport infrastructure according to actual and predicted traffic flows might be further endangered by investments undertaken with foreign loans. The on-going accession negotiations process will continue to provide an important impetus for both political and economic reforms, as well as provide the necessary administrative and financial resources needed to achieve the proposed reform in this sector.

## **5. Competitiveness and Innovation**

### **5.1 Needs and capacities in the sector**

Prior to the 2009 economic and financial crisis, Montenegro witnessed rapid economic development, with annual GDP growth rates of over 5%. Montenegro has had some success in

creating a favourable business climate and has attracted a number of foreign investors, mostly in the financial, tourism and real estate sectors. However, the aftermath of the financial and economic crisis highlighted the importance of continuous reform efforts to improve economic competitiveness and innovation in order to ensure sustainable economic growth. Addressing these issues also links with the accession negotiations process, in particular in the area of free movement of goods, services and capital, enterprise and industrial policy, competition and state aid, financial services, information society and media, and research and development.

Montenegro will prepare a biennial Competitiveness and Growth Programme. This comprehensive approach to competitiveness, in particular the coordination of the multiple sectors important for competitiveness (transport, energy, employment, education, etc.), will result in actions having a more significant impact. In addition, Montenegro is in the process of developing a comprehensive industrial competitiveness strategy in line with Europe 2020 and the EU's integrated industrial policy.

The MDD 2013-2016 identifies that the main areas with great potential for economic growth are tourism, energy and agriculture and rural development. The reforms for improving economic competitiveness and innovation therefore need to pay particular attention to these economic sectors. This includes improving the business environment, regulatory performance, access to capital for SMEs, and unleashing the potential of a liberalised service industry.

Enterprise policy places a strong emphasis on SMEs, which contribute around 60% of GDP with a number of strategies seeking to enhance their development and competitiveness. In support of further strengthening the SME sector, company registration processes have been unified, combining legal and tax registration. Some procedures can be conducted online and new legislation is subject to regulatory impact assessments, coordinated by the Ministry of Finance. However, Montenegro needs to make further efforts to improve in this area, in particular as regards access to finance, business licensing and permits. Alignment with the EU legislation is necessary in order to provide stable, safe and efficient financial services and ensure coherence and consistency between the different policy areas such as banking, insurance, securities and investment funds, financial market infrastructure, retail and payment systems. Montenegro needs also to improve the business environment by developing access to information infrastructure to reduce both the digital divide within the country and the gap with the EU. It also needs to support the ability of traditional industries to compete and innovate through ICT improvements, training and digital skills development.

Another important mechanism to increase the competitiveness of the economy of the country includes improving the quality and efficiency of the research and innovation policy, and strengthening its links with businesses.

Montenegro joined the Central European Free Trade Agreement (CEFTA) in 2006, which represented an important step for trade liberalisation. Montenegro has to ensure the conditions for the development and diversification of trade between the signatory countries. In order to fully benefit from the participation in the CEFTA and EU markets, it is necessary for Montenegro to develop its quality infrastructure, in particular with regard to metrology, standardisation, and accreditation of products. Compliance with EU and international standards, such as on quality and health and safety, is the key to gaining market access and helping Montenegrin companies to gain access to and compete in the EU's internal market.

In addition to the national processes, two existing regional-level tools will continue providing valuable inputs for policy making in this sector, and consequently guide IPA II assistance. Firstly, the SME Policy Index is a benchmarking tool, which monitors and evaluates progress in implementing the main policy framework for SME development in the European Union and the Enlargement countries - the EU Small Business Act. Secondly, the South East Europe 2020 Strategy will provide a comprehensive SEE Competitiveness Outlook. The Outlook will assess the status and progress in implementation of reforms, as well as provide country-by-country recommendations under all five pillars of the SEE 2020 Strategy for integrated, smart, sustainable and inclusive growth within a good governance framework.

While Montenegro has developed a set of sectoral strategies to address these challenges, the lack of administrative capacity and fragmentation still impede the policy implementation at times, thus negatively affecting competitiveness. Responsibilities in this sector are disseminated between various ministries (Ministries of Economy, Finance, Information Society and Telecommunications, and Science). Taking into account the economic importance of the private sector for the development of agriculture and tourism, the Ministries of Agriculture and Rural Development and of Sustainable Development and Tourism also have a crucial role to play in this area.

Past IPA assistance in this area focused on supporting the development of the SME Development Strategy, supporting the development of tourism sector, as well as financing measures to strengthen business environment and facilitate access to the Internal Market. Financial support has also been provided to small enterprises through the European Fund for South East Europe (EFSE). As regards other donors, EBRD is providing assistance through targeted support to SMEs in all sectors with growth potential, including the agribusiness sector, and through further strengthening of the financial system. The WB is focusing on financial-sector and public-sector development loans, which aim to strengthen the banking sector and fiscal stabilisation, and also to bring regulations in line with EU norms and encourage resumption of credit growth. Furthermore, KfW and the WB are ready to support SMEs by providing equity finance and quasi-equity funding through ENIF (Enterprise Innovation Fund).

## **5.2 Objectives, results, actions and indicators**

IPA II support in this sector will focus on improving the business environment, to support the development of SMEs in Montenegro and their capacity to access the EU internal market. Another important priority for IPA II is to support the comprehensive industrial competitiveness strategy currently under development by Montenegro and to ensure the necessary administrative capacity needed to ensure the appropriate implementation and follow-up of this strategy.

The main results to be achieved under this sector with the help of IPA II support are as follows:

- Implementation of the Strategy on Free Movement of Goods, introduction of quality and safety regulatory requirements, and making the quality infrastructure fully compatible with EU requirements achieved;
- Services market liberalised and optimised in line with the Services Directive and legislation fully harmonised;
- Comprehensive Industrial Competitiveness Strategy prepared and implementation well on track;
- Small Business Act recommendations (SME Policy Index) regularly followed up and implemented;

- National legislation aligned with the EU *acquis* in the financial sector, including financial supervision.

IPA II will also assist Montenegro in developing of entrepreneurship and start-ups, strengthening the business development and advisory services infrastructure (business zones incubators and clusters), improving the access of businesses to finance through the development of innovative instruments (venture capital, guarantee schemes) and the compliance with the EU *acquis* on the financial sector, including financial supervision, as well as strengthening the capacity for research and development, also by improving the linkages between research and industry;

Finally, IPA II will support alignment to and building up the administrative capacity for the implementation of the EU *acquis* in areas such as quality infrastructure standards, market surveillance capacity, consumer and health protection and intellectual property rights. This not only includes the free movement of goods, services and capital, but also the mutual recognition of professional qualifications and the development of financial services and enforcement of competition and state aid legislation. In the area of trade, Montenegro will continue benefiting from the regional assistance under CEFTA and the Western Balkans Enterprise Development and Innovation Facility (EDIF).

The **indicators** to measure the achievement of the expected results will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Distance to frontier, Doing business - score (WB).

### 5.3 Types of financing

The reform and administrative capacity building process will be supported through TAIEX, technical assistance, twinning, services, works, supplies, and grants. Sector budget support may also be considered if the preconditions have been met.

However, as regards the support for SME development and providing venture capital, it is important to consider innovative financing possibilities such as blending loans and grants, as well as creating incentives for the participation of the private sector. Furthermore, regional financing mechanisms need to be considered for grant schemes and support measures.

### 5.4 Risks

The main risk to implement a comprehensive sector approach stems from the fact that issues of competitiveness and innovation fall under the responsibilities of various ministries and agencies, and the coordination and policy steering capacities in this area are weak. Furthermore, there is a wide fragmentation of strategies adopted and limited administrative capacity for their implementation. This situation is addressed by the implementation of the sector approach, which contributes to improved capacity for sectoral planning and coordination.

Montenegro is a small and open economy, development in this area is extremely vulnerable to external shocks and developments in the international economy. An additional major problem that affects the functioning of the financial sector, with a negative impact on the real economy, is the high level of non-performing loans in Montenegro. As a result, commercial banks are reluctant to lend, creating an obstacle for investment.

The on-going accession negotiations process will continue to provide an important impetus for both political and economic reforms, as well as provide the necessary administrative and financial resources needed to achieve the proposed reform in this sector.

## **6. Education, employment and social policies**

### **6.1 Needs and capacities in the sector**

The education, employment and social policies sector addresses key elements needed for sustainable economic growth. In the context of an average unemployment rate of 20% since 2009, reforming not only the labour market system, but also the education, training and research system, as well as the health, social protection and inclusion policies represent important policy objectives for Montenegro.

A qualified and adaptable labour force is a key driver for creating a favourable environment for both domestic and foreign enterprises to develop and contribute to economic growth. An important challenge for Montenegro is addressing the significant mismatch between the output of the education system and the market demand for labour. This results in low participation levels in the labour market and a high official unemployment rate, in particular among women and disadvantaged groups. It is also important to improve rule of law standards in this sector due to the perception of wide-spread low-level corruption in the health and education sector and the prevalence of undeclared and informal work.

These problems are further exacerbated for the groups with a history of social exclusion and isolation. The Roma population has an illiteracy rate of 77% and an employment rate (20%) of less than half of the national rate, which reflects the additional challenge of ensuring the social inclusion of all Montenegro's citizens.

Taking these factors into account, a first priority for Montenegro is to improve the regulatory environment and conditions for job creation, as well as increase employment opportunities for those who are inactive in the labour market. Another aspect of economic growth and competitiveness of the country is directly linked to the quality of its human capital and education system. The Montenegrin educational system faces many problems and it is crucial that the basic educational attainment and the performance of teaching staff is improved, which will then provide the basis for improvement at the higher levels of education. In addition, it is important to encourage the development of human capital through improving the formal and informal system of education at all levels and through the stimulation of lifelong learning and professional development.

Montenegro should continue to implement a systematic reform of the social welfare, child care and health systems, with the full implementation of a new strategic, legal and institutional framework in line with the EU *acquis*. Measures for the transition from institutional to community-based care are important, and this process should include children, youth, elderly and people with disabilities, including mental health. Furthermore, there is a need to create an effective linkage between the provision of social benefits and services, and labour market incentive measures.

Human resources development requires a comprehensive strategy that takes full account of the connections between population health, educational attainment and labour productivity. Montenegro's National Strategy for Employment and Human Resource Development 2012-2015

represents the main strategy in this sector and aims at improving the conditions for job creation and investment in human capital so as to improve employment levels in Montenegro. In addition, the European Training Foundation launched the "Frame – Skills for Future" initiative in Montenegro to help with the development of coherent policy approaches for human resource development in line with the EU 2020 strategy. In the context of the accession negotiations, Montenegro is in the process of developing an Employment and Social Reform Programme (ESRP). The ESRP will focus on a limited set of core employment and social challenges and identify policy reform pathways for addressing these challenges in the mid-to-long term perspective. IPA II will support the ESRP process.

A number of ministries have responsibilities in this sector, including the Ministry of Labour and Social Welfare, Ministry of Economy, Ministry of Education, Ministry of Science, Ministry of Human and Minority Rights, and Ministry of Health. Taking into account the size of the rural population in Montenegro, the Ministry of Agriculture and Rural Development is also concerned. The administrative capacity of the relevant ministries and of the other bodies, such as the Employment Agency, will need to be further developed.

The CSOs and social partners serve an important role in the success of the reform efforts in this sector and will be actively included in the ESRP. IPA II support will support this process and build up their capacity.

In the area of human resource development, past IPA assistance focused on issues of labour market reform and education under the Operational Programme for Component IV. As regards social inclusion, significant efforts have been invested in developing the law on social welfare and child protection and creating the necessary structures, particularly addressing the problems of children, minority groups and IDPs. Regarding other donors active in this sector, UNDP provides support for social inclusion; UNICEF's priority is child protection and social inclusion; CEB provides support for education, health and social housing; and KfW and the World Bank support higher education.

## **6.2 Objectives, results, actions and indicators**

Support under IPA II in this sector will aim addressing the mismatch between the skills demanded in the labour market and those offered by the education and training system. IPA II will also support participation in the labour market and improved opportunities for vulnerable groups in society through the implementation of social inclusion policies. Furthermore, it will strengthen the role of social dialogue and the capacities of social partners.

The main **results** to be achieved under this sector with the help of IPA II are as follows:

- Improved employability of human resources through modernising the vocational, educational, training and research systems in Montenegro;
- Improved connection of the vocational, educational, research and social protection systems with the needs of the labour market and overall economy;
- Improved access to health, education and employment opportunities for all citizens, with a particular focus on socially disadvantaged or marginalised groups;
- Implementation of the national strategy for social and economic integration of the Roma on track.

IPA II actions in this sector will focus on labour market reform, with the aim of having a more flexible and dynamic employment system and improving the human resource management of



businesses. In particular, there needs to be a focus on the effectiveness of the policies related to the integration of the long-term unemployed, unemployed young people in the labour market and disadvantaged groups, to increase self-employment, and to stimulate entrepreneurship, especially in the underdeveloped areas of Montenegro. In addition, the reform of the education system will be supported so that it provides job-seekers with the skills demanded by the job market, such as developing digital literacy. Special focus should be given to developing vocational education, entrepreneurship and lifelong learning, but also higher education and research.

IPA II will address the reform to social policies (benefits and services), including health policy, so as to improve its efficiency and coverage, as well as the financial sustainability of the respective systems, as well as that social and child protection systems and the implementation of the ESRP. Furthermore, IPA II will support *acquis* alignment and institutional capacity building for public health. These actions will also support social inclusion and improve the conditions of marginalised groups.

Finally it is important to strengthen the capacity of the CSOs and social partners to ensure adequate social dialogue and to develop the national authorities' administrative capacity in this sector, in particular regarding the implementation of evidence-based strategic approaches to policy making.

The **indicators** to be used to measure the accomplishment of the expected results of EU assistance in this area will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Employment rate of population of 15 to 64 years, total % (Eurostat).

### **6.3 Types of financing**

The reform and administrative capacity building process will be supported through TAIEX, procurement of technical assistance, twinning, services, works, supplies and grants. Sector budget support may also be considered if the preconditions have been met.

### **6.4 Risks**

The main risk in this sector arises from the fact that human resource development is multi-faceted and an effective policy response needs to address the issue from all angles in a coordinated and strategic manner. Therefore, effective sectoral coordination and cooperation will be required between the various ministries and agencies active in this field. There is also a wide fragmentation of strategies adopted with limited administrative capacity for their implementation. This situation is addressed by the implementation of the sector approach in the delivering of IPA II, which contributes to improved capacity for sectoral planning and coordination.

## **7. Agriculture and rural development**

### **7.1 Needs and capacities in the sector**

In the MDD, Montenegro identifies Agriculture and rural development as one of the main areas with substantial potential for economic growth. The primary sector alone providing more than 7% of total GDP, compared to approximately 2% in the EU. If taken together with the processing industry, the share of the agriculture sector amounts to around 12% of GDP and 17.7% of total

exports. However, Montenegro needs to invest in diversifying its agricultural production and exports.

Reforms in this sector need to ensure alignment with and implementation of the *acquis* in three negotiations chapters: Chapter 11 – *Agriculture and Rural Development*, Chapter 12 – *Food Safety, Veterinary and Phytosanitary Policy* and Chapter 13 – *Fisheries*. Montenegro is at an early stage of alignment with the *acquis* in these three chapters and sustained efforts will be needed to ensure compliance with EU standards in these areas.

In the agriculture and rural development area, the transposition of legislation and the establishment of the necessary administrative capacity and control structures required by the *acquis* are the main challenges. This will, in particular, require Montenegro to develop the structures and systems necessary to apply EU rules on direct support schemes and to ensure the implementation of the common market organisation for various agricultural products.

In the area of food safety, veterinary and phytosanitary policy, Montenegro faces several challenges given its small size and limited resources. Further efforts are needed to strengthen administrative, control and laboratory capacity in order for Montenegro to meet its accession requirements. Specific attention will be required to develop and implement a comprehensive strategy for alignment with and implementation of the necessary *acquis*, especially as regards closing the gaps on animal by-products, upgrading of establishments and eradicating rabies and classical swine fever.

The fisheries and aquaculture sector is currently of limited relative significance compared to other economic sectors (0.5% of total GDP), but it has a strong potential for development. The main problem faced by Montenegro is its very weak administrative capacity to meet the standards required by EU Common Fisheries Policy. Significant efforts are needed in this sector to further harmonise legislation with the *acquis*.

Forestry represents one of the most important economic resources in rural areas and forest land management must therefore form an integral part of the objectives and priorities of rural development. Montenegro should improve its institutional framework and build up the capacities of the forestry sector, develop forest management plans and strengthen cooperation with the private sector to ensure sustainable economic development of forest resources.

All areas described in this sector fall under the responsibility of the Ministry of Agriculture and Rural Development. However, good coordination is needed, in particular with the Ministries of Economy, of Health and of Sustainable Development and Tourism, as well as the Directorate for Inspection Affairs.

Previous IPA support in the sector of Agriculture and Rural Development focused on capacity building projects, both as regards the alignment to the EU standards and the establishment of the necessary structures for the management of the EU funds. In addition, funds were allocated to rural development measures, implemented through a close collaboration with the World Bank. These measures were designed to prepare the beneficiaries and the implementing authorities for the management of rural development funds under EU rules. Additional support has been received through bilateral aid from other donors.

## **7.2 Objectives, results, actions and indicators**

The key objectives of IPA II assistance are to promote the progressive alignment of the Montenegrin agricultural policy with the Common Agricultural Policy (CAP), to contribute to a

competitive, sustainable and efficient agriculture sector while maintaining vibrant rural communities and to ensure alignment with EU standards as regards the fisheries, food safety, and veterinary and phytosanitary policies. To achieve these goals, IPA II assistance will be provided under two strands: institutional capacity building and a rural development programme.

The main **results** to be achieved under this sector with the help of IPA II support are as follows:

- Alignment with the EU *acquis* under Chapters 11, 12 and 13 is completed and implementation is on track, including the establishment of the structures and systems necessary for implementation of CAP;
- The management and control systems for the pre-accession rural development funds established and fully functioning;
- Improved overall competitiveness of the agricultural sector and sustained rural areas;
- Increased resilience of the agricultural sector to adapt to climate change.

In the area of institution and capacity building, IPA II will support progressive alignment with the EU *acquis*, including the establishment of the structures and systems necessary for the implementation of the CAP including strengthening the capacity of the operating structures for implementing rural development programmes.

IPA II will also support further alignment with and implementation of the *acquis* in the area of food safety, veterinary and phytosanitary policy, including institutional and laboratory capacity building in the food safety, veterinary and phytosanitary area. Particular focus will be placed on upgrading of food and animal by-products establishments, strengthening the capacity of the veterinary services to undertake control measures and surveillance activities for animal diseases and on implementing the EU requirements on control of products of animal origin, as well as building and improving Border Inspection Posts facilities.

In the area of fisheries, including aquaculture, the alignment with and implementation of the legislation with the *acquis* and EU Common Fisheries Policy will be supported by IPA II, as well as the preparation of strategic documents and fisheries management plans and the building of administrative capacities for the management, control and surveillance of marine fisheries, including the development of a Fisheries Information System.

In the area of agriculture and rural development, a multi-annual Strategy for Agriculture and Rural Development is under preparation. Closely linked to and ensuring coherence with this strategy, a multi-annual IPA II Rural Development (IPARD) programme is under development. The IPARD programme will provide investment support to increase the ability of the agri-food sector to cope with competitive pressure and market forces, as well as to progressively align with the Union rules and standards, while pursuing economic, social and environmental goals in balanced territorial development of rural areas. Furthermore, it will contribute to the security and safety of food supply and the maintenance of diversified and viable farming systems in vibrant rural communities and the countryside.

The establishment of producer groups, rural infrastructure, forestry, agri-environmental schemes and local initiatives may be supported through the IPARD programme. The IPARD programme will also reinforce the capacity of relevant EU funds management structures to be able to efficiently manage and implement the programme in line with EU requirements. Due to the increased vulnerability of its ecosystems, infrastructure and water supply, the agricultural sector

will face direct impacts of climate change. Therefore, support may be provided for the implementation of agriculture adaptation activities to climate change.

The **indicators** which will be used to measure the accomplishment of the expected results will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI).

### **7.3 Types of financing**

The reform and administrative capacity building process will be supported through TAIEX, twinning, services, works, supplies and grants. IPA II support in the area of rural development shall be provided through measures financed under IPARD. Sector budget support may also be considered if the preconditions have been met.

### **7.4 Risks**

The main risks that have been identified concern the insufficient administrative capacity and absorption capacity of the national authorities, including the coordination challenge between the different stakeholders. In addition, limited access to credit reduces the incentives to invest in agriculture and rural development, is also a risk. The on-going accession negotiations process will continue to provide an important impetus for both political and economic reforms, as well as provide the necessary administrative and financial resources needed to achieve the proposed reform in this sector.

## **8. Regional cooperation and territorial cooperation**

### **8.1 Needs and capacities in the sector**

In addition to the needs and objectives identified in this Strategy Paper, Montenegro will benefit, together with the other IPA II beneficiaries, from support under the EU horizontal and regional pre-accession financial assistance programmes.

The regional priorities are set in a Multi-country Strategy Paper, designed to complement the objectives set in the national Papers. Regional assistance will be delivered along the following four axes, each one representing one dimension of the added value of the horizontal and regional programming: i) Horizontal support to sector policies and reforms; ii) Regional structures and networks; iii) Regional investment support; iv) Territorial cooperation.

As regards regional structures, Montenegro continues to actively participate in a number of regional initiatives and organisations, such as the Regional Cooperation Council (RCC), ReSPA, the Energy Community or ECRAN. Montenegro will also be the host of the Regional Health Development Centre of the South East European Health Network for Non-Communicable Diseases (NCDs), which aims to promote regional cooperation for addressing the health challenges of NCDs in the region. As regards regional investment support, the WBIF will function as a mechanism for donor coordination and blending of grants and loans. The Western Balkan countries alongside the EU, the IFIs and bilateral donors can identify, prepare and implement priority socio-economic investments through the pooling of expertise and financial resources. WBIF will work on the basis of a prioritisation of infrastructure development using

one single mechanism involving the relevant stakeholders. These should include the national administration of Montenegro, the European Commission, IFIs and bilateral donors. The result of this process should be a national list of priority projects, i.e. a single project pipeline per sector, to be financed through a combination of national resources, IFI loans, and IPA grants from the regional and national programmes.

In addition to the priorities highlighted in the Environment and Transport sectors of this Strategy Paper, the geographic position of Montenegro and its potential for producing energy from renewable sources must be considered. Investments in the energy sector in Montenegro have a particular important regional effect on the interconnectivity of the Western Balkans to the European energy markets. In particular, a number of proposed projects of Energy Community common interest are located in Montenegro, which have the potential to bring significant benefits to the entire region; they will be considered for regional financial support under the WBIF.

As regards territorial cooperation, during the programming period 2007-2013 Montenegro has successfully participated in five Cross-Border programmes with Albania, Bosnia and Herzegovina, Croatia, Serbia and since 2011 with Kosovo<sup>4</sup>, as well as in two transnational programmes (South-East Europe and Mediterranean) and in the IPA Adriatic programme. Building on the experiences gained and capacities developed, Montenegro will continue participating in all CBC programmes. The CBC programme will support the countries' efforts to boost the living conditions and development of the mostly remote border regions by supporting local stakeholders such as municipalities, regional agencies, civil society organizations and grass roots initiatives and establishing links with neighbouring countries' border regions.

Certain cross-border cooperation objectives stated by the Montenegrin authorities such as expansion of regional transport and radio-relay networks, joint water management and hydropower and other energy sources (gas) will be mainly addressed at transnational level. Other priorities will be achieved at local cross-border level and relate essentially to the bilateral Cross-Border programmes.

## **8.2 Objectives, results, actions and indicators**

The multi-country programmes under the pillars horizontal support to sector policies and reforms, regional structures and networks and regional investment support will complement and contribute to the objectives, actions, results and indicators established under the sectors included in this Strategy Paper from a regional perspective.

As regards Montenegro's territorial cooperation programmes, the objectives are to promote good neighbourly relations, to enhance the overall capacity for management of the CBC programme, allowing multiple cross-border contacts and exchanges, and to improve neighbourly relations and people-to-people co-operation.

During the period 2014-2020 Montenegro is expected to participate in the following IPA II CBC programmes: CBC with Member States: Croatia - Bosnia and Herzegovina - Montenegro and Italy – Albania – Montenegro (trilateral) and CBC with IPA II beneficiaries: Serbia - Montenegro; Montenegro - Bosnia and Herzegovina; Montenegro – Albania and Montenegro – Kosovo.

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<sup>4</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Each of the CBC programmes will focus on a selection of maximum four of the following thematic priorities, as listed in Annex III to the IPA II Regulation. The selection of the thematic priorities should be made jointly by the countries involved in the cross-border programme, according to the specific situation of the border region. Indicators and objectives will then be defined in the programmes at the level of each selected thematic priority. In addition, horizontal support will be provided for capacity building for cross-border cooperation, in particular to strengthen local authorities.

As regards ERDF transnational cooperation programmes, Montenegro is eligible to participate in the "Danube" programme, the "Adriatic-Ionian" programme and the "Mediterranean" programme. The geographical scope of the "Danube" and the "Adriatic-Ionian" transnational programmes match that of the respective macro-regional strategies. According to the Regulations of the European Structural and Investment Funds 2014-2020, transnational cooperation programmes will support the implementation of the macro-regional strategies, including their governance structures. The scope of the assistance (thematic objectives and investment priorities) of ERDF Transnational cooperation programmes is defined in accordance with the ERDF regulatory framework.

### **8.3 Type of financing**

Support will be provided primarily through grants. Investments can also be financed if within the objectives of the programme. Technical assistance is provided in order to improve the capacities of the institutions involved in the implementation of territorial cooperation programmes.

### **8.4 Risks**

The main risk consists in the lack of capacity in the beneficiary institutions to manage the complex programming procedures foreseen notably for the CBC programmes. This will be addressed through targeted technical assistance to the joint operating structures in the countries.

The **indicator** to be used to measure the accomplishment of the expected results of EU assistance in this area will include (see table 2 in annex 2):

- Number of involved municipalities (MIS)

## ANNEX 1. INDICATIVE ALLOCATIONS (MILLION EUR)<sup>5</sup> - per policy areas and sectors

| Montenegro  | 2014        | 2015        | 2016        | 2017        | 2018-2020    | Total<br>2014-2020 | Of<br>which climate<br>change relevant<br>(%) |
|---|-------------|-------------|-------------|-------------|--------------|--------------------|---|
| <b>a. Reforms in preparation for Union membership</b>   | <b>18.8</b> | <b>15.8</b> | <b>12.8</b> | <b>13.3</b> | <b>38.5</b>  | <b>99.2</b>        |   |
| Democracy and governance  | 29.1        |             |             |             | 17.8         | 46.9               |   |
| Rule of law and fundamental rights  | 31.6        |             |             |             | 20.7         | 52.3               |   |
| <b>b. Socio-economic and Regional development</b>   | <b>14.8</b> | <b>8.4</b>  | <b>14.8</b> | <b>13.3</b> | <b>39.4</b>  | <b>90.8</b>        |   |
| Environment and climate action  | 18.8        |             |             |             | 18.7         | 37.5               | 80%   |
| Transport   | 20.2        |             |             |             | 11.8         | 32.1               | 80%   |
| Competitiveness and innovation  | 12.3        |             |             |             | 8.9          | 21.2               |   |
| <b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b> | <b>3.5</b>  | <b>4.0</b>  | <b>3.9</b>  | <b>4.0</b>  | <b>12.8</b>  | <b>28.1</b>        |   |
| Education, employment and social policies   | 15.3        |             |             |             | 12.8         | 28.1               |   |
| <b>d. Agriculture and rural development</b>   | <b>2.5</b>  | <b>7.4</b>  | <b>5.9</b>  | <b>8.9</b>  | <b>27.7</b>  | <b>52.4</b>        |   |
| Agriculture and rural development   | 24.7        |             |             |             | 27.7         | 52.4               | 10%   |
| <b>TOTAL</b>  | <b>39.5</b> | <b>35.6</b> | <b>37.5</b> | <b>39.6</b> | <b>118.5</b> | <b>270.5</b>       |   |

<sup>5</sup> Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

## ANNEX 2: INDICATORS AND TARGETS

**Table 1a: Context indicators**

| Indicator   | Source    | Baseline | Last value |       |
|---|-----------|----------|------------|-------|
|   |           | 2010     | year       | value |
| Public debt (% of GDP)                              | Eurostat: | 40,94    |            |       |
| Real GDP growth rate (average last three years - %) | Eurostat: | 2,5      |            |       |
| Unemployment Rate (%)                               | Eurostat: | 19,7     |            |       |
| GDP per capita at current prices (EUR)              | Eurostat: | 5011     |            |       |
| FDI per capita €                                    | Eurostat: | 931,5    |            |       |



**Table 1 b: Outcome and impact indicators \***

| Sector   | Indicator   | Baseline | Last value |       | Milestone | Target |
|--|---|----------|------------|-------|-----------|--------|
|  |   | 2010     | year       | value | 2017      | 2020   |
| Composite indicator (average ranking provided by eight external sources) | Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability | 55,7     |            |       |           |        |
| Progress made in reaching the political criteria provided                | DG ELARG – Progress Report  |          |            |       |           |        |
| Progress made on implementation of acquis                                | DG ELARG – Progress Report  |          |            |       |           |        |
| Progress made in meeting economic criteria                               | DG ELARG – Progress Report  |          |            |       |           |        |

\* Targets will be provided at a later stage

**Table 2: Sector Indicators \***

| Sector                             | Sub sector                                   | Indicator   | Source                                      | Baseline       | Last value |       | Milestone | Target |
|------------------------------------|--|---|---|----------------|------------|-------|-----------|--------|
|                                    |  |   |   | 2010           | year       | value | 2017      | 2020   |
| Governance and Democracy           | Governance and PAR                           | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    |  | Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) - <b>1 (Worst) - 100 (Best)</b> | World Bank, World Economic Forum            | 53,76          |            |       |           |        |
|                                    | Public Financial Management                  | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    | Statistics                                   | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    |  | Statistical compliance - %<br><b>0 (Worst) - 100 (Best)</b>   | Eurostat:                                   | 11%-17% (2013) |            |       |           |        |
| Rule of law and fundamental rights | Judicial reform                              | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    |  | Composite indicator (average of Access to Justice and Judicial independence)  | World Justice Project, World Economic Forum | 4,1**          |            |       |           |        |
|                                    | Fight against corruption and organised crime | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    |  | Composite indicator (average of Global Corruption and Control of Corruption) <b>1 (Worst) - 100 (Best)</b>  | Transparency International, World Bank      | 45,238         |            |       |           |        |
|                                    | Fundamental Rights                           | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |
|                                    |  | Composite indicator (average of Freedom of Press and Press Freedom)<br><b>1 (Best) - 100 (Worst)</b>  | Freedom House, Reporters Without Borders    | 32,75          |            |       |           |        |
|                                    | Refugees and Border management               | Progress made towards meeting accession criteria  | DG ELARG – Progress Report                  |                |            |       |           |        |

|  |  |  |   |                |  |  |  |  |
|--|--|--|---|----------------|--|--|--|--|
| Environment                                      |  | Progress made towards meeting accession criteria                                   | DG ELARG – Progress Report                        |                |  |  |  |  |
| Transport  |  | Progress made towards meeting accession criteria                                   | DG ELARG – Progress Report                        |                |  |  |  |  |
|  |  | Logistics performance indicator (score)<br><b>1 (Worst) - 5 (Best)</b>             | World Bank  | 2,45<br>(2012) |  |  |  |  |
| Competitiveness and Innovation                   |  | Progress made towards meeting accession criteria                                   | DG ELARG – Progress report                        |                |  |  |  |  |
|  |  | Doing Business - Distance to frontier (score)<br><b>1 (Best) - 100 (Worst)</b>     | World Bank - Doing Business                       | 64,30          |  |  |  |  |
| Education, employment and social policies        |  | Progress made towards meeting accession criteria                                   | DG ELARG – Progress report                        |                |  |  |  |  |
|  |  | Employment rate (15-64 years), total - %   | Eurostat  | 47,61          |  |  |  |  |
| Agriculture                                      |  | Progress made towards meeting accession criteria                                   | DG ELARG – Progress report                        |                |  |  |  |  |
|  |  | Total investment generated via IPA in agri-food sector and rural development (EUR) | DG AGRI   |                |  |  |  |  |
| Territorial cooperation and regional cooperation |  | Numbers of involved municipalities   | European Commission Management Information System |                |  |  |  |  |

\* Targets will be provided at a later stage.

\*\* Only Judicial independence available (1-7)