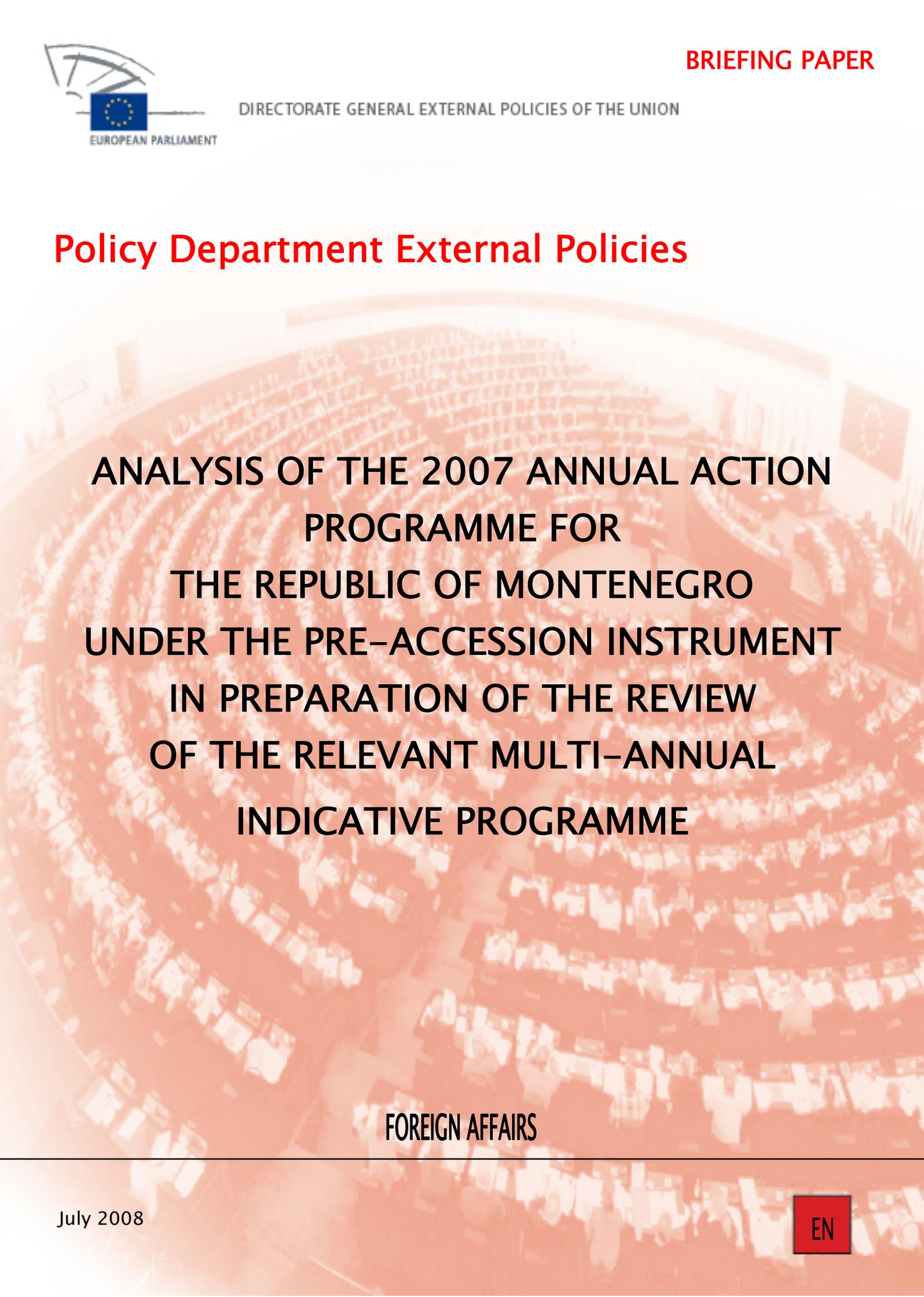


Policy Department External Policies



ANALYSIS OF THE 2007 ANNUAL ACTION PROGRAMME FOR THE REPUBLIC OF MONTENEGRO UNDER THE PRE-ACCESSION INSTRUMENT IN PREPARATION OF THE REVIEW OF THE RELEVANT MULTI-ANNUAL INDICATIVE PROGRAMME

FOREIGN AFFAIRS

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EXECUTIVE SUMMARY

Scope of the briefing: The aim of this paper is to assess Component I of the IPA National Action Programme 2007 for Montenegro with reference to the European Union's (EU) pre-accession objectives. It evaluates the pertinence of the elements of analysis as put forward in the National Programme and their adequacy in describing the conditions identified in the country. It compares the National Programme's allocation of funding and composition of projects with Montenegro's specific needs as identified by the European Commission's (EC) Progress Report and its Enlargement Strategy. Based on the Montenegro Progress Report 2007 of the EC, this paper is divided into a political, an economic and a European standards section, following the structure of the Progress Report and the grouping within the Multi-annual Indicative Programme (MIPD). Each section provides an analysis of the current situation, the projects identified by the National Programme and an assessment referring to the tasks above. The briefing closes with conclusions and recommendations.

Main findings: Generally, the objectives stipulated in the National Programme are congruent with the tasks identified in the Commission's Progress Report and the Enlargement Strategy; the 2007 National Programme uses many advances from the EU's previous assistance, and its overall structure is flexible enough to incorporate experience from its implementation in the next annual programmes.

Political Criteria: The projects within the National Programme fully reflect Montenegro's priority needs in view of EU approximation. Three major areas are addressed: Civil society organisations, reform of the judiciary and anti-corruption activities.

The National Programme is challenged by Montenegro-specific problems. With a small population and a limited economic and political elite, persons in key positions are quite commonly related to each other. This favours the tendency to solve conflicts in a 'traditional' manner, neglecting democratic standards. Furthermore, the political 'market' is characterised by a dominant position of the ruling party, which has been in power now for decades.

Shortcomings related to the prioritization of the National Programme concern primarily the areas of national parliament and local government.

Economic Criteria: The projects within the National Programme are fully in line with the two key priorities of the Socio-Economic Requirements axis (Human resources development and Improvement of the infrastructure). The projects address Montenegro's major weaknesses and needs in these areas.

No project refers to the third key priority (Economic reforms, competitiveness, business environment and social dialogue). Montenegro's economic transition advanced well and the country has achieved progress in the areas mentioned, therefore no urgent need exists to address these issues in the 2007 National Programme.

Also no project focuses on the development of the underdeveloped mountain areas in the North of Montenegro, although the MIPD has suggested that such activities could be added to socio-economic support programmes.

The main transition challenges ahead lie in the areas of institutional reform, especially in the area of infrastructure, but also in non-banking financial institutions, competition and employment policies. Energy sector reform is a particularly vital challenge facing the country.

European Standards: The National Programme is oriented mainly towards strengthening the relatively advanced process of transposition of the EU legislation. Thematic coverage is quite

broad, but consistent. All of the topics dealing with the transposition can be considered as appropriate to the current situation. All the projects are comprehensive and problem-oriented.

However, all the projects are linked to the economy. There are other issues that deserve attention, especially serious gaps in the areas of quality of politics, notably in environment, financial control, intellectual property rights, migration and protection of personal data.

Main conclusions:

- a. The projects falling under the political criteria match with the national reform strategies and action plans. The Action Plans introduce clear measures and establish deadlines. They could be used as a performance indicator to grant further funds.
- b. The programme for Fight against Corruption and Organised Crime is a good basic roadmap for anti-corruption efforts, but in this field 'Potemkin-like' institutions and superficial measures should not be regarded as a progress.
- c. EU financial support remains a major resource for Civil Society Organisations in Montenegro.
- d. The projects falling under the economic criteria correspond with the country's current needs. Nevertheless, shortcomings related to the economic transition should be addressed in future.
- e. The projects falling under the European standards are well structured and accord with the country's economic needs, but reflect only one side of Montenegro's current state of affairs. In addition to economic matters, issues related to the quality of politics must be addressed.

Recommendations:

- 1) Monitoring of the interventions of other donors in the civil society sector highlights a need for more partnership projects at both central and local level to ensure the sustainability of actions. The EU should continue its financial support for this sector.
- 2) Broadening the possibilities of civil influence on political power, the fight against corruption and organized crime, and building a functioning independent judicial system should be constantly in the focus of EU assistance.
- 3) With view to the close relations between the political and economic elite and close 'family relations' in Montenegro, a very critical stance should be taken on the delays in delivering reforms.
- 4) The Parliament needs stronger capacities for adequate scrutiny of the compatibility of new legislation with EU legislation.
- 5) In the field of economic transition, emphasis should be put on developing the non-banking financial system, independent competition and state aid authorities and the capacity of the employment agency.
- 6) Besides the transport network rehabilitation, attention should be paid also to the energy infrastructure.
- 7) Environment should be considered as another area of interest, notably in the implementation and enforcement of legislation, and for strengthening administrative capacity and coordination between the bodies involved in environmental protection issues.

- 8) Activities aiming at eliminating disparities and creating opportunities for economic and social development in the underdeveloped mountain areas in the North of Montenegro could be added to socio-economic support programmes, particularly concerning the transport infrastructure and environment areas.
- 9) The relatively large investment in road network modernization (upgrading of Montenegro's capital Podgorica Eastern Bypass) should be considered as a one-off injection of resources, and be avoided in future.
- 10)** In the field of financial control, related to the problem of money laundering and corruption, strengthening of the state audit institution is required.
- 11) With regard to intellectual property rights, institutional capacity should be enhanced, enforcement should be improved, and the level of awareness among public bodies and stakeholders should be increased. Civil society involvement is desirable.
- 12) In relation to migration, the unclear situation of displaced persons from Kosovo, particularly in relation to displaced Kosovo-Roma, needs to be dealt with.
- 13) In the area of protection of personal data, adoption and implementation of legislation, as well as establishment of an independent supervisory authority, are needed.
- 14) As far as agriculture is concerned, additional attention must be paid to biological agriculture and sustainable development, improvement of capacities to implement EU food safety, and phyto-sanitary standards, while strengthening of the institutional and legal structures is needed in the fisheries sector.

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1. Introduction

This Briefing Paper was requested to analyze:

- the coherence of the annual programme with the Union's overall policy objectives as set for the pre-accession process in general and for Montenegro in particular
- the pertinence of the elements of analysis as put forward in the action programme and their adequacy (or lack thereof) for describing the conditions observed / identified on the ground in Montenegro while considering the recent developments in the area
- the way in which results (achievements and / or weaknesses) in implementing previous annual programme(s) and analyses of the situation could be taken on board with a view to adjusting the Multi-annual Indicative Programme for the country concerned.

In responding to this task, we analyze the IPA National Programme 2007 (NP) and project its allocation of funding and composition of projects against Montenegro's specific needs as identified by the European Commission's (EC) Progress Report (Commission 2007a) and the Enlargement Strategy (Commission 2007b).

We divide this paper into a political, an economic and a European standards section, thereby following the structure of the Progress Report and the grouping within the MIPD. Each section provides an analysis of the current situation, the projects identified by the NP and an assessment referring to the tasks above. The briefing closes with conclusions and recommendations.

The NP under examination represents the first engagement by the Montenegrin administration and the EC Delegation in leading national EU programming under IPA.¹ Montenegro receives assistance through IPA Component I - Transition Assistance and Institution Building (€ 27.5 million for 2007), and Component II - Cross-Border Cooperation. Only Component I is the subject of this study.

2. Political Criteria

2.1. Political Situation

After its declaration of independence in June 2006 the constitution-building process made good progress in Montenegro in 2007. The new constitution is in force, although state-building processes have not yet been finalised.

¹ Guided by the conclusions of the European Council in Copenhagen in 1993, which stated that membership of the European Union requires the existence of stable democratic institutions and the rule of law, the respect of human rights and protection of minorities, a functioning market economy able to cope with the EU's market, and the adoption of the *acquis communautaire*, the three priority areas ("axes") under the IPA Component I for countries at the pre-candidate stage, including Montenegro, are: Political requirements, Socio-economic requirements, and European Standards. In the case of Montenegro, the indicative financial weight allocated for each of the major areas of intervention was set at 20-25% for political requirements, 40-45% for socio-economic requirements, and 30-35% for European Standards.

After the last elections Milo Djukanović's Democratic Party of Socialists (DPS) remains the strongest political party in the parliament, continuing to govern the country since 1999 and dominating political life. Montenegro is a small country, with a population of around 650,000 inhabitants. In this a context, a very small elite and a close interrelationship between political and economic power requires us to pay special attention to the performance of the government and the public administration. There is a strong tendency to solve conflicts in a 'traditional' manner, neglecting democratic standards.

Montenegro is a potential candidate for EU membership and participates in the Stabilization and Association Process (SAP). It negotiated and signed in October 2007 the Stabilisation and Association Agreement (SAA). Montenegro receives assistance through IPA Component I - the Transition Assistance and Institution Building (€ 27.5 million for 2007), and Component II - the Cross-Border Cooperation.

Montenegro has made some progress towards fulfilling EU requirements, but implementation is lagging behind in certain fields:

Democracy and the rule of law

The climate between the government and the opposition in the Parliament has improved and greater readiness to work towards consensus on major issues can be recognized. But the parliament needs stronger capacities to adequately scrutinize the compatibility of new legislation with EU legislation. Furthermore, the Parliament is not yet adequately supervising the defence and security structures.

In particular as regards the reform of the judiciary only first steps have been made. The Strategy of the Reform of the Judiciary was followed by the adoption of the Action Plan for its implementation in December 2007, including three major fields: independence, effectiveness and accountability.

Corruption is still widespread and regarded as a very serious problem by decision-makers at the highest level, but anti-corruption activities have led so far to only few results and still need to prove efficiency.

Montenegro has advanced as regards respect for human rights and the protection of minorities. Deficits relate to the implementation of the asylum law, and more efforts need to be made to improve the conditions of refugees and displaced persons including Roma.

2.2. The IPA National Programme 2007 Component I

In light of the analysis provided by the country's "Progress report" and the "Enlargement Strategy Paper", the National Programme fully reflects Montenegro's priority needs in view of EU approximation. Aims and objectives in the areas of democracy and rule of law, human rights and protection of minorities correspond both to the broad objectives of assisting Montenegro in implementing the reforms needed to fulfil EU requirements, and to the broader political conditionality as prescribed by the Council.

The National Programme 2007 highlights the following key priorities:

- reform of the judiciary
- fight against corruption and organized crime
- development of Civil Society (in the social care and health fields)

Three projects are to be implemented:

- Project 1: Support for the development of Civil Society (€1.0 million)
- Project 2: Fight against organized crime & corruption (€3.0 million)
- Project 3: Judiciary reform (€2.0 million).

Specifically, the following measures are to be supported:

Democracy and the rule of law:

- Development of an action plan for the implementation of the national judiciary reform strategy (2007-2012), including the introduction of a Code of Ethics for judges and prosecutors and anti-corruption measures in the judiciary.
- Strengthening the independency of the judiciary in particular the Judicial Council.
- Support for the operational efficiency of the judicial system.
- Preparation of a Juvenile Justice Code and strengthening of capacities in the administration of juvenile justice.
- Implementation and monitoring of key objectives of the Anti-Corruption Strategy and Action Plan.
- Support to operational capacities for the prevention of money laundering.
- Strengthening the capacities of institutions, in particular the Directorate for the Anticorruption Initiative.
- Upgrading the Police Academy's facilities and support for the organized crime department.

Human rights and protection of minorities:

- Development of civil society organizations (CSOs) in the area of social welfare, special education and preventive health. Enhancement of the CSOs to promote vulnerable groups.

These three projects are individually assessed.

2.3. Assessment

Project 1: Support for Civil Society Organisations

In line with the MIPD's priorities, Civil Society Organisations continue to receive funding from the EU grant schemes programme. During the last three years, € 1.6 mio was earmarked for financial support to civil society. The 2007 programme builds on the results of the ongoing EC assistance programme focusing on social, economic and environmental issues. Experience shows that civil society actors can successfully complement the Government's reform efforts in the social and economic sectors and positively contribute to the development of national strategies like the Strategy for the Development of Social Protection of Elderly (2008-2012), the Strategy for the Development of Social and Child Protection in Montenegro (2008-2012), and the Strategy for the Integration of People with Disabilities (2008-2016).

In addition, monitoring of other donors' interventions in the same sector highlights a need for more partnership projects at both central and local level to ensure the sustainability of the actions.

Given the fact that some foreign assistance to this sector is being phased out, the EU remains a major resource for support of Montenegro's civil society development.

Project 2: Fight against organised crime and corruption

This project aims to combat organised crime and corruption by improving the performance and cooperation of the various law enforcement agencies. It is linked to the wider Government Anti-Corruption Strategy and Action Plan.

Besides general problems of countries in transition with regard to corruption, Montenegro is facing specific challenges, which lead to the persistence of forms of corruption and constrain other reforms. A ruling party that has been in power, albeit with internal transformations, for 60 years, dominates the political system. Furthermore, with a small population and a limited economic and political elite it is a statistical probability that persons in key positions will be related. This favours the tendency to solve conflicts in a 'traditional' manner, neglecting democratic standards.

The development of capacities for the Criminal Police Directorate or the Directorate for Anticorruption Initiative aim in the right direction. But the government must achieve concrete results to avoid the impression that 'Potemkin-like' institutions and superficial measures are regarded as progress.

For project 2 € 3 mio are earmarked. Already € 1.8 mio are foreseen for upgrading the Police Academy's facilities and ensuring appropriate equipment. This share of 60% leaves insufficient financial means for capacity development measures.

Project 3: Reform of the Judiciary

This project reflects the EU's priorities for Montenegro's alignment process. The project also corresponds to the Strategy for the Reform of the Judiciary of the Government of Montenegro and Action Plan for its implementation, which was adopted in December 2007. It contributes to three strategic objectives: Enhancing judicial independence, its effectiveness and accountability. \

The costs of the Reform Strategy of the Judiciary amount to around € 20 mio. The IPA National Programme 2007 share is around 10%. Further funds should therefore be earmarked in 2008-2012. Still, overlaps with contributions of other donors must be avoided and assessment criteria should be introduced. The Action Plan introduces clear measures and establishes deadlines. This could be used as a performance indicator to grant further funds.

The different reform agendas and their action plans match with the National Programme and reflect the European Commission's interests. In future, broadening the possibilities of civil influence over political power, the fight against corruption and organized crime, and building a functioning independent judicial system should be the focus of EU assistance. The fact that the 2007 Progress Report identifies less progress regarding the fight against organised crime than in previous years justifies, a critical stance on the delays in delivering reforms.

In light of the specific situation in Montenegro, the following issues need more attention in the future:

- Governance: The National Programme focuses on Civil Society Organisations and executive bodies, leaving aside the parliament, which needs stronger capacities to scrutinize the compatibility of new legislation with EU legislation adequately. In the past, overloaded with work, the parliament has often slowed down the process and functioned as a bottleneck. But the parliamentary process should not be neglected, to avoid giving priority to efficiency over legitimacy.
- Civil Society Organisations: The present scope of the projects can be supplemented with projects on media development and public administration reform, especially at the local level. Such projects can match with the general priorities and will be in compliance with the general intentions of the MIPD.

3. Economic criteria

3.1 Economic Situation

Recent economic developments in Montenegro have been favourable to the development of a sound market economy. Montenegro's GDP has constantly risen during the past six years (from 1.7% in 2002 to 7.5% in 2007), owing to a boom in investment and services, particularly in tourism, but also in financial intermediation and real estate sectors. However, the growth is not evenly spread. The centre of gravity lies in the coastal regions and in the major cities of Podgorica and Nikšić. In addition, growth is concentrated in a relatively small number of sectors. There remain risks which could stunt the economic growth in the medium term, particularly related to the overheating in the stock and property markets. In this regard and also given that the real estate sector attracted a considerable inflow of foreign direct investment, increased measures against money laundering are necessary.

Strong GDP growth goes with rising exports, low inflation and a significant inflow of foreign direct investment. Foreign direct investment, particularly to the tourism and energy sectors, covers around 75% of the mounting external trade deficit. Fiscal performance has also improved and the country's level of external debt is moderate. The unemployment rate decreased, although the seasonal unemployment rate remains high. Montenegro has also made important advances in some dimensions of transition, notably in the areas of price and trade liberalisation, privatisation and banking sector reform.

The main transition challenges ahead lie in the areas of institutional reform, especially in the area of infrastructure, but also in non-banking financial institutions, competition and employment policies. Energy sector reform is a particularly vital challenge facing the country. Continued efforts are still needed to meet the Energy Community Treaty requirements. The energy efficiency and renewable sector is at a very early stage of development; security of supply is hampered by outdated structures. Rehabilitation and upgrading of the long-distance road and railway network, particularly in the North of Montenegro, is necessary. Traffic jams, as well as environmental pollution, are a problem in major town centres (especially in the country's capital, Podgorica).

3.2 The IPA National Programme 2007 Component I

The National Programme 2007 highlights the following key priorities:

- Pursuing economic reforms, strengthening competitiveness, developing an appropriate business environment and social dialogue

- Human resources development, especially in employment, education and social inclusion
- Improving the infrastructure in areas such as transport, energy and the environment.

More specifically, it includes three projects:

A National Qualification Framework and Quality Assurance in Education (EC contribution €1.5mio)

- The project involves support for the establishment of a National Qualification Framework that takes account of the European Qualification Network, and enhances the capacity in the higher education sector to continue the reforms necessary and take forward the measures promoted by the Bologna Process.

Developing the Transport Sector (EC contribution €6.2mio)

- The activities involve measures aiming at enabling the Government to fulfil its strategic medium-term road and rail strategy, and its obligation under the European Common Aviation Area Agreement; preparation of feasibility studies for major transport investment projects; and completion of Podgorica's Eastern Bypass.

Energy Market Approximation (EC contribution €7.45mio)

- The project addresses the need for the implementation of commitments under the Energy Community Treaty.

The overall amount complies with the indicative allocation.

3.3 Assessment

Not a single project refers to the third key priority (economic reforms, competitiveness, business environment and social dialogue). Montenegro's economic transition advanced well, and the country has achieved progress in the mentioned areas. Therefore there is no urgent need to address these issues in the 2007 National Programme. Nevertheless, existing gaps should be addressed in the future. Emphasis should be put on developing the non-banking financial system, independent competition, state aid authorities and the capacity of the employment agency.

The projects under the Socio-Economic Requirements are fully in line with the two key priorities of the Socio-Economic Requirements axis (human resources development and improvement of the infrastructure). The projects address Montenegro's major weaknesses and needs in these areas. Activities under projects on transport and energy sectors accord with ongoing activities of the European Bank for Reconstruction and Development (EBRD) as well.

There is a relatively large investment into the modernization of the road network (a single works contract on the upgrading of Podgorica's Eastern Bypass of € 4 mio). This activity has a strategic potential for the capital, as well as for Montenegro's capacity to connect to the trans-European network. A high level of co-financing from the Podgorica municipality (€ 17.2 mio) should also be noticed. However, it would be better to regard such a big investment as a one-off injection which should rather be avoided in the future.

Besides the transport network rehabilitation, attention should be paid also to the energy infrastructure.

In the future, funds should also be allocated to other priority areas, notably to the environment. The 2007 Progress Report called for further efforts towards implementation and

enforcement, which pose a significant challenge, and for strengthening administrative capacities and coordination between the bodies involved in environmental protection issues. Moreover, the MIPD suggests that the environment should be in the main focus for sector interventions.

No project focuses on the development of the underdeveloped mountain areas in the North of Montenegro. In the MIPD it has been suggested that activities aiming at eliminating disparities and creating opportunities for economic and social development in these areas could be added to socio-economic support programmes (notably in the transport infrastructure and environment areas). Development in this area could also positively affect the position of the Serbian community in Montenegro (Pljevlja, the most important town in the north, is a major town where the Serbian population prevailed).

4. European Standards

4.1. Situation with reference to European Standards

With regard to the internal market, the approximation of European Standards is mainly on track. However, in some areas, full harmonisation with the *acquis (taxation)* or broader improvements to the legislative framework are needed (*competition, public procurement*). In the area of the *free movement of goods*, the institutional framework needs to be further enhanced and completed. Enforcement is particularly problematic in relation to *intellectual property law*. There are also specific tasks like the modernisation of the tax administration.

In sectoral policies uneven progress is reported in *energy, transport policy,² industry and SMEs* and *environment*. An industrial strategy and a new SME development strategy are needed. In environment, there is no progress in the case of nature protection and only limited progress in the areas of industrial pollution, risk management and waste management. The relating areas of *agriculture and fisheries*, progress in food safety, veterinary and phytosanitary should be maintained and extended. *Financial control* furthermore is only at an early stage of development. Management capacity in *statistics* remains weak, and major shortcomings have been identified in the statistical infrastructure.

With reference to justice, freedom and security, the overall progress is slight. *Money laundering, organised crime³* and *protection of personal data* remain areas of serious concern. In the case of the *visa, border, control, asylum and migration* regime, secondary legislation needs to be adopted in relation to border control and asylum. The status of internally displaced persons urgently needs to be regulated by law.

4.2. The IPA National Programme 2007 Component I

The National Programme 2007 highlights the following key priorities:

- Progressive alignment with the *acquis* in areas such as agriculture, environment, energy, internal markets, transport, and security (including integrated border management and visa/migration policy)

² Energy and transport are addressed through priority axis 2 – Socio-Economic Requirements.

³ Organised crime and money laundering are addressed through priority axis 1 – Political Requirements.

- Strengthening Montenegro's administrative capacity to take increasing local ownership of IPA through the decentralised implementation system, and of other subsequent EU funds and programmes.

The following projects are to be implemented:

Support to EU Integration Structures: Legal Harmonisation - Horizontal (EC contribution €1.1mio)

- The project will support the improvement of the communication between all institutions involved in the legal approximation and development of corresponding governmental bodies in legal harmonisation. Also strengthening the Parliament's role in the legal approximation will be addressed.

Animal Identification and Registration and the Strengthening of Veterinary Services (EC contribution €1.4mio)

- The project aims to improve food safety standards for products of animal origin, animal health and veterinary public health.

Strengthening Institutional Capacities of the Statistical Office (EC contribution €0.8mio)

- The project aims at improving the quality of official statistics and aligning them more closely to EU and international standards.

Public Procurement System (EC contribution €1.25mio)

- The project is designed to consolidate the development of an effective public procurement system for Montenegro with reference to the *acquis*, including the transition to best EU practices and expanding public awareness of the importance of an efficient and transparent public procurement system.

Quality Infrastructure – Standardisation and Metrology (EC contribution €2mio)

- The project consists of enhancing a framework policy for quality in the national market, strengthening the operational capacity of the key bodies for standardisation, metrology and accreditation, and upgrading the premises and laboratories where these institutions operate. The project includes a general public awareness campaign.

Tax Administration (EC contribution €0.9mio)

- The project will assist Montenegro in strengthening the fiscal system as part of the process of European integration.

The majority of these projects present a follow-up to the EU's previous activities in the field. Funds allocation is balanced, and the overall amount complies with the indicative allocation. The level of co-financing is considerable.

4.3 Assessment

In previous years, Montenegro has made a significant advance in its transposition of EU legislation. The National Programme is oriented mainly towards the strengthening of the process: projects are focused primarily on aligning Montenegro's legislation, procedures and infrastructure in compliance with the *acquis*, towards the transposition and enforcement of the EU *acquis*, or towards the transfer of EU standards.

The coverage is relatively broad, but consistent. All of the topics dealt with should be considered as appropriate to the current situation. All projects are comprehensive and

focussed. They will enhance and strengthen current advances and give further support to Montenegro's good economic performance. Some of them (namely animal registration, veterinary services and quality infrastructure) will also support key priorities under the priority axis 2 – Socio-Economic Requirements (competitiveness, business environment).

The project on animal registration and veterinary services reflects the conditions in Montenegro's agriculture, where animals often play a more significant role than crops in both household agriculture and farming. As far as agriculture is concerned, additional attention must be paid to biological agriculture and sustainable development, the development of capacities to implement EU food safety, and phyto-sanitary standards, while strengthening the institutional and legal framework is necessary in the fisheries sector.

In addition to the matters linked to the economy, there exist other important issues, notably in the context of environment, financial control, intellectual property rights, migration and protection of personal data. These shortcomings indicate serious gaps in the quality of politics associated with human rights, civil society, corporate governance, fairness, and the rule of law. As such issues, accented also in the Treaty of Lisbon, could cause some to question Montenegro's EU candidacy, attention must be paid to them in the future.

Concerning environment the 2007 Progress Report noticed no progress, for instance in the case of nature protection. Little area is protected, despite the country's relatively well-preserved nature and rich biodiversity. It should be also noted that environmental issues caused relatively often public controversies between the government and the non-governmental sector. Regarding financial control, related to the problem of money laundering and corruption, a strengthening of the state audit institution is required. Attention should also be given to intellectual property rights, which are a long-standing problem in Montenegro's society. Institutional capacity and enforcement, as well as the level of awareness among public bodies and stakeholders must be enhanced. Civil society could also be included in solving this problem in order to better handle this issue. In relation to migration, it is necessary to deal with the unclear situation of the displaced persons from Kosovo, particularly in relation to the displaced Kosovo-Roma, who form the most marginalised group. In the area of protection of personal data, adoption and implementation of corresponding legislation, as well as the establishment of an independent supervisory authority, is needed.

5. Conclusions

5.1. Overall assessment

Montenegro has shown clear signs of sustainable economic growth while displaying certain deficits in the field of socio-political transition.

The priorities highlighted in the Component I of the IPA National Action Programme 2007 for Montenegro, as well as projects falling under the three priority axes are largely congruent with the country's current needs. Nevertheless, the scope of projects should be augmented with other tasks identified in the Commission's Progress Report.

5.2 Main conclusions

- a. The projects falling under the political criteria match with the national reform strategies and action plans. The Action Plans introduce clear measures and establish deadlines. They could be used as a performance indicator to grant further funds.

- b. The programme for Fight against Corruption and Organised Crime is a good basic roadmap for anti-corruption efforts, but in this field 'Potemkin-like' institutions and superficial measures should not be regarded as a progress.
- c. EU financial support remains a major resource for Civil Society Organisations in Montenegro.
- d. The projects falling under the economic criteria correspond with the country's current needs. Nevertheless, shortcomings related to the economic transition should be addressed in future.
- e. The projects falling under the European standards are well structured and accord with the country's economic needs, but reflect only one side of Montenegro's current state of affairs. In addition to economic matters, issues related to the quality of politics must be addressed.

5.3 Recommendations

- 1) Monitoring of the interventions of other donors in the civil society sector highlights a need for more partnership projects at both central and local level to ensure the sustainability of actions. The EU should continue its financial support for this sector.
- 2) Broadening the possibilities of civil influence on political power, the fight against corruption and organized crime, and building a functioning independent judicial system should be constantly in the focus of EU assistance.
- 3) With view to the close relations between the political and economic elite and close 'family relations' in Montenegro, a very critical stance should be taken on the delays in delivering reforms.
- 4) The Parliament needs stronger capacities for adequate scrutiny of the compatibility of new legislation with EU legislation.
- 5) In the field of economic transition, emphasis should be put on developing the non-banking financial system, independent competition and state aid authorities and the capacity of the employment agency.
- 6) Besides the transport network rehabilitation, attention should be paid also to the energy infrastructure.
- 7) Environment should be considered as another area of interest, notably in the implementation and enforcement of legislation, and for strengthening administrative capacity and coordination between the bodies involved in environmental protection issues.
- 8) Activities aiming at eliminating disparities and creating opportunities for economic and social development in the underdeveloped mountain areas in the North of Montenegro could be added to socio-economic support programmes, particularly concerning the transport infrastructure and environment areas.
- 9) The relatively large investment in road network modernization (upgrading of Montenegro's capital Podgorica Eastern Bypass) should be considered as a one-off injection of resources, and be avoided in future.
- 10) In the field of financial control, related to the problem of money laundering and corruption, strengthening of the state audit institution is required.

- 11) With regard to intellectual property rights, institutional capacity should be enhanced, enforcement should be improved, and the level of awareness among public bodies and stakeholders should be increased. Civil society involvement is desirable.
- 12) In relation to migration, the unclear situation of displaced persons from Kosovo, particularly in relation to displaced Kosovo-Roma., needs to be dealt with.
- 13) In the area of protection of personal data, adoption and implementation of legislation, as well as establishment of an independent supervisory authority, are needed.
- 14) As far as agriculture is concerned, additional attention must be paid to biological agriculture and sustainable development, improvement of capacities to implement EU food safety, and phyto-sanitary standards, while strengthening of the institutional and legal structures is needed in the fisheries sector.

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Annex: Indicative IPA Budget 2007 for Montenegro

Priority axes	EU – IPA assistance			Total Co-financing of Project (indicative)	Total (IPA plus Co-financing)
	Institution Building	Investment	Total (IB and INV)		
I Political requirements	4.20	1.80	6.00	0.60	6.60
1. Civil society	1.00	0.00	1.00	0.00	1.00
2. Fight against organised crime and corruption	1.20	1.80	3.00	0.60	3.60
3. Judiciary Reform	2.00	0.00	2.00	0.00	2.00
II Socio-economic Requirements	5.05	4.15	9.20	17.25	26.45
4. Support to establishment of a National Qualification Framework	1.35	0.15	1.50	0.05	1.55
5. Strengthening Transport Sector Management and Infrastructure	2.20	4.00	6.20	17.20	23.40
6. Energy market approximation	1.50	0.00	1.50	0.00	1.50
III European Standards	5.80	1.65	7.45	0.48	7.93
7. Legal Harmonisation – Horizontal	1.10	0.00	1.10	0.00	1.10
8. Strengthening of Veterinary services	1.00	0.40	1.40	0.10	1.50
9. Strengthening institutional capacities of statistical office – MONSTAT	0.80	0.00	0.80	0.00	0.80
10. Public procurement system	1.10	0.15	1.25	0.05	1.30
11. Quality Infrastructure – standardisation and metrology	1.00	1.00	2.00	0.33	2.33
12. Tax Administration	0.80	0.10	0.90	0.00	0.90
Other					
13. Technical Assistance and Project Preparation Facility			1.22 ³		1.22
TOTAL *	15.05	7.60	23.87*⁴	18.33	42.20

* The balance of 3.63M€ between 27.5M€ mentioned in the MIPD 2007-2009 and 23.87€million in the present component I of the National programme, will be committed through separate Financing Agreements.