



Brussels, 3.8.2018  
C(2018) 5026 final

ANNEX

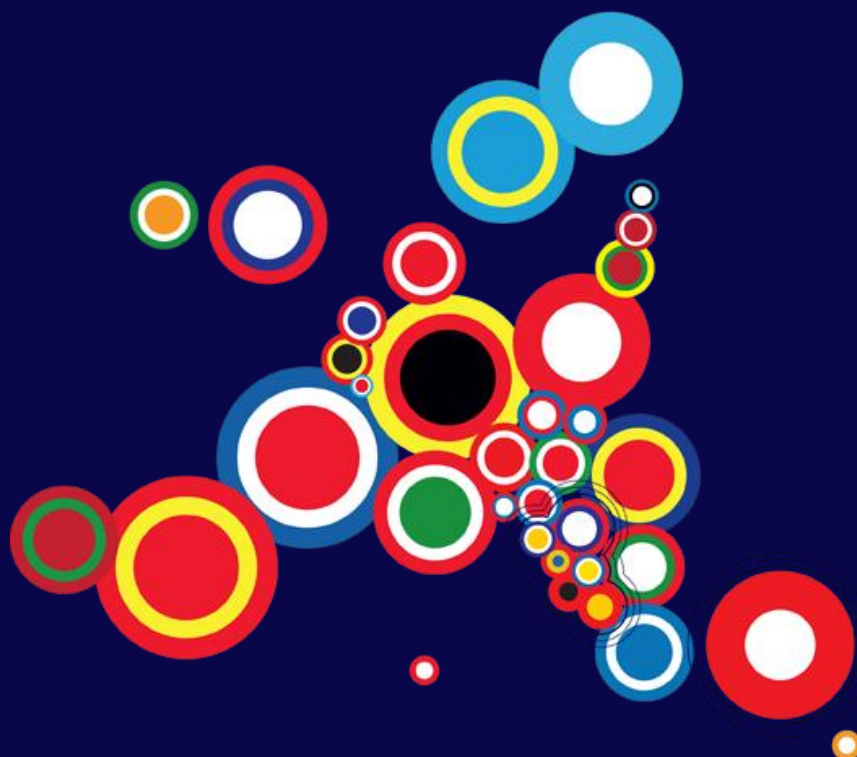
**ANNEX**

*to the*

**COMMISSION IMPLEMENTING DECISION**

**amending Commission Decision C(2014)5771 of 18.8.2014 adopting the Indicative  
Strategy Paper for Montenegro for the period 2014-2020**

# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



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

ADOPTED ON 03/08/2018

## TABLE OF CONTENTS

<b>INSTRUMENT FOR</b> .....	<b>1</b>
<b>PRE-ACCESSION ASSISTANCE (IPA II)</b> .....	<b>1</b>
<b>INDICATIVE STRATEGY PAPER</b> .....	<b>1</b>
<b>FOR MONTENEGRO</b> .....	<b>1</b>
<b>(2014-2020) – REVISED VERSION</b> .....	<b>1</b>
<b>PART I: INTRODUCTION</b> .....	<b>4</b>
1.    PURPOSE.....	4
2.    CONSULTATIONS ON THIS STRATEGY PAPER .....	5
<b>PART II: ANALYSIS OF THE NEEDS AND CAPACITIES</b> .....	<b>5</b>
1.    POLITICAL AND ECONOMIC CONTEXT .....	5
2.    CONTEXT FOR THE PLANNING OF ASSISTANCE .....	6
2.1 <i>EU Enlargement Strategy</i> .....	6
2.2 <i>Relevant national/regional strategies</i> .....	8
2.3 <i>Conditions for managing pre-accession assistance</i> .....	9
2.4 <i>Donor coordination and complementarity with other EU assistance</i> .....	10
2.5 <i>Consistency with EU policies</i> .....	11
<b>PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY</b> .....	<b>11</b>
<b>PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020</b> .....	<b>16</b>
1.    DEMOCRACY AND GOVERNANCE.....	16
1.1 <i>Needs and capacities in the sector</i> .....	16
1.2 <i>Objectives, results, actions and indicators</i> .....	19
1.3 <i>Types of financing</i> .....	20
1.4 <i>Risks</i> .....	21
2.    RULE OF LAW AND FUNDAMENTAL RIGHTS.....	21
2.1 <i>Needs and capacities in the sector</i> .....	21
2.2 <i>Objectives, results, actions and indicators</i> .....	25
2.3 <i>Types of financing</i> .....	27
2.4 <i>Risks</i> .....	27
3.    ENVIRONMENT, CLIMATE ACTION AND ENERGY .....	27
3.1 <i>Needs and capacities in the sector</i> .....	27
3.2 <i>Objectives, results, actions and indicators</i> .....	29
3.3 <i>Type of financing</i> .....	31
3.4 <i>Risks</i> .....	31
4.    TRANSPORT .....	32
4.1 <i>Needs and capacities in the sector</i> .....	32
4.2 <i>Objectives, results, actions and indicators</i> .....	33
4.3 <i>Types of financing</i> .....	34
4.4 <i>Risks</i> .....	35
5.    COMPETITIVENESS AND INNOVATION, AGRICULTURE AND RURAL DEVELOPMENT .....	35
5.1 <i>Needs and capacities in the sector</i> .....	35
5.2 <i>Objectives, results, actions and indicators</i> .....	38
5.3 <i>Types of financing</i> .....	41
5.4 <i>Risks</i> .....	41
6.    EDUCATION, EMPLOYMENT AND SOCIAL POLICIES.....	41
6.1 <i>Needs and capacities in the sector</i> .....	41

6.2	<i>Objectives, results, actions and indicators</i> .....	44
6.3	<i>Types of financing</i> .....	45
6.4	<i>Risks</i> .....	45
7.	REGIONAL COOPERATION AND TERRITORIAL COOPERATION.....	45
7.1	<i>Needs and capacities in the sector</i> .....	45
7.2	<i>Objectives, results, actions and indicators</i> .....	46
7.3	<i>Type of financing</i> .....	47
7.4	<i>Risks</i> .....	47

## 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 accession. It translates the political priorities set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria. It is aligned with the principles and priorities of the 2030 Agenda and targeted to fulfil the Sustainable Development Goals (SDGs). This Strategy Paper has been reviewed and updated at mid-term. It may equally be revised at any time upon the initiative of the European Commission.

The Instrument for Pre-accession Assistance (IPA II)<sup>1</sup> is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms with a view to Union membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries 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. Assistance shall be planned in a coherent and comprehensive way with a view to best achieve 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 is 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, facilitate 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 seven years period, this Strategy Paper sets meaningful and realistic objectives, identifies the key

---

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

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. The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017. The revised financial allocations have allowed for an appropriate amount of assistance to remain available as a 'reward', on the basis of an assessment of performance and progress during 2017, and the same will be done over the period 2018-2020, as defined in Article 14 of the IPA II Regulation.

## **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 its preparation and also in the mid-term revision 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).

Strategic dialogues with the European Parliament were also conducted both when the document was initially drafted in 2014, and at mid-term in 2018.

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

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

Montenegro has a population of approximately 622,000 distributed over 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.

Montenegro has a small, open economy, with a high level of trade and investment integration with the EU and the other countries of the Western Balkans. Montenegro relies on income from a booming tourism sector, while it has only a narrow industrial base with low product diversification and labour productivity. As a result, Montenegro runs large trade and current account deficits. Therefore, 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 2017 was above EUR 4.2 billion and the GDP per capita in purchasing power standards (PPS) reached 45% of the EU average. After the last recession in 2012, the economy recorded annual average growth of 3.2% in the period 2013-2016. However, recurrent high fiscal deficits since 2012 have led to the build-up of a high level of public debt, which rose to 65.1 % of GDP by the end of 2017, to a large extent driven by the financing of the construction of the priority section of the Bar-Boljare highway.

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 unemployment rate of 17.8%. Socio-economic problems are exacerbated for the long-term unemployed, pensioners, women, as well as groups with a history of social exclusion, such as sexual minorities, people with disabilities, the Roma community or refugees and internally displaced persons. As regards gender equality, the inclusion and participation of women at all levels of society remains a key challenge. In the 2016 elections, female representation in the parliament amounted to 23 %. Domestic violence is a widespread problem and there is a need to strengthen the capacity of existing institutions including the police and judiciary, to better protect victims and deter perpetrators.

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 includes multiple and complex challenges that need to be addressed in order to achieve the necessary reforms to advance on the EU accession path. Progress with the Rule of Law reforms and creation of a credible track record, most notably in the fight against corruption and organised crime, continues to determine the pace of accession negotiations overall. Montenegro is the most advanced country in terms of accession negotiations, with 30 chapters opened, of which 3 are provisionally closed.

## **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 was finalised in May 2014 and 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 the respective chapter. As of December 2017, Montenegro has opened negotiations under 30 chapters, out of which 3 have already been provisionally closed.

On 6 February 2018, the Commission adopted a Communication on "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans". This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path. For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six Flagship Initiatives presented in the Communication.

In line with the Strategy and the fundamentals first approach, 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. The country needs to implement sustained reforms to promote economic competitiveness, technologic innovation and invest in its connectivity with the neighbouring countries and the EU, while ensuring sound economic governance. 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 respond to the labour market needs. Furthermore, the development of the private sector needs to be further supported through improvements to the business environment, including improved access to finance, especially to the small and medium enterprises, and by allowing competition and market forces to operate. The above-mentioned Strategy paper – and the Digital Agenda for the Western Balkans as one of the flagship initiatives, also induces a stronger emphasis on preparing Montenegro for a digital transformation in order to maximally reap benefits of today's digital economy and society. Five areas will be placed central and should lead to several deliverables over the next three years –lowering the cost of roaming; the deployment of broadband; the development of eGovernment, eProcurement, eHealth, & digital skills; capacity building in digital trust and security, in parallel to efforts to enhance digitalisation of industries; the adoption, implementation and enforcement of the *acquis*. Economic growth needs to take place while maintaining macroeconomic stability, in particular addressing the high fiscal deficits and rising public debt levels and continuing on the path of fiscal consolidation. The 2014-2015 Enlargement Strategy invited Montenegro to enhance its economic policy and governance through the development of an Economic Reform Programme (ERP). Assistance under IPA II shall take these reform efforts into account and where possible support the implementation of both the reform plans included in the ERP and the policy guidance.

As regards the ability to assume the obligations of EU membership, Montenegro is undergoing an intensive process of aligning its national legislation with that of the EU, covering all 33 negotiating chapters. Particular efforts are 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



investments 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. In July 2016, Montenegro adopted a 2016-2020 PAR Strategy in order to address some of the most significant weaknesses in this area.

Finally, while the country's accession process remains the main driver for IPA support, the 2030 Agenda for Sustainable Development and its global goals are also taken into account as appropriate during the preparation and the implementation of the EU-funded programmes in the country.

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

In 2016, Montenegro adopted the National Strategy for Sustainable Development by 2030 (NSSD) which represents a long-term development strategy setting out solutions for sustainable management of four groups of national resources: human, social, natural and economic ones, which are set as priorities of the overall sustainable development of the Montenegrin society. In terms of objective and integrated consideration of sustainability of national development, Montenegro has been one of the first countries to fully embrace and integrate into its system the United Nations' requirements set out in the 2030 Agenda for Sustainable Development of the United Nations.

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.

IPA II assistance for the period 2014-2020 seeks 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 Country Reports prepared by the European Commission.

Montenegro's main overarching strategies are as follows:

- The new Accession Programme of Montenegro (2018-2020) plans the legislative alignment and administrative capacity needed for Montenegro to be able to assume the obligations of membership.
- The Montenegro Development Directions (MDD) 2018-2021, adopted by the Government in December 2017, is the overarching development programme of the Government of Montenegro. The strategic goal is focused on increasing the quality of life of citizens and its specific objectives focus on four priority development sectors: (1) tourism, (2) energy, (3) agriculture and rural development, and (4) manufacturing.
- The Economic Reform Programme, prepared by a special inter-ministerial coordination structure steered by the Prime Minister's Office, together with the policy guidance jointly adopted by the EU, the Western Balkans and Turkey represents the main instrument for economic policy dialogue with Montenegro. The measures and policy guidance span nine areas, including: public finance management; energy and transport market reform; sectoral development; business environment and reduction of the informal economy; research, development and innovation and digital economy; trade-related reform; education and skills; employment and labour markets; and social inclusion, poverty reduction and equal

opportunities. The latest ERP, covering the period 2018-2020, sets out a medium-term macro-economic and fiscal policy framework, with increased focus on assessing external sustainability and the main structural obstacles to growth, as well as concrete reform measures to directly support the policy framework.

In addition to these overarching strategic documents, there are other sector and cross-sector strategies and action plans that contribute to the strategic goals of the government by defining more specific reform and development objectives.

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 for the period 2007-2013 were managed by the EU Delegation in Podgorica with the exception of the Operational Programmes for "Regional Development" and "Human Resources Development" 2012-2013, which were managed via decentralised management by Montenegro.

For the financial period 2014-2020, IPA II promotes a balance between direct management by the EU Delegation and indirect management by the national authorities. The mix of the different implementation modalities is determined by the management capacities of the beneficiary institution and their track record on implementation of EU funds in accordance with EU procurement and financial control standards. Indirect management should preferably be used in those sectors mirroring the policy areas covered by the Structural Funds and the Cohesion Fund in the EU Member States, including for instance, agriculture and rural development programmes, education, employment and social policies.

The sector approach is an overarching principle of IPA II, which seeks to embed EU financial support into the sectoral strategic framework of the beneficiary country. Assessment criteria have been established to determine the ability of beneficiaries to design sector support programmes, which represents an important success factor for IPA II programming and therefore represents a key element of performance measurement. Montenegro currently meets the sector approach criteria in most of the sectors included in this Strategy Paper. Lead institutions have been identified and sector working groups have been established. Comprehensive sector strategies are developed for most sectors, with recent strategies adopted in the areas of Public Administration

Reform, Public Financial Management, Environment and Climate Action, as well as Agriculture and Rural Development. However, the capacity for costing, monitoring and evaluating sector strategies, as well as ensuring appropriate links to the budget planning through medium-term expenditure frameworks, need to be further improved. Furthermore, as regards the planning of infrastructure investments, it is necessary to improve the functioning of the Single Project Pipeline (SPP) and the National Investment Committee (NIC) and ensure that it is linked to the budgeting process and it reflects the existing fiscal constraints.

Furthermore, the IPA II framework highlights the importance of ensuring sustainability and impact of IPA projects. Montenegro has an obligation to ensure the sustainability of the IPA financed interventions and needs to improve on its record of making full use of the outputs delivered via past assistance.

IPA II support may also be delivered through sector reform performance contracts 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.

All stakeholders and implementing partners shall ensure the visibility of EU financial assistance and the communication about the results of the activities implemented through this assistance. Visibility and communication aspects shall follow the guidance provided by the Communication and Visibility manual for EU external actions and shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field.

In this regard, any visibility or communication measures linked to IPA II assistance shall highlight the impact of EU's interventions and promote transparency and accountability on the use of funds. This can be achieved also by concentrating resources on a lower number of (bigger) actions which might have a comparative advantage in terms of EU visibility.

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

There is limited formal or structured donor coordination either at sector or sub-sector level managed by the national authorities. Overall donor coordination is done principally by the Ministry of Foreign Affairs (Directorate General for Economic Diplomacy and Cultural Cooperation), 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 lending opportunities, which can complement IPA grant funds. The EU Delegation is promoting the establishment of a joint platform for donor coordination, under the auspices of the National IPA coordinator (NIPAC).

As regards the complementarity with other EU instruments, Montenegro benefits from assistance under the European Instrument for Democracy & Human Rights (EIDHR) and it builds upon the interventions financed by IPA. Montenegro may also be covered by actions under the Instrument Contributing to Stability and Peace (IcSP), 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

Overall, IPA II support will contribute to reaching the 17 goals of the 2030 Agenda for Sustainable Development, where relevant, and to the Paris Agreement targets on climate action. Financial assistance in the priority areas identified in this Strategy Paper will be granted in line with and in support of the Enlargement strategy. It will be shaped to contribute to other EU policies relevant for the respective sectors. Attention will be paid in particular to ensure alignment with the European Agenda on Migration, the EU Better Regulation Agenda, the EU Gender Action Plan 2016-2020, as well as with the Europe 2020 strategy and its flagship initiatives to boost growth and jobs, promote smart, inclusive and sustainable growth. Furthermore, it will provide support to the South Eastern Europe (SEE) 2020 strategy and EUSDR and EUSAIR. Coordination and consistency shall be sought with the commitments taken by Montenegro within the EUSDR and EUSAIR.

Taking into account the Global Approach to Migration and Mobility and the European Agenda on Migration, IPA II supports the development of functioning asylum systems and the improvement of integrated border management, as well as establishing a framework for legal migration and free movement of persons. In the context of the European Agenda on Security, the Commission Communication on the prevention of violent extremism recommends increased EU engagement with third countries, in particular supporting law enforcement and human rights compliant responses to prevent terrorist acts (law enforcement) and stepping up engagement in preventive action, tackling the root causes (prevention).

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 EU is determined to strengthen and intensify its engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkans partners.

The programming of IPA II for the period 2014-2020 has been 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 meeting the Copenhagen criteria for membership of the EU. The new EU's Western Balkan Strategy

---

<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

reinforces this process and through its six flagship initiatives provides an additional important strategic direction which will also inform the preparation of the IPA programmes for the period 2018 – 2020 at national level.

The financial assistance provided under IPA II assists Montenegro in this process and will complement national reform efforts and the interventions of other international donors. IPA II supports 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 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 and to strengthening the fight against corruption and against organised crime.

Keeping in mind the external dimension of EU's **migration policy** (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports legal migration, mobility, including through maximising the development impacts of migration, the development of functioning asylum systems, the improvement of integrated border management, and reduction of irregular migration through both focused actions and technical assistance. Migration should be mainstreamed through IPA activities that will be implemented in bilateral and regional cooperation frameworks.

IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the **Rights-Based Approach** (RBA) principles<sup>3</sup> in each step of the programming, implementation, monitoring and evaluation of its support. The 2018 "Western Balkans Strategy" reiterates the importance of Roma integration as part of the Fundamental Rights enlargement priority. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance will also take into account the national policy framework (Roma integration Strategy and Action Plan), the enlargement-related Roma integration

---

<sup>3</sup> (i) Legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency.

commitments taken under the chapter 23 negotiations, the visa liberalisation and the conclusions of the Roma Seminar.

The issue of radicalisation leading to violent extremism is increasingly part of policy discussions in the Western Balkans. The prominence of the topic has been driven to a large extent by the concerns of ISIL-inspired terrorist acts, the threat of foreign terrorist fighters (FTFs) returning to their home countries and the media attention surrounding terrorist activities.

As stated in the EU Global Strategy on Foreign and Security Policy (dated June 2016), the EU will work on **preventing and countering violent extremism** by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue. In addition the EU will further develop human rights-compliant anti-terrorism cooperation with the Western Balkans.

Within the scope of the current enlargement policy, which is also a strategic investment in Europe's security and prosperity, the challenges of **terrorism, cybersecurity threats and organised crime** are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the Integrative Internal Security Governance adopted by the EU Justice and Home Affairs Council and endorsed by the Western Balkans. A comprehensive EU response would therefore imply, among others, strengthening partnerships with key countries, supporting capacity building, countering radicalisation and violent extremism, as well as addressing underlying factors and the ongoing crisis.

**Public administration reform** is a fundamental pillar of the EU integration process and is one of the key priorities of the Montenegrin government and of EU assistance. A sound and functioning public administration both at central and local level is a prerequisite for progress on sector-specific reforms, and essential for an increase in foreign and domestic investments. IPA II will support developing the capacity of Montenegro to implement its public administration reform strategy and apply the *acquis*, to digitalise its services, to tackle de-politicisation and increase the transparency, professionalism and effectiveness of the public administration, 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, as part of the accession negotiations, Montenegro has embarked 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.

Finally, 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.

## **Competitiveness and Growth**

Montenegro faces significant challenges with a GDP per capita (PPS) of 45% of the EU average in 2016, an unemployment rate reaching 16.4% in 2017 and with substantial regional disparities. IPA II will seek to improve the economic governance and competitiveness of the country.

As from 2015, the **Economic Reform Programme** and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with Montenegro. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth and a list of structural reform measures to address them. Assistance under IPA II shall take into account and support the implementation of both the reform measures included in the ERP and the policy guidance.

This process aims also at 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 should ultimately contribute to the increased competitiveness of the economy and the fulfilment of the economic accession criteria.

Besides the ERP-related support, in order to strengthen the country's economic growth potential in view of the investment-intensive and technically demanding nature of certain sectors, IPA II provides also assistance for the implementation of the **connectivity agenda** through the national IPA envelopes and also through the regional Western Balkans Investment Facility (WBIF). For the selection of the priority economic and social infrastructure investments, the strategic planning tool is the already mentioned Single Project Pipeline developed at national level by the National Investment Committee, which takes into account also the regional connectivity projects linked to the extension of the TEN-T and TEN-E corridors to the region.

Montenegro is bordering five other Western Balkan IPA beneficiaries and 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's participation in the Danube and the Adriatic-Ionian macro-regional strategies with EU Member States is also a powerful tool to tackle common economic, social and territorial challenges.

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.

**Gender mainstreaming** through EU assistance provided through IPA II shall be ensured by all stakeholders and implementing partners throughout all phases of the programme cycle. IPA assistance shall include an assessment of the different situations and needs for women and men and translate this assessment into indicators, activities and results. In accordance with the EU Gender Action Plan, Montenegro will be encouraged to implement gender responsive budgeting in planning, implementing, and evaluating these public expenditures. In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for gender mainstreaming shall also contribute to reaching Goal 5 - "Achieve gender equality and empower all women and girls".

As regards **climate related actions**, 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. Further mainstreaming of climate related actions within the priorities

highlighted for IPA II assistance shall be enhanced and ensured by all relevant stakeholders. This will be done keeping in mind the aim to gradually increase the share of DG NEAR climate spending with a view to reaching the 20% target by 2020 for IPA II. Increasing share of these resources shall be invested in all relevant types of projects including sustainable infrastructures and capacity building.

The programming frameworks for IPA need to be aligned to the EU policy on the transition to a low carbon, resource efficient and circular economy. Challenges and benefits of **circular economy** could be further reflected. Specific areas where the macro-economic relevance of the circular economy and improved resource efficiency are significant are green public procurement, investments in waste and water infrastructure, sustainable construction, critical raw materials, biofuels and biochemical. Energy and climate related investments should also reflect the alignment with the relevant acquis. Circular economy provides benefits both in economic and sustainability terms, for the health of the citizens and the protection of the environment, issues that are becoming relevant on the policy agenda of our partner countries.

Support to **youth and education policies** shall be supported and mainstreamed through IPA II, in line with the major EU policies in the area, in particular the Education and training 2020 and the Bruges - Copenhagen Process for Vocational Education and Training.

IPA II contributes also to increase efficiency and competitiveness of the agriculture sector and the development of rural communities, and to support the deliverables of the digital agenda in order to enhance digital reforms and prepare the country for digital transformation.

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.

Keeping in mind the importance of public administration reform in the enlargement process, the commitment of Montenegro to meet the Principles of Public Administration in its public administration reform strategy and the commitment of the EU to the Better Regulation agenda, the key elements of public administration reform will be systematically addressed in all IPA II sector interventions. IPA II assistance will especially ensure the **Better Regulation approach**, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) in an inclusive approach involving both internal and external stakeholders.

The programmed financial allocations per policy area and sector for the period 2014-2017, as well as the indicative allocations for 2018-2020 resulting from the reviewed priorities 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 public administration represents one of the cornerstones of Montenegro's EU integration process. A professional, efficient, digital and transparent public administration is a necessary condition for 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 35 negotiating chapters.

Montenegro is committed to this reform in accordance with the Principles of Public Administration<sup>4</sup>, which represent the reference framework on PAR. The 2015 SIGMA baseline assessment of public administration in Montenegro identified a clear need for structural changes, and this was again confirmed by the 2017 SIGMA assessment. On this basis, at the end of 2017 the Government of Montenegro adopted a costed Action Plan for the period 2018-2020, for the implementation of the Public Administration Reform Strategy 2016-2020.

Montenegro has made some progress to implement the principles of merit-based recruitment and promotion. In the end of 2017 the Government of Montenegro adopted two new laws: a Law on Civil Servants and State Employees which created the conditions for better human resources management in terms of employment and promotion under the merit system and another Law on Local Self-Government fully in compliance with the provision of the law on civil servants. Both laws will enter into force in July 2018. The effective implementation of these laws will however only be possible once the necessary bylaws and procedures are adopted.

The structure and functioning of organisations with public powers (public agencies, public funds and public institutions) is often a problem due to the diversity of their status and to unclear accountability lines; free access to public information is established by Law, but it is hampered by issues related to managerial accountability, lengthy procedures and limited capacities of the Agency for the Protection of Personal Data and Free Access to Information. In addition, further efforts are needed to strengthen interoperability among the existing key electronic registers and to improve data exchange between authorities.

In July 2016 Montenegro adopted a new Public Administration Reform (PAR) Strategy 2016-2020, largely responding to the 2015 SIGMA assessment, established a PAR Council chaired by the deputy Prime Minister to follow up on its implementation and set up a dedicated Ministry for Public Administration. The new Strategy targets the state administration, local self-government and organisations exercising public powers. In addition, the European Commission and the Government of Montenegro undertake regular policy dialogue on PAR and monitor the progress of Montenegro in this area within the Special Group on Public Administration Reform, established in 2014.

As regards policy-making capacity, Montenegro has established a basic policy development and coordination system, comprising of a legal framework and the bodies necessary to perform the required planning and policy coordination tasks. The main weaknesses have included inadequate medium- and long-term horizontal planning, poor analyses included in the regulatory impact assessments, implementation of the work plans, weak monitoring and evaluation systems. Improvements in this area have started, but the remaining challenges have to be fully addressed in order to be able to transpose properly and implement the EU *acquis* in all sectors. Work in this area is ongoing, however further work is necessary, particularly in regard to quality control.

---

<sup>4</sup> *The Principles of Public Administration have been developed by SIGMA in cooperation with the EC; see <http://sigmaweb.org/publications/principles-public-administration-eu-candidate-countries-and-potential-candidates.htm>*

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 financial crisis 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, for which the Government implements a medium-term fiscal consolidation strategy, adopted in 2017. 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. Since 2015 the annual economic reform programme has been the main economic policy document, which sets out the medium term macro-economic and fiscal policy framework, and the country's related reform agenda.

Montenegro faces additional challenges with management of public finances. Public financial management (PFM) includes a number of important sub-systems such as: 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 also relevant to specific negotiation chapters with a number of EU accession related requirements, notably IT interconnectivity and interoperability.

An enhanced focus on eProcurement is needed to simplify participation for businesses by creating more transparency and simpler processes. Following up the implementation of the EU directive (2014/24/EU) on public procurement is necessary to make it easier and cheaper for small and medium-sized enterprises (SMEs) to bid for public contracts, to ensure the best value for money for public purchases and to respect the EU's principles of transparency and competition.

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 are strengthening revenue administration and collection, reinforcing the administrative capacity and improving the monitoring and control over tax/customs collection. The Tax Administration's main priorities is the second phase of IT development on interoperability and interconnectivity in order to align with the EU system for direct and indirect taxes exchange information, as well as addressing the findings of the TADAT assessment and the undertakings regarding the EU tax requirements to be put in place by 2019.

The overall legal framework for budget management is in place. The public procurement market in Montenegro is approximately 10-12% of GDP. Montenegro's public procurement system is partly aligned with the *acquis*, but further efforts are needed in particular on concessions, and defence procurement. A key challenge will be to strengthen implementation and enforcement capacities at all levels, and to introduce e-procurement.

The regulatory framework of public internal financial controls is in place. Further attention needs to be given to improving managerial accountability, improving the quality of financial management and control and prevention of fraud and irregularities. 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.

A Public Finance Management Reform Programme was adopted in December 2015 for 2016-2020. It focuses on the development of a stronger medium-term budget framework, the improvement of programme budgeting, better planning of capital projects, enhanced debt management, upgrade of the tax and customs administration, further alignment of public procurement with the EU *acquis* and development of an e-procurement system, enhancement of public internal financial control and on the improvement of transparency in financial reporting and accounting. 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.

Statistics is an important cross-cutting element, linked closely to the requirements of economic reform and many negotiation chapters, including one specifically on statistics. Montenegro continues to make progress in this area, though the national Statistical Office of Montenegro (Monstat) needs to strengthen its capacities, and Montenegro needs to fully align to the European System of National and Regional Accounts (ESA 2010).

A further focus on eGovernment and connected eServices is needed in order to enhance service delivery to citizens and businesses. Montenegro needs to improve and enlarge these eGovernment services by committing to some key principles such as digital-by-default, digital inclusiveness and accessibility, the once-only principle for key public services and solutions to ensure information security and privacy, including the uptake of a national eID scheme and by establishing a national interoperability framework based on the European Interoperability Framework (EIF).

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 and additional resources and transparency is needed in the policy development and coordination process in order to improve collaboration with CSOs. Citizen participation can be fostered through e-government and e-inclusion. The involvement of civil society across all sectors 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.

The main institutional actors in this sector are the Ministry of Public Administration and the Ministry of Finance, but key roles are also played by the Ministry of European Affairs, the General Secretariat of the Government, the Human Resources Management Authority and the Agency for the Protection of Personal Data and Free Access to Information, as well as the Administration for Inspection Affairs. However, virtually all state institutions (18 ministries and 36 other administrative bodies), as well as 25 local authorities (23 municipalities and 2 urban municipalities) and numerous organisations with public powers are public 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 the period 2014–2017 PAR has been at the forefront of the IPA programmes, and the good results obtained in policy dialogue and in reforms-oriented activities have paved the way to two sector reform performance contracts on integrated borders management and PAR. In terms of other donors' involvement, the United Nations Development Programme (UNDP) has been actively working with the Government of Montenegro on enhancing good governance and participatory democracy, and World Bank and IMF are also involved, notably on tax issues, ReSPA also provides assistance on PAR issues. OECD, through the EU-funded SIGMA programme, is a key partner in the country for its assessment and assistance on public governance systems and public administration capacities.

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

The overall objective in this sector is to support Montenegro in the development of an independent, professional and efficient civil service and public administration in line with the European standards and best practices and 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 specific 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 more specifically, 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 exert advocacy and oversight activities in an effective and independent manner.

The main **results** to be achieved by Montenegro in this sector with IPA II support are as follows:

- Improved policy-making and coordination capacity, both at central and local level;
- A merit-based civil service system with adequate human resources management in place, both at central and local level;
- Strengthened economic governance and the implementation of the annual Economic Reform Programme and joint policy guidance;
- 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 and full membership 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.

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular through the development of a new PFM programme and new PAR strategy, as well as support in their implementation through the already mentioned sector reform performance contracts. Additional support tackled the areas of customs, taxation, procurement, as well as providing broader support to the EU integration process and to CSOs.

IPA II actions will therefore continue to assist with the implementation of the PAR strategy and the PFM Reform Programme and will support with specific needs arising from the EU accession process. This refers, in particular, to interoperability of IT systems in the customs and taxation fields. Furthermore, IPA will continue to give attention to the improvement of public service delivery, the further development of eServices and eProcurement, and to a more effective right to free access to information.

In addition, technical assistance and capacity building measures may be provided under specific measures such as the EU Integration Facility to address specific needs identified in the EU accession negotiations as well as to develop the capacity of the central and local authorities to manage and absorb future EU structural and cohesion funds. Particular focus should be paid to the sector approach elements, in particular capacity for sector coordination, as well as monitoring and evaluation of sector strategies. Support may also be extended to institutions, civil society organisations and independent agencies playing an important oversight role, particularly the Parliament and the state Audit Institution.

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>5</sup>. Monitoring of results and indicators will be realised on an annual basis.

The **indicators** to measure the achievement of the objectives will include:

- Composite indicator Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Composite indicators Global Corruption (TI) and Control of Corruption (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, as well as sector reform performance contracts.

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.

---

<sup>5</sup> [http://www.tacso.org/doc/doc\\_guidelines\\_cs\\_support.pdf](http://www.tacso.org/doc/doc_guidelines_cs_support.pdf)

## **1.4 Risks**

These reforms need sufficient political will to ensure the implementation of 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 rule of law "new approach", 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 other 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, and the legislation adopted in February 2015. Montenegro needs also to take further steps to improve access to justice, in particular for children and other vulnerable groups, 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, and strengthen the enforcement system, support work on case management, as well as the introduction of a new IT system and to provide for 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. Relevant institutions such as the new Anti-Corruption Agency and the Special Prosecutor's Office for the fight against corruption and organised crime have been set up, as well as a Special Police Unit supporting the Special Prosecutor's Office. Nevertheless corruption remains prevalent in many areas and a matter of concern. Montenegro needs to effectively implement the rules on free access to information and strengthen the protection of whistle-blowers. Montenegro must 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, and prosecution and court rulings in corruption cases at all levels, including high-level corruption. 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.

In the field of cyber security and crime, there is a need for further resources, specialist tools and capacity-building for authorities to manage the increasing volume and complexity of the task. On the level of cyber-security, Montenegro has to continue with the development and implementation of a national NIS Strategy and a competent authority. The development of Computer Security Response Teams (CSIRTs) has to be strengthened. Due to the cross-sectorial nature of cyber, cybersecurity should be promoted as a transversal issue in bilateral actions through integration of cyber resilience elements in projects dealing with critical infrastructures (e.g. ICT, transport, energy) and digital/e-government initiatives.

The protection of fundamental rights is based on the Constitution, which guarantees civil and political rights as well as social, economic and cultural ones. A comprehensive anti-discrimination legislative framework is in place; which has been significantly improved with the adoption of the new Law on Prohibition of Discrimination of Persons with Disabilities and of the Amendments to the Law on Gender Equality and to the General Law on Prohibition of Discrimination. 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 regarding threats and attacks against media and journalists. Discrimination is prevalent particularly against the Roma community, LGBTI persons, women and persons with disabilities. IPA II will contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles.

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. The Ministry for Human and Minority Rights is organising training events on the topic of gender equality for different target groups (state employees, focal points for gender equality, judiciary, prosecutors, teachers, students, media representatives, NGOs, employees in the health sector, etc.). In relation to gender-based violence, particularly in 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 should continue implementing the EU asylum and migration standards and be prepared to tackle any sudden increase in the flows of refugees/migrants. 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, efforts are needed in terms of legislation, policy-making and enforcement. Even though the accommodation capacities are improved, the awareness of the authorities in detecting irregular migrants and identifying asylum seekers, and in adequately protecting vulnerable migrants needs to be strengthened. Alignment with the EU *acquis* in the field of visa and borders/Schengen will be a major technical and financial challenge for Montenegro.

Following a detailed analysis, covering staffing, training, equipment and infrastructure, Montenegro adopted a Schengen Action Plan. Montenegro now needs to proceed with the modernisation of the border infrastructures and equipment to ensure a good coverage of the state border line and its crossing-points. This will also contribute to establishing a track record on cross-border crime, including corruption at the borders. The issue of the shortage of border police staff should be properly addressed. Training courses should be organised in the field of prevention of corruption (especially targeting customs officials), prevention of trafficking of human beings (THB) and identification of THB victims, documents expertise. Montenegro needs to improve the basis for international cooperation, such as establishing effective mechanisms for joint border control with Kosovo\*. Montenegro will need to revise the IBM strategy to align it with the updated EU IBM concept.

The 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, as well as counter-terrorism and the prevention of violent extremism. 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.

---

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.



As regards the fight against terrorism and anti-radicalisation, the influence of militant Islamic groups is very limited in Montenegro and it does not pose any immediate security threats. However, Montenegro must strengthen its preventive tools and anti-radicalisation measures. Efforts need to be enhanced to identify, prevent and disrupt any movement of foreign terrorist fighters travelling to conflict areas such as Syria and Iraq. Montenegro should strengthen its capacities in this area and follow up on the Council conclusions of December 2015 on the Integrative and Complementary Approach to Counter-Terrorism and Violent Extremism in the Western Balkans and to the EU-Western Balkan Counter-terrorism Initiative Integrative Plan of Action 2015–2017.

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. In order to further improve the position of Roma, the new strategic document for the social inclusion of these marginalised groups in Montenegro – i.e. Strategy for Social Inclusion of Roma and Egyptians in Montenegro 2016-2020 – was adopted in March 2016. The Ministry for Human and Minority Rights coordinates the implementation of the Strategy.

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, promotion and protection of rights of Roma, inclusion of marginalized groups in the society, and sustainable solutions for the Internally Displaced Persons (IDPs). 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.

Finally, 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 both policy dialogue and implementation processes. It is important to strengthen the capacity of the CSOs and social partners to ensure adequate dialogue and to develop the national authorities' administrative capacity in this sector.

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

The overall objectives for IPA II are to support Montenegro to achieve a fully independent judiciary system, to reduce the levels of corruption and organised crime, to strengthen effective application and enforcement of fundamental rights, to counter radicalisation and violent extremism, and to secure future EU external borders and to prevent irregular migration. Under IPA II, EU financial assistance will support the implementation of the Action Plans for Chapters 23 and 24, as well as the recently adopted Schengen Action Plan.

The main **results** to be achieved by Montenegro in this sector with IPA II support are as follows:

- Enhanced independence, efficiency and professionalism of the judiciary and strengthened integrity safeguards;
- Improved coherence and consistency of jurisprudence and improved enforcement of judicial rulings;
- Improved legislative framework and operational capacity for the prevention and repression of corruption and reduced level of corruption;
- Increased efficiency and co-operation between the law enforcement agencies;
- Reduced level of organised and serious crime and a solid track record of investigations, prosecutions, final convictions, and recovery of assets in corruption and organised crime cases developed;
- Improved compliance with ECHR standards on fundamental rights;
- Improved promotion of gender equality and anti-discrimination;
- Alignment with EU standards in the area of migration and asylum;
- IBM strategy implemented with improved facilities and strengthened cross-border and inter-agency coordination.

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular supporting Montenegro in the implementation of the Action Plans for Chapters 23 and 24 with a focus on the judiciary and the fight against organised crime and corruption, as well as on anti-discrimination, the protection of human rights of Roma and other vulnerable groups and gender equality policies. Furthermore, significant support was directed to improve the capacity of Montenegro to deal with the influx of refugees and irregular migrants and contribute to securing the future external EU border and reducing irregular migration and cross-border organised crime through support to the implementation of the IBM strategy.

In terms of **actions**, IPA II will continue to 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 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 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 the implementation of anti-discrimination policies. IPA II support may also be used to raise public awareness in the area of fundamental rights, including gender equality and protection of human and fundamental rights of disadvantaged groups, 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. Moreover, Montenegro will need to align its Integrated Border Management Strategy and Action Plan with the revised EU IBM concept and ensure its 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.

As regards the fight against terrorism and anti-radicalisation, IPA II will support the implementation of regional or national initiatives aiming at countering radicalisation and violent extremism through awareness raising, capacity building and facilitate international cooperation.

The **indicators** to measure the achievement of the objectives will include:

- 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. Sector reform performance contracts may also be used to support the implementation of key national strategies, 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, climate action and energy**

### **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, in the context of which 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. Furthermore, the implementation of this legislation implies costly investments in environmental infrastructure, in particular in relation to waste management and water treatment.

Energy and more specifically the development of efficient energy markets in Montenegro is an important determinant for the country's economic growth. Chapter 15 and Chapter 21 provide the country with the policy and strategic framework to improve energy services and integrate the country in the regional and EU energy market. The two Chapters are also inherently linked to EU environment and climate change policies, particularly as far as the implementation of renewable energies and energy efficiency activities is concerned.

Montenegro is at early stage of alignment with the *acquis* in these areas. The main weaknesses identified are underdeveloped infrastructure and a lack of systematic integration of environment, climate action and disaster management in all sectors policies. 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. There is no regular data collection in waste management sector. The National Waste Management Strategy identifies 193,148 tons of waste generated per year,

out of which 96,574 tons is collected and only 3,380 tons is selectively collected. 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.

Montenegro adopted a National Strategy and Action Plan for Combating Climate Change in September 2015. Montenegro has ratified the Paris Agreement on climate change, in the context of which it has committed to reduce greenhouse emissions by 30% by 2030 compared to the 1990 baseline. Therefore, climate action represents a major cross cutting priority for Montenegro. Montenegro still needs to align its legislation with that of the EU, in particular 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 related legislation Montenegro is vulnerable to climate change impacts, and adaptation to these conditions necessitates building climate-resilience and strengthening of disaster risk management. 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. In particular, improving energy efficiency and reducing the energy intensity of the Montenegrin economy as well as boosting renewable energy generation present an important potential for GHG reduction, as well as contributing to affordability and economic competitiveness. Some parts of the *acquis* on energy efficiency, renewable energy and internal market for gas and electricity are yet to be transposed and administrative capacity in the area has to be considerably strengthened.

In July 2016 Montenegro adopted a National Environment Approximation Strategy (NEAS), which establishes a programme for fulfilling the obligations resulting from the EU environmental *acquis*, while giving indications about the related costs.

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. A clear picture of the concrete division of tasks between all actors involved, the relationship between them and the reporting lines needs to be developed.

Moreover, 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 both policy dialogue and implementation processes. It is important to strengthen the capacity of the CSOs and social partners in order to

ensure adequate dialogue and to develop the national authorities' administrative capacity in this sector.

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. In the energy sector, IPA assistance was provided mainly by means of regional initiatives, such as the WBIF. 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. However, the sector coordination and mainstreaming environment and climate action into other sectors policies remains weak. Regarding civil protection, Montenegro joined the Union Civil Protection Mechanism in May 2015. It still needs to establish Secure Trans European Services for Telematics between Administrations (sTESTA), which is a precondition to access the Common Emergency Communication and Information System (CECIS) of the Union Civil Protection Mechanism.

### 3.2 Objectives, results, actions and indicators

The overall objective under this sector is to support Montenegro to align to the EU *acquis* under Chapter 27 of the accession negotiations, in line with the strategy and action plan adopted by the country to this effect, 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 as to encourage the "greening" of public procurement.

The main **results** to be achieved by Montenegro under this sector with IPA II support are as follows:

- Montenegrin legislation harmonised with the environment and climate change *acquis*, as well as strengthened institutional framework and administrative capacity to ensure implementation both at central and local government level
- Support the 2015 Paris Agreement on Climate Change;
- Water management and municipal waste water collection and treatment improved for the most important agglomerations, including physical infrastructure;
- Effective implementation of the Environmental Impact Assessment and Strategic Environmental Assessment directives;
- NATURA 2000 network prepared on the basis of sound scientific data, and implementation initiated 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 low-emissions development, with climate action mitigation and adaptation measures developed;

- Resilience to climate change impacts, including disaster risk management, developed and capacity improved;
- Improved alignment with and implementation of the EU Energy efficiency policy framework.

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular through technical assistance for the implementation of the NEAS and the harmonisation of the Montenegrin legislation with the EU environmental *acquis*, as well as strengthened the institutional framework and administrative capacities for planning and implementation of environmental policies.

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. A public awareness component is also envisaged with active participation of the civil society.

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.

Montenegro adopted in December 2015 a Single Project Pipeline (SPP) of environment investment projects and established a National Investment Committee (NIC). However, the functioning and effectiveness of the SPP/NIC as an investment planning process needs to be further improved. Montenegro also participates in the Environment and Climate Regional Accession Network (ECRAN), 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, e.g. the protection of marine and coastal ecosystems, as well as transnational terrestrial habitats and biodiversity.

IPA II actions in this sector will contribute to the priorities established in the framework of Agenda 2030 for Sustainable Development and the 2015 Paris Agreement, as the intervention foresees strengthening the capacities of the administration at all levels, improved overall environmental policy in the country and specific measures aiming at combating climate changes.

The **indicators** to measure the achievement of the objectives will include:

- CO2 emissions
- Number of climate change strategies (a) developed and/or (b) implemented with EU support

### **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 reform performance contracts 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. Implementation of assistance may be considered through a multi-annual regional development programme, covering the environment, transport and competitiveness and innovation sectors.

### **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 transport, as well as poor safety standards. Improvement of transport connections will facilitate the integration of Montenegro in regional trade flows and further economic and political cooperation and links between people.



Montenegro plays an active role in the connectivity agenda, which has extended the EU Trans-European Transport Network (TEN-T) core network and core corridors to the Western Balkans. This initiative represents a basis for leveraging investments in transport infrastructure, notably along the agreed corridors with the aim to provide quality transport services for citizens and businesses. In parallel with the planning and implementation of the investments, the implementation of "Connectivity Reform Measures" is on-going with the set targets for aligning technical standards, opening of the transport market and formalising cross-border operation between the countries. Montenegro has already achieved good progress.

Enhancing road transport connections represents a national priority for Montenegro, in particular as regards the ongoing construction of the highway section Smokovac – Mateševo on the corridor linking Bar, the main port of Montenegro, to the border with Serbia at Boljare which could bring important benefits in the long run, but at the cost of postponing other important investments. Due to the resources already invested in this project, there is a risk that other important transport bottlenecks will not be properly addressed. 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) and signed and ratified the Transport Community Treaty for the Western Balkans. Within the framework of the connectivity agenda, Montenegro has prioritised several key investments that are integrated in the indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans along the Mediterranean and Orient/East Med corridors. Montenegro adopted a Single Project Pipeline (SPP) of transport investment projects in December 2015 and established a National Investment Committee (NIC). However, the functioning and effectiveness of the SPP/NIC as an investment planning process needs to be further improved.

In the context of the accession negotiations, Montenegro still needs to further align its legislation with the EU legislation in the transport sector. The National Investigation Commission of Serious Incidents and Accidents for air, maritime and rail transport, established in 2014, is fully operational. However, Montenegro still has to establish independent rail regulatory and safety bodies. Continued support will be needed to promote compliance with the EU *acquis* in the fields of road, rail and maritime transport as well as intelligent transport systems (ITS) and combined transport. Alignment with the relevant *acquis* in relation to inland waterways will also require additional efforts, as currently this area is regulated under maritime transport legislation. In aviation, Montenegro should complete the first transitional phase under the European Common Aviation Area Agreement.

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 2015-2018. Montenegro is in the process of updating the Transport Development Strategy, with the aim to ensure alignment with the regional connectivity agenda and reflect the various financing options.

In the transport sector, IPA focused previously on the development of the Bar-Belgrade corridor offering combined maritime-railway transport, but also supported 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-Mateševo segment of the Bar-Boljare highway.

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

The overall objective of IPA II support in this sector is to improve the inter-connection of Montenegro with its neighbours, in line with the connectivity agenda, and to support the alignment with the EU *acquis* under chapters 14 and 21 of the accession negotiations.

The main **results** to be achieved by Montenegro in this sector with IPA II support are as follows:

- Improved policy planning and project preparation/implementation capacity;
- National legislation aligned with the EU transport *acquis*;
- Connectivity along the TEN-T core network and corridors improved;
- Transport safety further improved in all modes of transport;
- Vessel Traffic Monitoring and Information System fully operational by 2020;
- Opportunities for developing combined transport enhanced;
- Negative environmental impacts, pollution and GHG emissions in the transport sector reduced.

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular through technical assistance for project preparation and alignment with the EU *acquis*. In addition, support in the road sector resulted in the development of a road network database and a safety assessment, while in the maritime sector it focused on safety and security. As regards infrastructure, investments focused on the Bar-Belgrade corridor through the rehabilitation of the railway section Kos-Trebešica and the construction of joint rail border crossing station between Serbia and Montenegro.

IPA II actions on institution building and alignment to the EU *acquis* will focus on ensuring compliance with EU safety and security standards for all modes of transport, in particular road

safety, alignment with and implementation of the fourth railway package, as well as adoption of new legislation for combined transport, clean vehicles and ITS. Furthermore, IPA II may further support alignment with and implementation of the *acquis* on aviation, 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, upgrading standards and capacities in the area of maritime and inland waterways transport 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 provide support in road transport and interconnections with the neighbouring countries. 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 in the transport sector.

The **indicators** to measure the achievement of the objectives will include:

- 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 reform performance contracts may also be considered if the preconditions have been met. 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, notably those defined within the framework of the connectivity agenda. 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 the necessary administrative and financial resources needed to achieve the proposed reform in this sector.

## **5. Competitiveness, innovation, agriculture and rural development**

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

Following the double-dip recession of 2009 and 2012, the economy recovered in 2013, with an average GDP growth of approximately 3%. Montenegro has had some success in creating a favourable business climate and has attracted a number of foreign investors, mostly in the financial, tourism, telecommunications 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, consumer protection, and research and development.

Montenegro prepares annual Economic Reform Programmes, which consist of macroeconomic and fiscal policy framework and structural reform measures necessary for improving competitiveness. In addition, the Industrial Policy of Montenegro until 2020 has been adopted, with an accompanying multi-annual Action Plan, which aims to create the conditions for the modernisation of industry based on knowledge and innovation and it will provide better integration of Montenegrin businesses into the international market through improving the business environment, supporting enterprises and entrepreneurship, and stimulating the use of modern technologies.

The MDD 2015-2018 identifies that the main areas with great potential for economic growth are tourism, energy, agriculture and rural development, and manufacturing industry. 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, manufacturing, information technology 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, Montenegro is in the process of unifying company registration procedures, 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. This is in line with the implementation of the PAR strategy to improve the efficiency of the civil service and public administration. 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 EU legislation – and its subsequent implementation - 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 (single portal to SMEs) to reduce both the digital divide within the country and the gap with the EU by investing in broadband infrastructure, both fixed and mobile/wireless, particularly in more rural regions. The country has to enhance access to existing infrastructure by setting up a register of buildings and complete national cadastres. The handling procedure for

access to existing infrastructure should be simplified and in line with the European acquis (e.g. EU Broadband Cost Reduction Directive). Furthermore, one or multiple Broadband Competence Offices (BCO) should be established to advise local and regional authorities on ways to invest effectively in broadband, and help citizens and businesses get better access to broadband services.

It also needs to support the ability of traditional industries to compete and innovate through ICT improvements, training and digital skills development. The country should invest in the mapping of the local start-up ecosystem and stimulate the entrepreneurial culture in order to combat the high levels of youth unemployment. National digitising industry strategies have to be developed in order to optimally prepare businesses and to lever upon the digital transformation. In line with the Skills Agenda for Europe, Montenegro should also aim to implement a national digital skills strategy, including programmes for un/underemployed, women and the elderly and establish national coalitions for digital jobs.

Another important mechanism to increase the competitiveness of the economy includes improving the quality and efficiency of the research and innovation policy, and strengthening its links with businesses and academia, with special attention given to the tourism sector. In that sense, new instruments in the field of science and research have already established: the first Centre of Excellence (BIO ICT) and the first Innovation and Entrepreneurial Centre “Technopolis” in Nikšić, which form part of the first Science and Technology Park in Montenegro. To achieve the desired results, the Park's activities must go hand in hand with relevant research policy measures. A Smart Specialisation (as per early 2018 under development) is the prerequisite that underpins national research and innovation strategies and policies. It helps to prioritise national research efforts and to allocate the resources needed. In terms of research and innovation capacity building it also helps to identify regional centres of excellence – such as the South East European International Institute for Sustainable Technologies.

Montenegro joined the Central European Free Trade Agreement (CEFTA) in 2006, which represented an important step for trade liberalisation. With regard to metrology, the technical capacity and skills of the laboratories of the Bureau for Metrology will be improved to enhance compliance with EU and international standards. This will enhance participation in CEFTA and Montenegrin companies' to access and compete in the EU's internal market. In addition, in July 2017 Montenegro adopted with other Western Balkan countries, the Multiannual Action Plan for the development of the Regional Economic Area, whose implementation will strengthen trade, investments and mobility within the region and with the EU.

Competition policy implementation and enforcement is also one of the key drivers for development of the national economy and integration into wider free market alliances (i.e. CEFTA, EU, WTO etc.). Although Montenegro has continued to develop its administrative capacity in the area of competition legislation enforcement, there is a need to further increase the administrative and investigative capacity in this field.

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. 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, which 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, 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, energy and transport 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).

As regards agriculture and rural development, Montenegro identifies this sector as one of the main areas with substantial potential for economic growth. The primary sector alone provides 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 the 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*, which were opened for accession negotiations in 2016.

In the agriculture and rural development area, the implementation 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 implement the strategy adopted on 10 September 2015 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 the 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 area 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 in 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.

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

The overall objective of IPA II in this sector is to improve the business environment, to support the development of SMEs in Montenegro and their capacity to access finance and the EU internal market. Another important priority for IPA II is to support implementation of the Industrial Policy of Montenegro until 2020 and to ensure the necessary administrative capacity needed for the appropriate implementation and follow-up of this policy.

As regards agriculture and rural development more specifically, 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 through two strands: institutional capacity building and a rural development programme.

The main **results** to be achieved by Montenegro under this sector with IPA II support are as follows:

- Implementation of the Strategy on Free Movement of Goods on track;
- Comprehensive Industrial Policy Strategy prepared and implementation well on track;
- Development of a Smart Specialisation Strategy
- 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.

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

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular through technical assistance for strengthening the economic competitiveness and innovation capacity of Montenegro, in particular improving the business environment and aligning and implementing the EU *acquis* related to financial services and internal market.

IPA II may also assist Montenegro in developing entrepreneurship and start-ups, strengthening the business development and advisory services infrastructure (business zones incubators and clusters), strengthening linkage between science, research, innovation and business through improvement of capacities in human resource and infrastructure (science and technology park, centre of excellence), 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, academia, and industry.

In the context of the accession negotiations, IPA II shall also support alignment to and building up the administrative and technical capacity for the implementation of the EU *acquis* in areas such as quality infrastructure, notably regarding the capacity for standardisation, accreditation and for market surveillance, as well as the enforcement of competition and State aid legislation, and in the areas of consumer and health protection, information society and media, 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 legislation in the area of financial services and financial stability and enforcement of competition and state aid legislation. In the context of the accession negotiations, IPA II will support administrative and technical capacity building for entities that implement the EU *acquis*, notably for standardisation, accreditation, metrology, market surveillance, consumer and health protection, and intellectual property rights. It will support improvements in the mutual recognition of professional qualifications, the development of legislation in the area of financial services and financial stability and the enforcement of competition and state aid legislation. IPA II will also support the development of the Administration for Inspection Affairs (AIA), the capacity of the Agency for Protection of Competition (APC), and the judicial system. Support may be provided for digital projects in Montenegro that are aimed at preparing society and the business environment for digital transformation.

Montenegro will also continue benefiting from regional trade assistance under CEFTA and the Western Balkans Enterprise Development and Innovation Facility (EDIF).

As far as agriculture and rural development are concerned, IPA II already contributed to addressing a number of priorities set above, in particular through technical assistance in the veterinary and fishery subsectors, as well as significant support for rural development measures.



In the area of institution and capacity building, IPA II will continue to 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 was adopted in June 2015. Closely linked to, and ensuring coherence with this strategy, a multi-annual IPA II Rural Development (IPARD) programme was adopted by the European Commission on 20 July 2016. 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 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 resources, the agricultural sector will be affected by climate change. Therefore, support may be provided for the implementation of agriculture adaptation activities to climate change.

The **indicators** to measure the achievement of the expected results will include:

- Distance to frontier, Doing business - score (WB).
- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI).

### **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. 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, use of regional financing mechanisms will be considered for grant schemes and support measures.

As regards agriculture and rural development, 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, along with IPA II support in the area of food safety, veterinary and fisheries. Sector reform performance contracts may also be considered if the eligibility criteria are met.

#### **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.

As 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 factor 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.

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.

### **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 human capital and economic growth. In the context of an unemployment rate of 17.8% in 2016, 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 corruption in the health and education sector and the continuous 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. Moreover, Roma policy is important in the EU and accession countries need to prove tangible progress regarding Roma inclusion in the fields of

education, employment, health, and housing. This is accompanied by cross-cutting policies of particular relevance such as provision of personal documents and strengthening the involvement of local and regional authorities and dialogue with civil society organisations. Roma integration measures form an integral part of the EU *acquis*. In addition, Roma exclusion continues to have negative consequences in terms of the share of Roma in the total population temporarily migrating to EU Member States under the visa-free regime (i.e. in 2015, from the total number of people who asked for political asylum in Germany approx. 20 % were Roma) and this can have a negative impact on visa liberalisation, which is a great achievement towards the integration of the Western Balkans into the EU. Thus, funding under IPA II will be better targeted to shift from policy development and institution building to actions directly making an impact on the lives of individual Roma persons, with a particular focus on education, employment and social inclusion.

Taking these factors into account, a first priority for Montenegro is to improve the regulatory environment and conditions for job creation, as well as to increase the effectiveness of activation policies and measures for those who are excluded from the labour market for long periods. Further to that public employment services (PES) still need to be strengthened. 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 significant challenges and various reforms are currently underway. It is crucial that basic educational attainment levels are reached; that the revision of enrolment policies to vocational and higher education continues with the new Matura examination which will be introduced in 2020 and with the new Rulebook on enrolment from VET to higher education; that the new Quality Assurance Agency starts delivering in accordance with the ESG2015<sup>6</sup>; and that the capacity of existing and future teachers is improved, including through revised teacher training programmes. All this will in turn provide the basis for improvement at 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 enhancement of lifelong learning and professional development.

An enhanced focus on digital skills is necessary for the development of the digital economy and society. Montenegro is increasingly suffering from a growing professional ICT skills shortage and a digital literacy deficit. This excludes many citizens from the digital society and holds back productivity growth. In line with the Skills Agenda for Europe, the country should aim to implement a national digital skills strategy, including programmes for un/underemployed, women and the elderly and establish national coalitions for digital jobs, incorporated into the EU's digital skills & jobs coalition.

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 labour activation incentive measures.

---

<sup>6</sup> The Standards and guidelines for quality assurance in the European Higher Education Area

Human resources development requires a comprehensive strategy that takes full account of the connections between population health, educational attainment and labour productivity. A section of the Economic Reform Programme targets key measures in employment, education and social inclusion; Montenegro's National Strategy for Employment and Human Resource Development 2016-2020 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. The Employment and Social Reform Programme (ESRP) focuses on a limited set of core employment and social challenges and identifies policy reform pathways for addressing these challenges in the long term perspective.

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 other relevant bodies needs to be further developed in order to address these needs.

Montenegrin civil society, including social partners, serves a key role in the success of the reform efforts in this sector and it has been actively included in the ESRP. The CSOs' value concerning accountability, service delivery and public policy implementation in general, needs to be recognised and exploited by the promoters of reform. IPA II will support this process and contribute to fostering a mutually beneficial collaboration between the Government and non-Government sector.

In the area of human resource development, past IPA assistance focused on issues of labour market performance and quality education attainment 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**

The overall objective under this sector is to support Montenegro in addressing the mismatch between the skills demanded in the labour market and those offered by the education and training system. IPA II will also aim to 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 by Montenegro under this sector with the help of IPA II support are as follows:

- Improved employability of human resources through modernising the vocational, educational, training and research systems in Montenegro, updating their teaching methods and enhancing their mobility opportunities;

- 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.

During 2014-2017, IPA II already contributed to addressing a number of these priorities, in particular through measures designed to improve the labour market and increase employability, to enhance the education system, as well as to improve social inclusion. Focus will remain on vulnerable groups in the labour market: women, long term unemployed, and youth.

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 graduates and job-seekers with the skills demanded by the job market, with better skilled graduates from science, technology, engineering, and mathematics for example, such as developing digital literacy for all. Special focus should be given to developing vocational education, entrepreneurship and lifelong learning, but also higher education and research.

If deemed appropriate, support may also be provided for a Digital Education Action Plan that outlines a number of measures through which the EU could help education systems to adapt to the ongoing digital transformation. Other projects that aim at creating a common understanding of digital competences enable people to develop these competences and support their employability or participation may also be supported. 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 that social and child protection systems and the implementation of the ERP/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 (particularly and social partners) to ensure adequate social dialogue and added value in public policy implementation partnerships. Lastly, the national authorities' administrative capacity in this sector, in particular regarding the implementation of evidence-based strategic approaches to policy making, needs strengthening.

The **indicators** to be used to measure the accomplishment of the expected results of EU assistance in this area will include:

- Employment rate of population of 15 to 64 years, total 52-53% (Eurostat).

### **6.3 Types of financing**

The reform and administrative capacity building process will be supported through broad operational programme that will exploit modalities such as procurement of technical assistance, twinning, services, works, supplies and grants and TAIEX support. Multiannual sector

operational programmes or sector reform performance contracts 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. Regional cooperation and territorial cooperation**

#### **7.1 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 is also 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 is 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 successfully participated in five IPA bilateral cross-border cooperation (CBC) programmes with Albania, Bosnia and Herzegovina, Croatia, Serbia and since 2011 with Kosovo. It also participated in one IPA CBC multilateral programme with EU Member State, in the IPA CBC Adriatic programme as well as in two ERDF transnational cooperation programmes (South-East Europe and Mediterranean). Building on the experiences gained and capacities developed in previous initiatives, Montenegro will continue participating in IPA II CBC programmes and in Interreg V-B transnational cooperation programmes. The CBC programmes are meant to 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) are mainly addressed at transnational level. Other priorities are being achieved at local cross-border level and relate essentially to the bilateral cross-border programmes.

## **7.2 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 programmes, allowing multiple cross-border contacts and exchanges, and to improve neighbourly relations and people-to-people co-operation. The participation in Interreg IPA CBC and Interreg V-B transnational programmes with EU Member States helps the Montenegrin administration and economic and social actors to establish cooperation networks with their counterparts in the EU countries thus paving the way for EU integration. Partners from Montenegro participate in joint cross-border and transnational projects in equal footing with the partners from the EU Member States.

During the period 2014-2020 Montenegro is participating in the following IPA II CBC programmes with IPA II beneficiaries: Serbia - Montenegro; Bosnia and Herzegovina - Montenegro; Montenegro – Albania and Montenegro – Kosovo. As regards Interreg IPA II CBC programmes with EU Member States, Montenegro participates in two (trilateral) programmes: Croatia – Bosnia and Herzegovina – Montenegro, and Italy – Albania – Montenegro. These programmes are expected to have a positive impact on the quality of public health and social care services, environment, biodiversity, low carbon strategy, sustainable tourism and natural/cultural heritage, cross-border cooperation and competitiveness of SMEs, cross-border accessibility and sustainable transport.

Each of the CBC programmes will focus on maximum four of the thematic priorities 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.

Montenegro participates in the Interreg V-B Adriatic-Ionian (ADRION) transnational cooperation programme, the Interreg V-B Danube transnational cooperation programme and the Interreg V-B Mediterranean (MED) transnational cooperation programme. The geographical scope of the Danube and the Adriatic-Ionian transnational cooperation programmes match that of the respective macro-regional strategies EUSDR and EUSAIR. These transnational cooperation programmes contribute to 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.

The **indicator** to be used to measure the accomplishment of the expected results of EU assistance in this area will include:

- Number of involved municipalities (MIS)

### **7.3 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.

### **7.4 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.



## ANNEX 1. INDICATIVE ALLOCATIONS (MILLION EUR)<sup>7</sup> - per policy areas and sectors

[IPA II Beneficiary]	2014	2015	2016	2017	Total 2014-2017	2018	2019	2020	Total 2018-2020	Total 2014-2020	Of which climate change relevant (%)
<b>DEMOCRACY AND RULE OF LAW</b>	<b>23.2</b>	<b>26.4</b>	<b>2.5</b>	<b>20.4</b>	<b>72.5</b>	<b>21.3</b>	<b>6.4</b>	<b>7.5</b>	<b>35.2</b>	<b>107.7</b>	
Democracy and governance	16.7	5.4	2.5	20.4	45.0	6.5	6.4	7.5	20.4	65.4	
Rule of law and fundamental rights	6.5	21.0	0.0	0.0	27.5	14.8	0	0	14.8	42.3	
<b>COMPETITIVENESS AND GROWTH</b>	<b>16.3</b>	<b>10.0</b>	<b>32.9</b>	<b>20.9</b>	<b>80.1</b>	<b>25.5</b>	<b>39.2</b>	<b>26.6</b>	<b>91.3</b>	<b>171.4</b>	
Environment, climate change and energy	2.8	0.0	16.0	0.0	18.8	0	16.3	0	16.3	35.1	80%
Transport	5.2	0.0	0.0	9.6	14.8	0	14.9	0	14.9	29.7	80%
Competitiveness, innovation, agriculture and rural development**	8.3	5.0	11.9	6.0	31.2	17.5	8	14.9	40.4	71.6	7%
Education, employment and social policies	0.0	5.0	5.0	5.3	15.3	8	0	11.7	19.7	35.0	
<b>TOTAL</b>	<b>39.5</b>	<b>36.4</b>	<b>35.4</b>	<b>41.3</b>	<b>152.6</b>	<b>46.8*</b>	<b>45.6</b>	<b>34.1</b>	<b>126.5</b>	<b>279.1</b>	

*\*Including EUR 8 million coming from Performance Reward*

*\*\* Part of these funds have been allocated to the IPARD programme for Montenegro which includes EURO 5M (2015), EURO 5M (2016), EURO 6 M (2017,) EURO 7M (2018), EURO 8 MEURO (2019), EURO 8 M (2020).*

<sup>7</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

### Context indicators

Indicators	Baseline (2010)	Last value (year)
General government gross debt / GDP ( % ) (Eurostat)	40.94	64.4 (2016)
GDP at market prices (million euro) (Eurostat)	3,125	3,954 (2016)
Unemployment rate ( % ) (Eurostat)	19.7	17.8 (2016)
GDP per capita at current prices (PPS €) (Eurostat)	10,200	13,000 (2016)
Inward FDI flows to the country per capita (€) (Eurostat)	928	329 (2016)
CO2 emissions (metric tons per capita) (World Bank)	4,168	3,556 (2014)

### Outcome and impact indicator

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (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	55.93	56.10 (2016)	59.60	61.27

## Common sector indicators\*

Sectors	Indicators	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Democracy & governance					
<i>Governance and PAR</i>	Composite indicator (Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB))	54.09	57.21 (2016)	58.64-61.5	60.36-63.95
<i>Statistics</i>	Statistical compliance - % (Eurostat)	11-17	44-50 (2015)	30-40	80-90
Rule of law & fundamental rights					
<i>Judicial reform</i>	Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))	4.17 (only Judicial independence available for 2011 )	3.60 (only Judicial independence available for 2015)	3.8-4.2 (only Judicial independence available)	4.2-4.5 (only Judicial independence available)
<i>Fight against corruption and organised crime</i>	Composite indicators Global Corruption (TI) and Control of Corruption (WB)	45.71	49.66 (2016)	51-52	53.5-55
<i>Fundamental rights</i>	Composite indicator Freedom of Press (FH) and Press Freedom (RWB)	32.75	36.90 (2016)	34.5-32.5	32.5-30.5
Environment, energy and climate action					
<i>Climate action</i>	Extent to which climate change strategies are (a) developed and/or (b) implemented with EU support (if relevant)	No strategy in place	Strategy adopted but consistency with the EU 2030 climate and energy policy framework need to be ensured (2015)	Climate strategy in line EU acquis adopted.	Climate change law adopted, financing for the security secured.
<i>Energy</i>	Quality of electricity supply (score) (WEF)	3.90	4.60 (2017)	4.60	NA

Transport	Logistics performance indicator (score) (WB)	2.43	2.38 (2016)	2.9-3	3.05-3.15
Education, employment and social policies					
<i>Employment</i>	Employment rate (15-64 years; also 20-64 years if available) (%) - Eurostat	47.61	51.4 (2015)	51-51.7	52-53
Agriculture, rural development, competitiveness and innovation					
<i>Agriculture &amp; rural development</i>	Total investment (EUR) generated via IPA in agri-food sector and rural development (EC-DG AGRI)			12 000 000-16 000 000	40 000 000-56 000 000
<i>Competitiveness &amp; innovation</i>	Distance to frontier, Doing Business (score) (WB)	64.30	71.85 (2016)	71-73	73-75
Regional & territorial cooperation	N. of involved municipalities (EC NEAR MIS)	21.00		19.00	23.00

\*only common strategic indicators are included in this table