

ACTION PROGRAMME 2004 FOR MONTENEGRO

1. IDENTIFICATION

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|------------------------------|---|
| <i>Form of programme</i> | CARDS Action Programme |
| <i>Beneficiary</i> | State Union of Serbia and Montenegro (SCG) / Republic of Montenegro |
| <i>Budget year</i> | 2004 |
| <i>Budget Line</i> | 19 07 02 (CARDS National budget line: €14 million) 19 07 01 (Cards regional budget line: €4 million for IBM) |
| <i>Financial allocation</i> | € 18.0 million |
| <i>Legal basis</i> | Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS) |
| <i>Contracting</i> | All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment. |
| <i>Implementation</i> | The implementation of projects under this proposal must be concluded by 31.12.2009 . Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2009 . |
| <i>Annual programming</i> | European Agency for Reconstruction €16.5 million Commission/AIDCO headquarters €1.5 million (Tempus and Customs projects) |
| <i>Related CSP & MIP</i> | Country Strategy Paper for the Federal Republic of Yugoslavia¹ (2002-6) and associated three-year (2002-4) Multi-annual Indicative Programme (MIP) |
| <i>Remarks</i> | No administrative expenditure will be financed under this programme |

2. SUMMARY OF THE PROGRAMME

This Action Programme for SCG/Republic of Montenegro is closely co-ordinated with the parallel Action Programme for SCG/Republic of Serbia (this latter programme includes funding for actions at SCG² State Union level). The SCG/Montenegro Action Programme as outlined below provides assistance for key aspects of Montenegro's economic and social reform agenda, focussing especially on European integration and the desire of SCG to sign a Stabilisation and Association Agreement. In particular, this Action Programme for Montenegro reflects the wider EC policy objectives as mirrored in the Stabilisation and Association Process (SAP) and the Country Strategy Paper (CSP) / Multi-annual Indicative Programme (MIP) (as referenced in section 1 above). In line with this policy framework, further increased emphasis and resources have been placed on "Good Governance and

¹ While the name of the State was changed in February 2003, the term FRY is maintained in references to earlier official documents.

² SCG: Abbreviation for the new State Union of Serbia and Montenegro (Srbiji i Crnoj Gori)

Institution Building” (in conformity with the *Acquis Communautaire*) as well as on economic development to respond to poverty and growth related issues linked to the PRSP³ process.

The CSP and MIP have identified a series of problems that Montenegro needs to address, such as enhancing administrative efficiency, promoting economic growth and developing human capital.

The overall EC programme will be implemented in close coordination with programmes of other multilateral and bilateral donors, particularly with those of the EU Member States, and in complementarity with the CARDS Regional programme and other EC assistance programmes in Serbia and Montenegro. Taking the priority sectors of the MIP as headings, the 2004 Action Programme for Montenegro may be summarised as follows:

Good Governance and Institution Building (approx. €10.0 million)

The key objective is to assist the Republic of Montenegro in developing an efficient and effective administration system in line with EU policies, directives, standards and best practices. Priority interventions focus on strengthening the Government’s ability to monitor, coordinate and implement administrative reforms, improve financial management, statistics and enhance the rule of law. Border control agencies for security and for customs are presently obliged to operate with poor infrastructure and equipment. Physical facilities at recognised border crossing points (BCPs) need rapid improvement in order to overcome inefficient security and customs inspections that currently result in reduced effective control.

Economic Reconstruction, Regeneration and Reform (approx. €4.5 million)

Following the medium term Economic Recovery and Transition Programme presented by the European Commission and World Bank in 2001, substantial progress was made in economic reconstruction and related sector reforms, e.g., in transport, environment and enterprise development. However, many years of economic mismanagement cannot be reversed in three years despite government achievements. Much more needs to be done. The proposed EC Action Programme reflects this need and continues to assist the development of Montenegro’s productive sector (support to enterprises and privatisation), as well as transport rehabilitation and the improvement of services.

Social Development and Civil Society (approx. €2.5 million)

Successful good governance and economic reform policies need to be accompanied by a strong civil society and quality media and educational systems. The proposed 2004 programme interventions will further strengthen university education (through Tempus) and social cohesion through the development of vocational education and training systems for youth and adults. Support to civil society and support to media are presently ongoing within the 2003 annual action programme.

Other (GTAF and Programme Reserve) (approx. €1.0 million)

The General Technical Assistance Facility (GTAF) will be largely used to help prepare future programmes, feasibility studies, and for evaluations, monitoring, etc. The Programme Reserve component may be used to provide additional funds for priority projects included in this action programme, to cover currently unforeseeable priorities, and for other programme related expenditures.

³ Poverty Reduction Strategy Paper

3. POLITICAL AND ECONOMIC UPDATE

Political

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

The implementation of the Constitutional Charter and the Implementing Law foresee the transfer of a large number of competences from the state to the republic level, but also entails the development of new State level mechanisms so as to ensure a functioning state (i.a. Foreign Affairs, Internal Market, External Trade, etc.). These changes place a very specific burden on the administrations at all levels, and foreign assistance may contribute to meeting all the challenges. In addition, the international community continues to ask Serbia and Montenegro authorities to act on security related issues and improve their cooperation with the Hague Tribunal.

Early parliamentary elections were held in the Republic of Montenegro on 20 October 2002, in which former President Djukanovic's coalition "A European Montenegro" won a parliamentary majority. The new and more stable government has continued with the reform process, but has faced a difficult economic situation and differences within the ruling coalition have impeded some important legislative acts (notably in the field of justice and home affairs).

The Montenegrin opposition parties are currently boycotting parliamentary sessions. This boycott is now in its fourth month. The opposition parties are insisting on live TV transmission of the sessions and new parliamentary elections. The new media legislation was unanimously passed by Parliament at the beginning of the year. It permits the management of TVCG, the public TV broadcasting company, to make the decision as to when and what they want to broadcast from Parliament sessions. While the current ruling Coalition has a majority and Parliament is voting in newly reformed and/or amended legislation, the boycott is delaying the amendment of the Montenegrin Constitution as required by the Belgrade Agreement because a two-thirds majority is needed to change this constitution.

Recent economic trends in Montenegro

Imperfect statistics, lack of legitimate GDP estimates and unreliable business register data (output, employment and wages), are a serious obstacle to monitoring of the Montenegrin economy. The official “GDP figures” on the industrial output, for example, clearly point to virtual stagnation of the industrial sector during the past couple of years. However, these figures are not reliable since real activity in industry is measured without maintaining appropriate sampling standards and because these are largely based on the old, state-run companies.

Other indicators (retail trade, catering, tourism) show that the economy is developing faster than major official ones (GDP industrial output) seem to suggest. Growing retail, catering and tourism activity, led by the emerging private sector, and high-to- moderate inflation

rates during the last three years, suggest that the economy is growing at a positive rate of a few percentage points.

Inflation (consumer price inflation–CPI) has been steadily falling, from 24 % in 2001 to around 6.5 % in the first half of 2003, still implying a real appreciation. The combination of the monopolised market for goods (especially on the part of importers) and some administrative increases, as well as the introduction of VAT in April 2003, seem to be the main sources of inflation.

The introduction of Valued Added Tax (VAT) was carried out without major problems and has resulted in higher revenues to the budget in comparison with the former turnover tax. This, coupled with controlled government expenditures, has contributed to a noticeable reduction in the budget deficit, now estimated to be about 5%.

The Government's current 'economic reform agenda' comprises a series of economic policy measures intended to accelerate enterprise restructuring, privatisation and private sector development. Initial 2003 results are encouraging, and the government intends to continue in this direction in 2004.

4. PAST EC ASSISTANCE AND LESSONS LEARNT

Past EC Assistance:

Between 1998-2003, the EC committed around €170⁴ million to Montenegro. These funds were used for emergency and humanitarian relief, developmental activities and for balance of payments support made up as follows:

- Reconstruction and Development assistance (including CARDS / Obnova funding managed by the EAR) €95 million⁵
- Exceptional macro-financial assistance €20 million⁶
- Humanitarian assistance (through ECHO) €35 million
- Others (EC food security programme) € 21 million

Apart from the EC assistance, individual EU Member States provide bilateral aid, e.g. Germany, Greece, the Netherlands and the United Kingdom (DFID). Apart from the combined EU effort, USAID is the other major donor. The IFIs, specifically the IMF, World Bank, EIB and EBRD have developed important programmes (in some cases with

⁴ All figures are rounded to the nearest € million.

⁵ Includes cumulative programme funds managed by the European Agency for Reconstruction and also those managed directly by the European Commission (customs & taxation; Tempus), and the Agency's cumulative administrative expenditures.

⁶ Includes assistance implemented by DG ECFIN under Community budget line: B7-548. In addition to the €20m that the EC committed to Montenegro in 2000, the EC has committed €475m of macrofinancial assistance to the State Union of Serbia and Montenegro. The authorities have decided on a 90%-10% split, implying € 47.5m for Montenegro. In November 2003, the Council of the EU has adopted additional € 70 m for Serbia and Montenegro of which the internal distribution will be decided by the authorities.

EC funding contributions) to be executed over the next few years. UNDP and UNHCR are also active.

As of November 2003, the Agency's global rate of contracting for combined 1998-2002 programme funds is 98.4% of commitments, with the payment rate corresponding to 86% of commitments; while the corresponding Agency percentage rates for 2003 programme funds are 59% contracted and 18% paid.

The table below summarises progress on the implementation of previous Action Programmes:

| | Funds Committed (EAR managed) M€ | Contracted (%) | Paid (%) |
|-------------------------|--|-------------------|-------------|
| • Action Programme 2000 | 19 | 100 | 96 |
| • Action Programme 2001 | 16.3 | 97 | 80 |
| • Action Programme 2002 | 13.5 | 97 | 62 |
| • Action Programme 2003 | 13.5 | 59 | 18 |

Lessons Learnt

To date the most *important generic lessons learned*, which have been largely incorporated in this Action Programme, may be summarised as follows: (i) ensure the importance of developing institutional capacities for the management of EU affairs (advice should be provided by mixed teams of local and EU experts in close co-operation with the appropriate line ministry); (ii) ensure that beneficiaries are more actively involved in project formulation/design and the implementation process, which results in greater ownership; (iii) ensure institutional absorptive capacity and sufficient counterpart staff; (iv) project contract specifications need to better reflect risk management measures; (v) introduce and ensure full understanding of implications by project partners of project related conditionality such as staff, operating budgets, office space, etc; and (vi) donor coordination is a continuous process and needs to be handled by the appropriate line ministry.

5. PROGRAMME COMPONENTS

A description of the proposed project actions within each programme component is provided in the following sections. A background section is also provided for each sector so as to highlight the justification for the projects subsequently proposed. Further details (including log frames) on individual projects are available in a separate set of Project Annexes, which have a 'working document' status.

5.1 GOOD GOVERNANCE AND INSTITUTION BUILDING

This priority sector includes projects on public administration reform at central and local government level, public finance, statistics, economic advice, customs and taxation:

5.1.1 Public Administration Reform (approx. € 5.0 million)

Background

The state structure of Serbia and Montenegro is highly decentralised. Its constituent parts have almost exclusive responsibility in the area of Public Administration, including organisational issues, salaries and staffing. Both Republics have undertaken Public Administration Reform recognising that it is one of the corner stones of the SAP, since it addresses the administrative capacity which must be sufficient to develop and implement new EU-related legislation and policies. In March 2003, the Montenegrin government adopted a Public Administration Reform Master Plan, which lists the main aims and contents of reform activities to be executed within the four year expected term of office (2002-2006) of central and local government. The needs to be addressed at the central government level are clearly mentioned: lack of a real professional career system in place, an insufficient continuous training scheme for civil servants, lack of efforts to recruit and retain young qualified staff for the public administration and insufficient incentives in general to retain civil servants in the system. According to the strategic path of the Master Plan, the key element of the reform process is the development of a professional civil service structure. To achieve this objective the Master Plan foresees the establishment of an adequate administrative legislative framework together with the creation of an Agency for Human Resources Management (HRM Agency).

As foreseen in the Public Administration Reform Master Plan, the Parliament has adopted the law on Local Self-government and the Law on Local Self-government Financing in June 2003 with the aim of promoting decentralisation of responsibilities and financial resources to the municipal level. However, some issues, in particular division of responsibilities between the central and local levels, need to be better defined and a number of laws and regulations need to be adapted to the new legal framework to create conditions for further modernization of the system. Furthermore, it is anticipated that IFIs will provide framework loans to support municipal infrastructure in 2004.

Prominent elements of the government's economic agenda include fiscal reform through improved budget planning, tight financial management and accounting controls in budget execution, and a range of sectoral economic development policies that are consistent with the EU "acquis". The government has also approved a plan to re-organize the Ministry of Finance in an effort to improve management of the public finances. When this plan is fully implemented, the number of staff in the ministry will almost double, to around 130 employees and the foundations for real progress in institutional capacity building will have been laid. There is insufficient technical and analytical capacity to analyse and report on the overall consolidated public sector fiscal accounts according to the IMF's GFS 2001 methodology. As a result, the statistical base for liquidity management, debt financing and assessing future fiscal sustainability is missing. Availability of adequate statistics is lacking and there is a need to harmonise statistical data on the State Union level. The lack of skills and experience within the government in managing a market economy adversely impact on the transition process of Montenegro. This is compounded by the overall absence of the tradition of, and exposure to modern management and administrative practices. The combination of these weaknesses has proven to be a serious impediment for effective implementation of the economic reforms initiated by the Government of Montenegro (GoM). The described know-how gap can best be addressed by provision of advisory assistance and

by building the capacity of the Office of the Deputy Prime Minister for Economy (DPM), in view of its primary responsibility within the Cabinet for the conduct of economic affairs with focus on internal market issues.

Coherence with Wider EC Policy/SAP and the MIP

The programme will contribute to the development of an efficient and accountable Public Administration at central and local level as a reliable partner for introducing and implementing the obligations under the SAP. The programme is consistent with SAP recommendations promoting the implementation of laws and appropriate administrative capacity as well as the strengthening of local administrations and the improvement of municipal management, fiscal reform and reliable statistics. The programme is also addressing the MIP identified needs of promoting an administrative system operating more closely to EU best practices, with concentration on developing systems of accountability and financial management control at central and local government level and more efficient delivery of service from municipal authorities to the local population.

Identified Projects

5.1.1.1 Support to central government reform

To further assist and improve the Government's efforts in public administration reforms, EC funds will: (i) provide expertise to draft/amend and support the implementation of primary and secondary administrative legislation; (ii) develop and strengthen the operational capacity of the Human Resources Management Agency; (iii) assist the HRM Agency in the provision of training for civil servants; and (iv) provide equipped operational facilities.

Tendering and Contracting: The project is likely to include service and supply contracts as appropriate and a works contract.

5.1.1.2 Support to local government reform

To further assist and improve the Government's efforts in public administration reforms, EC funds will, in selected municipalities: (i) support the Union of Municipalities in implementing good practices and disseminating results achieved under the 2001 CARDS project (strategic planning and operational management, budget planning and management, human resources development, urban planning, etc); (ii) develop capacity of municipal authorities to deal with increased tasks and responsibilities resulting from the implementation of the new local government legal framework (proposing amendments to primary and secondary legislation, restructuring municipal services, utilities etc); (iii) develop the capacity of municipal authorities to identify, plan, procure and implement priority municipal infrastructure improvement projects; (iv) provide targeted technical and procurement advice in order to catalyse IFI investments, including supervision; and (v) support the development of new, upgraded and equipped municipal infrastructure.

Tendering and Contracting: The project is likely to include service and supply contracts as appropriate and a works contract. It is also likely that grant agreements will be used with public institutions and fire brigade services.

5.1.1.3 Support to public finance reform

To further assist in public finance reform, EC funds will: (i) assist Treasury staff to prepare and provide information needed by the “SAP” system provider (SAP based treasury software system) to customise modules not yet completed (note that the term “SAP” refers in this case to the treasury software system); (ii) support the supply of additional work stations and the extension of “SAP” licenses to currently unconnected spending units; (iii) further customise the “SAP” system to enable communication with new inter-bank payments system; (iv) assess training needs of Treasury staff and control delivery of user training by a “SAP”-qualified consultant; (v) maintain, review, recommend improvements to accounting systems, including extra-budgetary funds; (vi) design and implement a plan to prepare a balance sheet for government; (vii) establish a management system in the Budget Sector for producing monthly, quarterly, half-yearly and annual reports on the consolidated operations of government; and (viii) organise study tours and training courses for staff of the Treasury and Budget Sector.

Tendering and Contracting: The project is likely to include service contracts, including for in-country training actions, and some supply contracts. It is most likely that training courses abroad, study tours and “SAP” licences will be financed through a grant to the Ministry of Finance.

5.1.1.4 Support to statistics reform

To further assist the statistics reform, EC funds will: (i) assess data sources needed for compilation of National Accounts (NA) and suggest improvements to data availability and quality; (ii) assist in setting-up a coherent compilation system for the provision of NA estimates; (iii) assist in Government Finance statistics and External Trade statistics; (iv) assist in Data Dissemination and (v) assist in setting-up co-operation agreements with key stakeholders in the public administration.

Note on Statistics: The on-going technical assistance contract for the Republic of Montenegro was cancelled at the request of the Commission. 2004 funds will be used to continue the support programme in close coordination with the three Statistical Offices (State Union and both Republics) and with the help of EUROSTAT and EU Member States and candidate countries’ statistical offices/agencies. A contingency reserve to cover eventual unforeseeable expenditure has been allowed for in the General Technical Assistance Facility (GTAF) and Programme Reserve section below.

Tendering and Contracting: It is anticipated that a call for proposals from the administrations of EU Member States and candidate countries will be applied in this project.

5.1.1.5 Support to Deputy Prime Minister’s Office

The main activities include: (i) design and assist the establishment of an optimal organisation of the DPM Office; (ii) assistance in restructuring institutions under the supervision of the DPM’s Office in line with the public administration reform; (iii) guidance and support to DPM Office in establishment of effective communication lines with the Cabinet, Prime Minister’s Office and ministries and agencies under its supervision, as well as horizontal coordination with other government departments; (iv) development of, and putting into practice an efficient methodology for supervision of implementation of the Cabinet and DPM acts related to economic policy and development matters; (v) improvement of the format and

quality of acts presented for review by the Cabinet; (vi) follow up the completion and implementation of the internal market/trade action plan; (vii) incorporation of public education and information as an important and standard activity in support of the economic transition process; and (viii) ensuring good communication with the donor community and the non-government sector.

Tendering and Contracting: A service contract will be used for technical assistance in this project.

Cross-cutting Development Issues

The programme will have an important social impact by increasing the quality of services delivered to citizens by public administration and by decreasing social tensions due to greater efficiency and transparency of public administration, fair access to the civil service system for women and men, ethnic minorities and people with special needs. Moreover, the programme will have a positive economic impact by increasing investor confidence thanks to the improved efficiency of public administration working within a sounder legal framework and through catalysing IFI funds. The institutional impact will also be significant since a less politicised and better-regulated public administration will inherently result in enhanced institutional democracy and a more professional civil service structure.

5.1.2 Integrated Border Management (approx. € 4.0 million from CARDS regional funds)

This section includes projects on Integrated Border Management:

Background

The emergence of five new states from the break-up of the former Yugoslavia has created over 5,000 kilometres of new international borders in the SAP region. Physical facilities at the recognised border crossing points (BCPs) were introduced rapidly and, due to inadequate available financial resources, border control agencies for security and for customs are obliged to operate with poor infrastructure and equipment. The result is inefficient security and customs inspections with a consequential reduction in effective control.

The Government has undertaken a needs' assessment in order to identify a prioritised list of BCPs requiring upgrading. This list has been subjected to a process of rationalisation by EU consultants taking into account the recommendations of the Regional Balkans Infrastructure Study (Transport) and the principle of providing only one BCP per international border of sufficient capacity to handle international trade and passenger traffic, including customs procedures for export, import and transit.

Effective border management will enable the population to live in an area of security and freedom where their businesses can trade more effectively across borders and where they can travel more easily throughout the region. All are key pre-requisites for economic growth and poverty reduction as well as for the development of multicultural societies that tolerate their neighbours and appreciate cultural, religious and linguistic differences.

Coherence with Wider EC Policy/SAP and the MIP

The proposed border crossing project is in full compliance with stated SAP objectives, e.g., facilitate trade flows to and regional integration with neighbouring countries through improved border crossings.

Furthermore, the programme is in line with the following MIP objectives: (i) modernising the customs and taxation services at Federal and Republic levels so as to bring them close to EU working practices and international standards; and (ii) fostering greater coherence of customs operations and enhanced all-round co-operation so as to ensure the free circulation of goods and people within the territory.

Identified Projects

5.1.2.1 Further rehabilitation of border crossings

The main activities include: (i) expert assistance will be provided to target the enhancement of border management capacity, to facilitate the identification and procurement of priority equipment requirements including IT systems for data storage and communication as well as the supervision of new infrastructure; (ii) new construction/rehabilitation of infrastructure facilities and equipment at selected international border crossing points - will be provided for a better and more efficient working environment for personnel from border security services, customs administration and veterinary and phyto-sanitary inspectors.

Tendering and contracting: The components of this project are likely to be implemented through service, supply and works contracts. A call for proposal with EU Member States and candidate countries' administrations will also be considered.

5.1.3 Customs and Taxation (approx. €1 million – Commission managed)

Background

The break-up of the former Yugoslavia was inevitably followed by the creation of new countries and territories that brought about not only new international borders and administrative boundaries, but also the need to re-organise the customs and taxation administrations. The customs administration had been a national service with all major operational and policy areas managed in Belgrade and thus needed to develop a full headquarters function. Although the General Directorate of Taxation had always been managed at the Republican level it, along with Customs, has suffered from ten years of crisis and both are in need of modernisation of their organisations and procedures.

Coherence with Wider EC Policy/SAP and the MIP

The objectives are targeting the improvement of border management, customs procedures, the efficiency of revenue collection overall, including taxation, and notably to fight against fraud and corruption. Thus facilitating the legitimate trade in its efforts to move to a market based economy, supporting the creation of a single economic space and social development. The objectives are consistent with the regional strategy paper 2002 -2006.

Identified Projects

5.1.3.1 Customs and Taxation

Customs: This section of the project aims to provide further support to the managers of the Montenegrin Customs Administration in their efforts to develop an efficient and effective based on the EU Customs Blueprints. The next phase of the project, which will build on the achievements of the Montenegrin Customs Administration to date, will focus in the following areas:

- Legislation
- Procedures and Enforcement
- Human Resource Management
- Integrated Border Management
- Strategic Planning and Reporting System
- Internal Audit
- VAT
- Excise

The project will also provide equipment and small-scale infrastructure improvements where these are necessary to ensure the effective delivery of the technical assistance.

The project will also continue to maintain a strong focus on assisting the Customs Administrations of the Republics of Serbia and Montenegro to develop the operational scope and effectiveness of the Joint Office formed by the two services to manage national level customs matters. In particular, by encouraging the development of an antenna of the Joint Office in Montenegro, to facilitate the work of the Joint Office and the development of a cohesive national approach to the fight against corruption and fraud.

Taxation: The main provider of technical assistance in the area of taxation is the US Treasury and the activity in the section of the project will continue to provide complementary support. It will seek to ensure that the General Directorate of Taxes (GDT) develops VAT business processes and procedures which are EU compliant. It will focus on supporting the development of an effective and efficient VAT section within the GDT notably to assist in the training of staff and the implementation of a control and enforcement programme aimed at improving both the level, and security, of the revenue yield. It will also encourage a close link with the authorities in Belgrade and the German GTZ who are assisting them in the implementation of VAT with a view to ensuring a cohesive approach.

Tendering and contracting: Organisation and implementing procedures: Due to its technical nature, the Commission will implement this programme. Implementation will be by physical and non-physical means, through a mixture of technical assistance, training and the provision of equipment. The implementation of the programme may require supply and service contracts. Award of contracts will be carried out in accordance with the provisions of Regulation (EC) 2666/2000. Participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons from Member States, States which are recipients under this Regulation and candidate countries for accession to the European Union.

Cross-cutting Development Issues

Economic impact: improvement in the efficiency and effectiveness of the customs and tax administrations will encourage the strengthening of the single market and the development of trade. Social impact: supporting the development of legitimate trade and the free movement

of legitimate travellers will improve economic and social integration; Institutional impact: these activities will provide an opportunity for the two administrations to modernise their approach and to become strong, lean service oriented organisations based on EU concepts.

5.2 ECONOMIC RECONSTRUCTION, REGENERATION AND REFORM

This priority sector includes projects for both transport and economic development:

5.2.1 Transport (approx. € 2.5 million)

Background

Montenegro's transport system is of strategic importance, as it provides the only seaport link with the Republic of Serbia and the major road axis from Croatia and Bosnia & Herzegovina to Albania, FYROM and Kosovo.

All transport sectors (road, railway and air transport) are suffering from under funding. A brief overview of some of the main problems in the three sectors is given in the following paragraphs.

A recent EU-managed study identified an annual road maintenance/rehabilitation funding requirement of €15 million in order to maintain the existing level of service as opposed to €3-5 million currently allocated by the Ministry of Transport for the existing trunk road network. Further deterioration of the road network is seriously jeopardising the long-term sustainability of ongoing IFI, EU and other donor investments in road rehabilitation. In order to address this issue, the Ministry, with EU technical assistance, has drafted a new Road Transport Law aimed at rationalising institutional and funding arrangements. The draft Law is due to be presented to the Parliament for adoption before the end of 2003.

The Montenegro railway company (ŽCG) is currently undergoing radical structural reform, supported by EC funded technical assistance. A restructuring strategy has been established and presented to stakeholders. Complementary legislation in line with EU norms has been drafted and is currently going through the consultation procedure.

Due to fiscal constraints, investments in airport infrastructure have failed to maintain an adequate level of service, including basic safety standards, which resulted in limited development of air traffic capacity. The airports are managed by Airports of Montenegro (APM), established in June 1999 as a public enterprise, fully owned by the Government of the Republic of Montenegro. Identification of urgent rehabilitation needs in air transport was initially the subject of the "Air Traffic Infrastructure Regional Study for South-East Europe" sponsored by the EIB. The Study identified a package of physical interventions for Montenegro's two airports, in Podgorica and Tivat, which was subsequently refined during preparation of the airports "Masterplan 2003-2023". This document has been adopted as the definitive framework for development of APM's policies and investment strategy for modernisation of Montenegro's airports.

The 2004 programme will focus on providing technical assistance to the Ministry of Transport, Montenegro Railway Company and Airports of Montenegro so as to enable them to manage legal and institutional reforms resulting from new legislation and implement upcoming rehabilitation assistance packages in particular those of the IFIs.

Coherence with Wider EC Policy/SAP and the MIP

Activities under this programme are consistent with the CSP priority for cooperation within the transport sector, aimed at supporting economic recovery, regeneration and reform i.e. to improve the efficiency of transport, to facilitate trade flows with neighbouring countries and to act as a catalyst for attracting and enabling IFI loans and other investments in the sector.

Identified Projects

5.2.1.1 Support to Road Transport

In the road transport sector EC funds will be used in *support of the Ministry of Transport* to: (i) assess its existing institutional capacity to effectively implement the structural and budgetary reforms that are embodied within new legislation (e.g. responsibility for major road construction projects will be placed within the mandate of the Ministry of Transport); (ii) support introduction of the reforms and monitor performance to ensure that the benefits of the legislative framework are realised; (iii) further build the capacity of the Ministry to prepare road investment project proposals (anticipating IFI investments) and to procure and supervise priority works, supplies and services contracts and (iv) implement road rehabilitation works.

5.2.1.2 Support to Rail Transport

In the railway sector EC funds will be used for *technical assistance to the Montenegro Railway Company* to: (i) facilitate the reform process; and (ii) build the Company's capacity to prepare, procure and supervise the implementation of works, supplies and services contracts linked to IFI investments.

5.2.1.3 Support to Airports

In the air transport sector, EC funds will be used for *technical assistance to Airports of Montenegro* to: (i) strengthen the capacity of the company to manage and implement rehabilitation investment; (ii) facilitate the preparation and procurement of works, supplies and services contracts; (iii) provide support to the supervision and acceptance of works, supplies and services contracts; and (v) establish and commence the implementation of appropriate operational and planned maintenance systems.

Tendering and Contracting: This programme is likely to include service, supplies and work contracts.

Cross-cutting Development Issues

More efficient and effective transport facilities will facilitate trade and the development of employment; revenue yield will be improved, thus supporting government efforts to regenerate the country. Environmental impact during construction activities will be minimised by introducing normal mitigation measures. For construction activities, when applicable, any Environmental Impact Assessment will be carried out in line with the basic requirements of EIA Directive 85/337/EC as amended by 97/11/EC.

5.2.2 Economic Development (approx. € 2.0 million)

Background

Although the mass voucher privatisation project, covering practically all formerly state-owned SMEs, has been successfully completed in 2002, the recently privatised companies in Montenegro are still run by the same managers who do not have the knowledge or experience required to turn them around. Without access to markets, technological advances, knowledge and capital, the enterprises cannot restructure or keep pace with international competition. The ongoing technical assistance provided by the EC through the *Turn Around Management Group (TMG)* of the EBRD - due to be completed in December 2003 - is addressing this situation by transferring relevant commercial and technical know-how to 11 medium size companies ('Turn Around Management' programme – TAM) and approximately 40 small enterprises (Business Advisory Services). The objective of the 2004 programme is to extend this technical assistance.

The second priority of the programme is the privatisation and restructuring of the SOEs. Previous EC funded technical assistance achieved results in preparing companies for pre-privatisation restructuring. The programme targeted the largest SOEs in Montenegro. The 2004 programme consists of further technical assistance to the Government of Montenegro in privatisation of the same companies. Each one of them will be implementing restructuring programmes including, among others, adoption of modern organisation schemes, workforce downsizing, introduction of management accounting systems, financial restructuring measures, building marketing capacity, etc.

Coherence with Wider EC Policy/SAP and the MIP

The proposed programme is in line with the following MIP objectives: (i) reinforce and develop relevant policies and legislation and strengthen the capacity of institutions involved in economic development; (ii) help the transition to the market economy and the creation of employment by supporting restructuring and privatisation of the public sector; and (iii) improve the capacity of enterprise associations to play a more active role in the creation of local and international business links.

Identified Projects

5.2.2.1 Support to restructuring of enterprises

In its support to *Enterprise Restructuring*, EC funds will be used through technical assistance for: (i) preparation and implementation of an enterprise restructuring/privatisation plan; (ii) preparation and support in the initial implementation of a viable 3-year Business Plan; (iii) developing marketing strategies for specific products or services and for local and international markets and implementing the market driven sales activities; (iv) assisting enterprise managers in issues such as industrial practices, updating product design and production capabilities, etc; and (v) building the capacity of local consultancy firms.

Tendering and Contracting: A grant agreement will be signed with the EBRD Turn Around Management Group.

5.2.2.2 Support to privatisation

In the field of support to *Privatisation*, EC funds will be used to provide technical assistance to the Government of Montenegro, its Privatisation Council and Tender Panels, in all activities related to preparing and conducting international tender privatisation transactions for approximately 5 large companies.

Tendering and Contracting: The project will be implemented through a service contract.

Cross-cutting Development Issues

The proposed programme will benefit the economy of Montenegro as this sector specifically aims at improving the economy of the country. Furthermore, provision of enterprise support measures and new/updated skills responding to the requirements of a changing economy will result in increased employment.

5.3 SOCIAL DEVELOPMENT AND CIVIL SOCIETY

This section includes projects on university education (Tempus) and vocational education and training:

5.3.1 Vocational Education and Training (approx. € 2 million)

Background

The Serbia and Montenegro state structure foresees vocational education and training (VET) as a Republic competence. The common aim within the two Republics is to establish and sustain an open, demand driven and flexible vocational education and training system with a direct linkage to the labour market.

At the beginning of 2003 the Montenegrin Government adopted a Strategic Plan for Education Reform and an Economic Reform Agenda, which list the main aims and contents of reform activities to be executed within the next four years. In both strategic documents, vocational education and training is recognised as an important tool for achieving economic development aims. The ongoing enterprise restructuring/privatisation process will require in the future a labour force with new skills and competencies to facilitate employability of unemployed and redundant people, a process in which the vocational and education training system can make important contributions.

Through EC assistance, the Ministry of Education and Sciences developed a new policy concept for vocational education and training and new VET legislation. Together with the Ministry of Labour and Social Affairs, it established a Centre for Vocational Education and three Training Centres⁷ (north, centre and south of Montenegro). The capacity building initiatives of the newly established institutions need to be strengthened as well as the level of services provided by their physical infrastructures and facilities.

⁷ The Training Centres are physically based in vocational schools but, in a cost-effective approach appropriate to the small population size of the Republic of Montenegro, these serve the training needs of both youth and adults.

This project will facilitate improvements in the employability of secondary vocational school leavers and unemployed adults in key sectors that have potential for economic development in Montenegro (e.g. tourism, agriculture, wood processing).

Coherence with Wider EC Policy/SAP and the MIP

The proposed project is fully in line with the SAP and CSP/MIP objectives of poverty reduction, job preservation and generation at the local and national levels as well as capacity building of relevant bodies in employment and job creation and provision of education and VET suitable for the needs of the labour market.

Identified projects

5.3.1.1 Assistance to Vocational Education and Training institutions

EU funds will be used for: (i) training to support institutional capacity building and common policy making for staff of the Centre for Vocational Education, training centres and social partner institutions (Ministry of Education and Sciences, Ministry of Labour, Employment Office, Chambers of Commerce, Association of Employers, Unions); (ii) carrying out a labour market analysis and Skills and Training needs assessment (STNA) in key sectors that have economic potential; (iii) developing capacity building for school teachers and trainers; (iv) developing new curricula and supporting policy development in the area of certification; and (iv) providing equipped operational facilities.

Tendering and Contracting: This project will likely include tendered services, supply and works contracts.

Cross-cutting Development Issues

The main economic impact of the planned actions will be through the establishment of more relevant vocational education policies and strategies, which will contribute over time to reducing unemployment levels. In terms of its institutional impact, the project aims to improve the capacity of local actors to implement an integrated vocational and education training system for youth and adults.

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| 5.3.2 University Education - Tempus programme (approx. € 0.5 million) (Commission managed) |
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Background

The Tempus programme was adopted by the Council of Ministers of the European Union on 7 May 1990. The programme was set up in order to support the process of reform in the countries of Central and Eastern Europe in the area of higher education within the framework of the European Community Phare programme.

Within the framework of the general economic reform objectives of the European Commission's programmes for support to the non-associated countries and the Partner States of Eastern Europe and Central Asia and Mongolia, Tempus III aims to promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the Member States of the European Union.

The new phase of the Tempus programme seeks to contribute essentially (i) higher education policy and systems development; (ii) reform of higher education governance, management

and finance; (iii) strengthening of links with the local and regional economy, as well as other stakeholders of the universities; (iv) curriculum development in priority areas for economic and social transition; (v) promotion of the mobility of students and staff; (vi) development of administrative and institutional structures through training of staff from non-academic institutions; and (vii) strengthening of regional co-operation and networking between higher education institutions in south-east Europe.

A priority for higher education systems in all south-east Europe is the achievement of the objectives of the so called Bologna Declaration, which was recently signed by Serbia and which aims at the establishment of a common European higher education space by 2010. Its objectives include the establishment of a common degree system in Europe (Bachelor, Master, Ph.D.), the introduction of the European Credit Transfer System (ECTS), the strengthening of a European dimension in quality assurance and the removal of obstacles for the mobility of students and staff.

Participation in the Bologna Process requires structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities (at the moment south-east European universities are mere association of faculties).

The Tempus programme will further contribute to the strengthening of regional co-operation between higher education institutions in south-east Europe.

Coherence with Wider EC Policy/SAP and the MIP

The Tempus activities contribute to the main CARDS priorities, in particular: (i) *Public Administration reform*: to ensure education and training of civil servants, introduction of curriculum for undergraduate and graduate courses for Public Administration; (ii) *Rule of Law*: The reform and update of curricula in the Faculties of Law; (iii) *Economic Reform*: A better response of study programmes to local employment demand may contribute to a comprehensive strategy aimed at stimulating business activities; (iv) *Environment, water and waste management*: e.g. curriculum development for environmental monitoring, environmental legislation, environmental management, co-operation with private companies for the development of waste recycling methods.

Identified projects

5.3.2.1 Tempus Programme – Commission managed

Tempus aims at funding Joint European Projects (JEP), Individual Mobility Grants, Structural and Complementary Measures.

Joint European Projects can focus on one of the following areas; (i) *University Management*; (ii) *Curriculum Development*; and (iii) *Institution Building*.

Tendering and Contracting: Following an annual call for proposals, projects are selected after academic and technical assessment according to general criteria and a list of priorities established in co-operation with the partner country authorities.

Cross-cutting Development Issues

The Tempus programme contributes to the sustainable development of Serbia and Montenegro by supporting to reform the universities, promoting the establishment of

curricula in relevant areas, but also in contributing to the development of necessary local expertise.

5.4 OTHERS

5.4.1 General Technical Assistance Facility (GTAF) and Programme Reserve (approx. €1.0 million)

The main purpose of the General Technical Assistance Facility (GTAF – approx. €0.5m) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the Annual Programme, and support the planning process for future Programmes. Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, tender evaluations; (ii) audits, monitoring, thematic/programme/project evaluations; and (iii) project preparatory and start-up actions.

The Programme Reserve (€0.5m) component may be used to provide additional funds for priority projects included in this action programme, to cover currently unforeseeable priorities, and for other programme related expenditures..

6. COMPLEMENTARY EC ASSISTANCE OUTSIDE THIS ACTION PROGRAMME

After the recent closure of the ECHO programme, the principal remaining complementary EC programmes are the CARDS Regional Action Programmes. Preparation of the CARDS 2003 Regional Action Programme was closely coordinated with SCG authorities, neighbouring countries, the EC Delegation and the Agency - through a Commission programming mission which took place in the spring of 2003. The 2004 national Action Programmes largely support and complement the ongoing Regional Action Programmes.

7. CO-ORDINATION WITH OTHER DONORS

The Agency's Operational Centre in Belgrade hosts regular co-ordination meetings with EU Member State (MS) representatives based in the city. At least twice a year the Agency Head of Centre in Montenegro participates in these meetings to provide briefings and coordinate ongoing and planned activities. Such meetings continue to provide useful opportunities for coordination of actions in a range of sectors. The Agency/MS relationship is of course more intense with those member states with assistance programmes in sectors such as transport, environment, SME support, etc. The Agency in Montenegro also partakes in coordination meetings with a range of EU and other donors, such as the International Financial Institutions, the UN family, OSCE, CoE and other major bilateral donors, e.g., USAID, Germany, Greece, France. A very close and fruitful relationship has developed with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The Agency has played a supportive and often catalytic role (e.g., transport, SME lines of credit) in helping these institutions to prepare and/or manage the implementation of their investments (e.g., road, rail, airport).

8. PROGRAMME IMPLEMENTATION

8.1 Time-limit for signing the financing agreement

The financing agreement must be concluded at the latest by 31 December of the year following that in which the corresponding global financial commitment was adopted. Failing this, the funds assigned to it will be cancelled.

8.2 Performance period

- a) The implementation period of the financing agreement starts with the entry into force of the financing agreement and ends 31.12.2011.
- b) This performance period falls into two separate phases:
 - (i) Operational implementation of the main activities. This phase starts with the entry into force of the financing agreement and ends 31.12.2009.
 - (ii) A closure phase during which the final audits and evaluation are carried out along with technical and financial closure of the contracts implementing the financing agreement. This phase starts with the end of the operational implementation phase and closes at the end of the performance period.
- c) Expenditure arising from the main activities is not eligible for Community financing unless it is incurred during the operational implementation phase. Expenditure arising from final audits and evaluation and from closure activities is eligible until the end of the closure phase.
- d) Any remaining balance of the Community contribution will be cancelled automatically six months after the end of the performance period.

8.3 Procedures for the award of contracts and of granting of subsidies

All contracts implementing the financing agreement must be awarded using the standard Commission procedures and documents for implementing external operations in force at the time the procedure is initiated.

8.4 Contracts implementing the agreement

- (a)* The contracts which implement the financing agreement have to be signed by the two parties within three years of the Commission's adoption of the financial commitment. This deadline may not be extended. At that date any non-contracted funds will be cancelled.
- (b) Any contract that has not given rise to any payment within three years of its signing will be terminated automatically and the funds cancelled.

* Point 8.4(a) does not apply to audit and evaluation contracts, which may be signed later.

All projects should be implemented in line with EU competition (including State aid) principles.

8.5 Monitoring, evaluations and audits

Appropriate planning and regular monitoring will take place throughout implementation, with regular reporting.

Evaluations of the CARDS Regulation (2666/2000) as well as the Regulation establishing the European Agency for Reconstruction (2667/2000) are currently ongoing managed by the Evaluation Unit of the RELEX family. In addition, the Agency's own evaluation team conducts sector evaluations at centre- and cross-centre level on the basis of an annual work programme.

The accounts and operations of various programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Anti-Fraud Office (OLAF) and the European Union's Court of Auditors.

9. COST AND FINANCING

The 2004 Action Programme will be financed through a Community grant of **€18.0 million**, allocated as follows among the different actions:

| Priority Sectors (titles as per MIP) | EUR million (+/- 20%) ⁸ |
|---|---------------------------------------|
| 1. Good Governance and Institution Building | |
| 1.1 Public Administration Reform | 5.0 |
| 1.2 Integrated Border Management (<i>Regional budget funds</i>) | 4.0 |
| 1.3 Customs and Taxation (Commission managed) | 1.0 |
| 2. Economic Reconstruction, Regeneration and Reform | |
| 2.1 Transport | 2.5 |
| 2.2 Economic Development | 2.0 |
| 3. Social Development and Civil Society | |
| 3.1 Vocational Education and Training | 2.0 |
| 3.2 University Education - Tempus (Commission managed) | 0.5 |
| 4. Other | |
| GTAF and Programme Reserve ⁹ | 1.0 |
| TOTAL | EUR 18.0 million¹⁰ |

10. GOVERNMENT COMMITMENT AND CONDITIONALITIES

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of *the State Union of Serbia and Montenegro and the Republic of Montenegro* as set out in the Stabilisation and Association Process.

⁸ Individual financial allocations indicated are subject to fluctuations of up to $\pm 20\%$ over the lifetime of the Action Programme.

⁹ The allocation of the reserve up to a maximum increase of 20% of the projects mentioned above is decided by the EAR Director.

¹⁰ Excludes the Agency's 2004 administrative appropriations for managing the cumulative portfolio of EC assistance; these Agency appropriations are the subject of a separate 2004 Financing Proposal on Administrative Expenditure.