



*Gap Analysis of Montenegro  
Europe & Eurasia Bureau, USAID  
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*Summary*

This analysis takes stock of Montenegro's progress in its transition to a market-oriented democracy. Transition gaps against economic and democratic reform thresholds are examined first. To help ensure that these reform gains are sustained, we next look to see if progress in economic performance (growth, stability, and structural change) and human capital (health, education, and vulnerable groups) is advancing towards plausible thresholds as well. Country progress is compared against two sets of phase-out thresholds: progress of Romania and Bulgaria in 2002 and progress of Romania, Bulgaria, and Croatia in 2006. In addition, attention is given to key priorities of the USG mission in Podgorica; namely, trends pertaining to: (1) crime and corruption; (2) domestic (north-south) disparities; and (3) human capacity in Montenegro.

Montenegro's reform progress is close to Southern Tier CEE average on democratic reforms, though well below Southern Tier CEE average, and closer to Eurasian average, on economic reforms. Economic reforms in Montenegro largely did not begin until the late 1990s. Since 1998, progress in economic reforms has been significant, though the pace of progress has slowed some since 2002. EBRD analysis shows Montenegro advancing in 2007 in both first stage economic reforms (in trade and foreign exchange liberalization) and in second stage reforms (in competition policy).

After regressing for much of the 1990s, democratic reforms leaped forward in Montenegro in 2000-2001. Since 2001, however, such reforms have largely stagnated. No democratization gains were recorded in 2007 in Montenegro according to Freedom House in its aggregate political rights and civil liberties scores.

The fight against corruption is the largest democratization gap in Montenegro according to Freedom House measures. Moreover, drawing from the same dataset, corruption is more problematic in Montenegro than in all the other Southern Tier CEE countries except Kosovo. Similar results are found in Transparency International's global dataset of corruption perceptions in 2007. The EU's November 2007 assessment of key crime and corruption trends concluded that "no particular progress" can be reported in the fight against organized crime and that it remains a "source of serious concern" in Montenegro.

Montenegro's economic performance is roughly Southern Tier CEE average, slightly better than that found in Albania and Bosnia-Herzegovina, and well below performances

in Bulgaria and Croatia (and the all of the Northern Tier CEE countries). Nevertheless, Montenegro's economic performance has advanced very impressively from a low level following a period of stagnation in the 1990s through the early 2000s. Economic growth has been close to 7% in the past couple of years. Cumulative foreign direct investment on a per capita basis from 2003-2007 was greater in Montenegro than all other transition countries except Estonia.

Montenegro's human capital is high by transition country standards, though human capital levels have fluctuated quite dramatically and currently may not be as high as what they were in the mid-1990s. Only the Northern Tier CEE countries and Croatia have greater human capital according to the MCP human capital index. While basic health and education indicators are favorable, the quality and/or relevance of education in Montenegro is likely more problematic.

Finally, regional disparities in Montenegro are significant. The World Bank estimates that poverty rates in the north are close to 20%, and hence roughly two times the national average. Some municipals in the south have levels of human development (as measured by the UNDP's Human Development Index) comparable to that found in Croatia overall, while other municipalities, mostly in the north, have levels of human development comparable to that found in Tajikistan overall. The average disposable wage in Podgorica (in 2005) was roughly two times greater than such wages in the northern municipalities of Rozaje and Plav.

## *Introduction and Method*

This analysis attempts to take stock of Montenegro's progress in its transition to a market-oriented democracy. The Monitoring Country Progress (MCP) method employs a two step analysis. First, we examine reform progress (both economic and democratic reforms) and compare country progress against two sets of plausible phase-out thresholds. Next, we examine progress in macroeconomic performance and human capital.

This technique incorporates several basic principles. One, reform progress is necessary but not sufficient for a country to complete the transition to a market-oriented democracy. Solid macroeconomic performance and human capital development must ensue for reform progress to be sustained. Two, gains in macro-economic performance and human capital are also necessary though not sufficient. Countries (such as Belarus in the case of human capital and Kazakhstan in the case of economic performance) may do well on these "outcome" dimensions in the absence of adequate reform progress, but such conditions cannot be sustained over the long term. It's also important to bear in mind that, in some circumstances, progress in economic performance can forestall reform progress, such as seems particularly plausible in the case of energy-exporting economies. Hence, principle 3, the sequence is important: reform progress needs to precede economic performance and human capital progress.

These principles underscore the beneficial and critical linkages between reform progress and favorable outcomes from the reforms. A fourth underlying principle stems from the inter-connectedness of the two reform dimensions as well as mutual causality of the two sets of outcome indicators (i.e. between economic performance and human capital). Restated, another key consideration in the analysis is the importance of the causal relationships between the transition sectors. Economic progress contributes to democratization and vice-a-versa; so, too the relationship between the economic sector and the social sector (or human capital), and democratization and human capital. These inter-relationships were not explicitly taken into account during the phase-out reviews in 2004. However, they do suggest that sustaining the gains in any one sector is less likely to occur if other sectors are lagging considerably. The fourth principle re-phrased: the sustainable transition path necessarily involves economic and democratic reforms progressing together in the medium term if not year-to-year; similarly, we want to see relatively balanced results and progress between economic performance and human capital.

Country progress is compared against two sets of phase-out thresholds. One set of thresholds considered is the progress of Romania and Bulgaria in 2002, the year both countries were invited to join NATO. These standards were established during EUR/ACE-led inter-agency deliberations in the spring of 2004. More recently, USAID has recommended a new set of thresholds based on the transition progress of Romania, Bulgaria, and Croatia in 2006, the year in which USG assistance to the three countries was phased out. The recommendation to change the phase-out thresholds was considered (without decision) during a February 21, 2008 Sub-PCC discussion of proposed changes

to how the USG measures reform in Europe and Eurasia, alongside two additional considerations: (1) that even a higher threshold might be more appropriate for many of the Eurasian countries (who will not enjoy the prospect of entry into the European Union and/or NATO); and (2) that the current set of phase-out thresholds (of transition progress of Romania and Bulgaria in 2002) might be used as a “trigger” for phase-out planning rather than representing the year in which assistance will cease.

We attempt to estimate when Montenegro may cross a threshold in the future largely by extrapolating from the past. Adjustments to this extrapolation can then be made on the basis of any additional relevant information. For example, one might expect progress in democratization to slow in a country as it approaches the “ceiling”; i.e., OECD standards. This is certainly what we’ve seen in the case of the Northern Tier CEE countries. External events will no doubt influence the pace of change as well. In the Balkans, two key such influences are the prospect of EU membership and regional repercussions from Kosovo’s independence. On the one hand, in regards to EU membership prospects, there might be certain positive influences of possible EU membership that might suggest that the pace of progress in some dimensions would increase somewhat in the future when and if EU membership approaches (again as we saw in the case of the Northern Tier CEE countries). On the other hand, should EU membership not become a possibility for the foreseeable future, then the costs of being excluded could conceivably outweigh the gains deriving from incentives to join for Montenegro. There may already be more trade diversion than trade creation, e.g., in the case of the neighboring countries of the EU. In any event, given the inevitable uncertainties in all country situations, perhaps three scenarios of future trends make sense and are hence used in this analysis.<sup>1</sup>

### ***Economic and Democratic Reforms***

*Figure 1* provides a bird’s eye view of reform progress in Montenegro in 2007 vis-à-vis the rest of the transition countries and vis-à-vis the two phase-out thresholds currently considered. Broadly, Montenegro’s reform progress is close to Southern Tier CEE average on democratic reforms, though well below Southern Tier CEE average, and closer to Eurasian average, on economic reforms. Similarly, Montenegro is closer to the democracy thresholds than it is to the economic reform thresholds. In addition, Montenegro’s reform profile from this aggregate view is closest to that of Serbia and Bosnia-Herzegovina.

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<sup>1</sup> This method of estimating how long it might take a country to achieve a certain threshold differs from the method used during the EUR/ACE-led 2004 phase-out reviews; the latter was based in large part on the pace of change that occurred in Romania and Bulgaria (and not in the country under review). Ultimately, phase-out or graduation decisions are based on a number of considerations. In addition to the empirical trends and analyses, the phase-out of USG assistance in a country depends in part on the strategic importance of the country to the United States, the effectiveness of USG assistance activities including progress towards developing sustainable partnership mechanisms and institutions, the receptivity of the recipient country to that assistance, and the involvement of other donors.

**Economic Reforms** Economic reforms in Montenegro largely did not begin until the late 1990s (*Figure 2*). Since 1998, according to EBRD data, progress in economic reforms has been significant, though the pace of progress has slowed some since 2002. EBRD analysis shows Montenegro advancing in 2007 in both first stage economic reforms (in trade and foreign exchange liberalization) and in second stage reforms (in competition policy). Montenegro is not likely to achieve either of the two economic reform thresholds for a number of years. If one were to extrapolate the pace of progress since 2002, Montenegro would not achieve the Romania-Bulgaria-Croatia in 2006 economic reform threshold until perhaps 2015.

*Figures 3 and 4* highlight the components of the economic reform index and Montenegro's 2007 level of economic reform progress in each component relative to standards of advanced industrial market economies (a score of "5" by definition), to the Romania-Bulgaria-Croatia in 2006 thresholds, and relative to economic reform progress in Montenegro in 1999. Progress has been made across the board in economic reforms since 1999, particularly in first stage reforms (of trade and foreign exchange liberalization, price liberalization, and privatization), though gaps remain vis-à-vis the Romania-Bulgaria-Croatia in 2006 thresholds in all nine economic reform indicators. Montenegro lags the most in competition policy (despite progress in 2007), non-bank financial reforms, infrastructure reforms, and enterprise (or governance) reforms.

*Figure 5* shows results from the World Bank's *Doing Business* survey. These microeconomic reform indicators complement the more macro economic reform indicators from the EBRD that go into the MCP's economic reform index. Overall, Montenegro's business climate ranked 81st out of 178 nations worldwide in 2007; i.e., not much better than the global average. Montenegro's average rank masks considerable diversity of performance among the ten business climate indicators that go into the overall ranking (*Figure 6*). Montenegro scored the worst (i.e., ranked the highest) in 2007 in enforcing contracts (131 rank), paying taxes (129 rank), dealing with licenses (113 rank), and trading across borders (113 rank). However, Montenegro scores relatively well in terms of protecting investors (19 rank) and closing a business (41 rank). In contrast to the favorable macroeconomic reform trends in 2007 from the EBRD, the World Bank reports overall reform backsliding in the business environment in Montenegro in the past couple years. Montenegro significantly regressed on five of the ten dimensions from 2006-2007 in its global rankings.

**Democratic Reforms.** After regressing for much of the 1990s, democratic reforms leaped forward in Montenegro in 2000-2001 (*Figure 7*). Since 2001, however, such reforms have largely stagnated. No democratization gains were recorded in 2007 in Montenegro according to Freedom House in its aggregate political rights and civil liberties scores.<sup>2</sup> Hence, while Montenegro does not have far to go in attaining the democracy thresholds, and could close the democracy gaps within a short number of years, an extrapolation of trends in the recent past underscores that it might also take many years to achieve these modest gains needed to meet the thresholds.

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<sup>2</sup> 2007 data are not yet available from Freedom House's region-specific *Nations in Transit* analysis.

There are a number of democratic reform gaps in Montenegro vis-à-vis the Bulgaria-Romania-Croatia in 2006 thresholds, though most are relatively small gaps (*Figure 8*). The largest gap by Freedom House's analysis is in the fight against corruption. The most advanced democratization area is civil society, followed by local governance. *Figure 9* shows the stagnation in democratic reforms in Montenegro since 2003 (the first year that Freedom House separated Serbia and Montenegro in its analysis); only in two dimensions (in local governance and electoral process) has Montenegro moved forward in democratization since 2003.

Montenegro's independent media is "near sustainable" and slightly below Southern Tier CEE average, according to IREX's *Media Sustainability Index* (*Figure 10*). By this measure, Montenegro's media is notably more advanced than what it was in the early 1990s, though some backsliding occurred from 2006-2007; a very similar pattern for the Southern Tier CEE countries overall. Five components go into the *Media Sustainability Index*: free speech; professional journalism; plurality of news sources; business management; and supporting institutions (*Figure 11*). Montenegro's media is more advanced than the Southern Tier CEE average in terms of free speech, though less advanced in the other four aspects of media measured in the index.

Montenegro's NGO sector is in "mid-transition," and well short of "consolidation," according to USAID's *NGO Sustainability Index* (*Figure 12*). According to this measure, Montenegro's NGO sector has advanced modestly from 2003 to 2006 (latest data available). Montenegro's NGO sector is less developed than the Southern Tier CEE average (though more advanced than that found in Serbia). Of the eight areas tracked, Montenegro's NGO sector lags the most in financial viability and organizational capacity; the legal environment is the most advanced area.

***Crime and corruption (& peace and security)***. As previously noted (and shown in *Figure 8*), anti-corruption efforts represent the largest democratization gap in Montenegro according to Freedom House measures. Moreover, drawing from the same dataset and analysis, corruption is more problematic in Montenegro than in all the other Southern Tier CEE countries except Kosovo (*Figure 13*). Similar results are found in Transparency International's global dataset of corruption perceptions in 2007, though Albania is perceived to have greater corruption than Montenegro in this dataset (*Figure 14*). According to Transparency International, the perception of corruption in Montenegro is just below a "rampant" level of corruption.

A third cross-country comparison of corruption comes from the World Bank Institute's *Governance Matters* series. 2006 data on the "control of corruption" show Kosovo and Albania lagging the most of the Southern Tier CEE countries, followed by Montenegro and Macedonia, then Serbia; Romania, Bulgaria, and Croatia all have notably higher scores (or greater corruption control) than the Southern Tier CEE average. Evidence on the extent of corruption is also found in the USAID-sponsored focus group research done by the National Democratic Institute or NDI (December 2007). According to this study, "almost all participants think that corruption is present in Montenegro and represents a

significant problem. According to participants, corruption extends across all social classes from the top of the power structure to common clerks. It is considered most noticeable in the judiciary, police and healthcare.”<sup>3</sup>

As part of the E&E Bureau’s effort to better align its MCP system with the DFA framework, very preliminary analysis has been done towards measuring “peace and security”, one of the five strategic objectives of the DFA framework. At this stage, we have developed measures for six main components to the index: (1) counter-terrorism; (2) counter-narcotics; (3) transnational crime; (4) conflict mitigation; and (5) political engagement.<sup>4</sup> Measuring defense and police reforms remains a key gap in the metrics. Many data gaps exist specifically in the case of Montenegro in many cases because Serbia and Montenegro estimates have yet to be disaggregated.

One of the most distinguishing results in regards to Montenegro in this peace and security dataset is the relatively low and favorable score that Montenegro receives in the Fund for Peace’s *Failed States Index (Figure 15)*. Broadly, the FSI attempts to measure the potential for state failure and instability, and places the countries across the globe into one of four categories.<sup>5</sup> Of all the transition countries, only Uzbekistan falls into the “alert” range. Most transition countries fall into the “warning” range. Only the eight Northern Tier CEE countries plus Montenegro fall into the “moderate” range. No transition country is considered “sustainable” according to the FSI.

Of the twelve components that go into the FSI, perhaps the most relevant one in terms of crime and corruption is the “criminalization of the state” (which attempts to measure corruption or profiteering by ruling elites, the extent of popular confidence in state institutions, and the growth of crime syndicates linked to ruling elites). On this indicator, Montenegro’s score is a “4.5” (on a 1 to 10 scale, where 10 is the most problematic); slightly better than that found in Latvia (4.7), Mali (4.8), or India (4.8); slightly worse than Croatia, Lithuania, Slovakia (all 4.2), and South Africa (4.3).

The Commission of European Communities provides a qualitative assessment of key crime and corruption trends in Montenegro in its *Montenegro 2007 Progress Report*

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<sup>3</sup> National Democratic Institute, *Enough Politics! Let the Economy be the Priority!; Results of Focus Group Research* (December 2007), p. 31.

<sup>4</sup> Currently underway is a EUR/ACE-led inter-agency effort to draw from these very preliminary peace and security measures and to develop the metrics further.

<sup>5</sup> Twelve aspects contribute to the overall rating in the *FSI*: (1) criminalization of the state; (2) group grievance (the degree to which ethnic or religious groups suffer injustices, atrocities, repression, and scapegoating); (3) chronic and sustained human flight (including brain drain, voluntary emigration of the middle class, and growth of exile communities); (4) uneven development (group-based inequality in education, jobs and economic status, group-based impoverishments, and rise of communal nationalism based on group-based inequalities); (5) demographic pressures; (6) refugees and IDPs; (7) sharp and/or severe economic decline; (8) progressive deterioration of public services; (9) suspension or arbitrary application of the rule of law and widespread violation of human rights; (10) security apparatus operates as a state within a state; (11) rise of factionalized elites (or fragmentation of ruling elites and state institutions along group lines and the use of nationalistic political rhetoric by ruling elites) and (12) intervention of other states or external political actors.

(November 2007).<sup>6</sup> Four relevant areas are addressed: (1) money laundering; (2) drugs; (3) police; and (4) organized crime and terrorism. On money laundering: “Little progress has been made in fighting money-laundering...money laundering remains an area of serious concern...urgent action is needed.”<sup>7</sup> On drugs: “Some progress can be reported in the fight against drug smuggling and in addressing the problem of drug abuse in the country...A group for combating drugs and smuggling has been set up to deal with organized crime involving drugs...Montenegro faces very significant problems related to drug abuse in the country as well as problems with drug transit and trafficking...Drug-related crime remain a major threat to society as a whole...Drug trafficking remains a serious concern.” On police: “There has been some progress in the reorganization of the police...Overall, police reform in Montenegro is moderately advanced.” On organized crime and terrorism: “No particular progress can be reported in the fight against organized crime. Organized crime remains a source of serious concern in Montenegro...Overall, Montenegro’s preparations in the fight against organized crime are lagging behind...There has been some progress in combating the trafficking of human beings<sup>8</sup>...no acts of terrorism were reported.”

### ***Economic Performance and Human Capital***

Progress in economic performance and human capital (*Figure 16*) helps provide some indication of the extent to which progress in economic and democratic reforms (*Figure 1*) might be sustained. Re-stated, progress in economic and democratic reforms is a necessary but not a sufficient condition towards completing the transition to market-oriented democracies. Solid macro-economic performance that is broadly shared throughout the population must ensue.

Montenegro’s economic performance is roughly Southern Tier CEE average, slightly better than that found in Albania and Bosnia-Herzegovina, and well below performances in Bulgaria and Croatia (and all of the Northern Tier CEE countries). Montenegro has far to go towards achieving the Romania, Bulgaria, and Croatia in 2006 economic performance threshold.

Montenegro’s human capital is much more advanced. Only the Northern Tier CEE countries and Croatia have greater human capital by this score. Montenegro is closest to Latvia in its level of human capital. It has exceeded the two human capital thresholds shown in *Figure 16*.

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<sup>6</sup> Commission of the European Communities, *Montenegro 2007 Progress Report* (November 2007), pp 42-44.

<sup>7</sup> The State Department identifies “major” money-laundering countries globally in an annual report. Its 2007 report identified only three transition countries as major money-laundering countries: Russia; Ukraine; and Bosnia-Herzegovina. U.S. Department of State, International Narcotics and Law Enforcement Affairs, *Strategy Report* (March 2007).

<sup>8</sup> The U.S. Department of State designated Montenegro a “tier 2” country in the trafficking in persons in 2007, an improvement from its “tier 3” designation in the early 2000s. Of the transition countries, only Uzbekistan was designated a tier 3 country in 2007, and only 6 transition countries were given the most favorable designation of tier 1 (Georgia, Hungary, Slovenia, Lithuania, Czech Republic and Poland).



**Economic Performance.** *Figure 17* shows Montenegro's economic performance trends over time. Similar in part to the economic and democratic reform trends, Montenegro's economic performance stagnated through the early 2000s, and since then has advanced very impressively. Assuming continued good progress in the near term (though not at such a rapid pace as in the early 2000s), Montenegro could achieve the Romania-Bulgaria-Croatia in 2006 threshold in economic performance in several years.

*Figure 18* disaggregates the economic performance index and shows the gaps against the Romania-Bulgaria-Croatia in 2006 thresholds. The largest gaps against this threshold are found in the size of the micro, small, and medium enterprise sector (only 36% of total employment), the export sector (export share of GDP is 48%; roughly half of these exports are manufactured goods), and economic growth (4.6% percent average annual from 2003-2007). Montenegro's unemployment rate (and the proportion of those unemployed considered long-term) is also problematic, though this is also true in the threshold countries.

Annual economic growth has been steadily increasing in Montenegro since 2001, and has been closer to 7% in the past couple years (*Figure 20*), which is higher than the world average and close to the transition region average. Economic growth forecasts for 2008 and 2009 have Montenegro's economy continuing to grow robustly (at around 6.0-6.5% annually). However, given the very significant transition depression in the 1990s, current GDP in Montenegro remains well below pre-transition levels (*Figure 19*).

Montenegro's economy is the smallest economy of the Southern Tier CEE countries, less than one percent of Southern Tier CEE GDP (*Figure 22*). Montenegro is only slightly larger relative to the region in terms of population (*Figure 21*).

Tourism is a very significant part of the economy, directly contributing to at least 15% of GDP and total employment (*Figure 23*), and indirectly contributing to economic output by some multiple of that proportion. Tourism is highly seasonal; fluctuations in the number of tourists and in revenue are very large throughout the year, even as the growth of tourism continues to increase (*Figure 24*). Nevertheless, *Figure 25* shows that the fluctuation in employment in tourism in 2006 was less than that which occurred in 2004 and 2005. It remains to be seen if 2006 is an exception to the trend or represents the start of longer-term structural change.

Aluminum is also very important to the Montenegro economy. In recent years, it has constituted about 40-50% of exports (*Figure 26*) and perhaps 10-15% of GDP. Favorable prices of aluminum have helped,<sup>9</sup> though Montenegro's aluminum production has been relatively steady from 2002 to 2006, and hence not very responsive to price increases during this period (*Figure 27*). This may suggest that short term capacity at least may be reached.

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<sup>9</sup> The IMF estimates that the average annual price of aluminum has increased roughly 6% from 2003-2007. IMF, *World Economic Outlook* (April 2008).

Foreign direct investments have been very significant in recent years and represent a dramatic increase from earlier years. On a per capita basis, cumulative FDI inflows from 2003-2007 have been higher in Montenegro than all other transition countries except Estonia (*Figure 28*). The EBRD cites that “more than half of FDI in these years has been for greenfield investments, much of it associated with tourism. These investments have fuelled a construction boom that has in turn led to a surge in imports” and a very significant increase in the current account deficit (which was almost 30% of GDP in 2006 and estimated by the EBRD to be 23% of GDP in 2007).<sup>10</sup>

As is the case throughout the Southern Tier CEE (and particularly the countries which were formerly republics in communist Yugoslavia), Montenegro’s unemployment rate remains very high, though it has been falling quite steadily since 2002 (*Figure 29*). The EBRD estimates the unemployment rate to be close 20% in 2006; the World Bank cites 14% in 2006, falling from 19% in 2005.<sup>11</sup>

How do these economic data align with perceptions of living standards and the economic situation of households (*Figures 30 and 31*)? Here we draw from 2006 World Bank and EBRD household surveys (Life in Transition Survey) done throughout the transition region. Overall, the most pessimistic views across the transition region are found within much of the former communist Yugoslavia, Bosnia-Herzegovina, Serbia, Montenegro, and Macedonia in particular. In Montenegro, roughly 60% of the population surveyed in 2006 felt that their living standards were worse in 2006 than in 1989. About half that amount or 30% of the population felt living standards were better. When asked more specifically about economic aspects of their living standards (i.e., views on their present economic situation), Montenegrins were even more pessimistic. Almost 80% in 2006 felt that their present economic situation was worse than what it was in 1989, while slightly more than 10% felt it was better.

***Human Capital.*** Montenegro’s human capital, as measured by the *MCP* index, is high by transition country standards (as shown previously in *Figure 16*), though human capital levels have fluctuated quite dramatically and currently may not be as high as what they were in the mid-1990s (*Figure 32*).

*Figure 33* disaggregates the human capital index and shows the gaps against the Romania-Bulgaria-Croatia in 2006 thresholds. Basic health and education indicators are quite favorable. Montenegro’s under five years of age mortality rate was 14 deaths per 1,000 children in 2005 according to the World Bank. This is Southern Tier CEE average, though twice as high as the Northern Tier CEE standards (of 7 deaths).

Life expectancy in Montenegro is 73-74 years; roughly CEE standards. Females live about five years longer than males on average in Montenegro (*Figure 38*). Male life

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<sup>10</sup> EBRD, *Transition Report* (November 2007), pp. 167 and 169.

<sup>11</sup> The EBRD (2007), p. 169, and the World Bank, *Country Partnership Strategy for the Republic of Montenegro* (May 2007), p.5.

expectancy in Montenegro has not changed much during the transition years. Female life expectancy, in contrast, has actually declined slightly, from 78 years in 1993 to 75 years in 2004.

The World Bank estimates that there were 10 incidences of TB per 100,000 persons in Montenegro in 2005, down from 16 in 2004. This is very low by transition country standards, where the average in the Northern Tier CEE countries is 30 per 100,000, in the Southern Tier CEE, 45, and in Eurasia, 90 incidences per 100,000.

Enrollment rates and education expenditures in Montenegro are quite favorable (*Figure 39*). Depending on the source, primary enrollments range from 92% to 96%, and secondary school enrollments, from 84% to 90%. Public expenditures on education have exceeded 5% of GDP in recent years.

The quality and/or relevance of education in Montenegro is likely more problematic. Montenegro has participated in one survey effort that attempts to measure the quality of education across countries: the PISA or the Program for International Student Assessment. Fifteen year old children are tested in PISA in math, science, and reading to meet real world challenges. 2003 results for Serbia and Montenegro combined underscored that Serbia and Montenegro lag considerably relative to OECD and Northern Tier CEE standards, though are comparable to Bulgaria and Romania standards (*Figure 40*). In the 2006 Pisa test results, which disaggregate Serbia and Montenegro, Montenegro scores notably poorer than Serbia in 2006 and Serbia and Montenegro in 2003. Of the three parts to PISA 2006, Montenegro's fifteen year olds scored the best in science (412), followed by math (399), and reading (392).

The World Bank notes that Montenegro is on track to meet millennium development goals related to education. Nevertheless, "just over two thirds of secondary students are in vocational or technical programs that do not appear well linked to labor market requirements." Moreover, "despite efforts to improve school infrastructure, it remains constrained and poorly used, with many urban schools operating on multiple shifts, while smaller rural schools are underutilized."<sup>12</sup>

As shown in *Figure 33*, the weakest indicators for Montenegro in the human capital index are per capita income and vulnerable populations. Montenegro's per capita income in purchasing power terms in 2007 was roughly \$3,900, less than Serbia at \$4,245 and well below Northern Tier CEE norms (at \$11,776), though higher than per capita income in Albania, Bosnia-Herzegovina and Macedonia (*Figures 34-35*). Vulnerable populations are measured as the average poverty rate at \$2.15 per day for children and the elderly. At \$2 per day, the national poverty rate in Montenegro is estimated to be in the range of 9-12%; the poverty rate for the elderly and children, hence is likely somewhat higher. No data are available on the rate of institutionalized children in Montenegro, data which we combine when available with children and elderly poverty rates to measure vulnerable populations.

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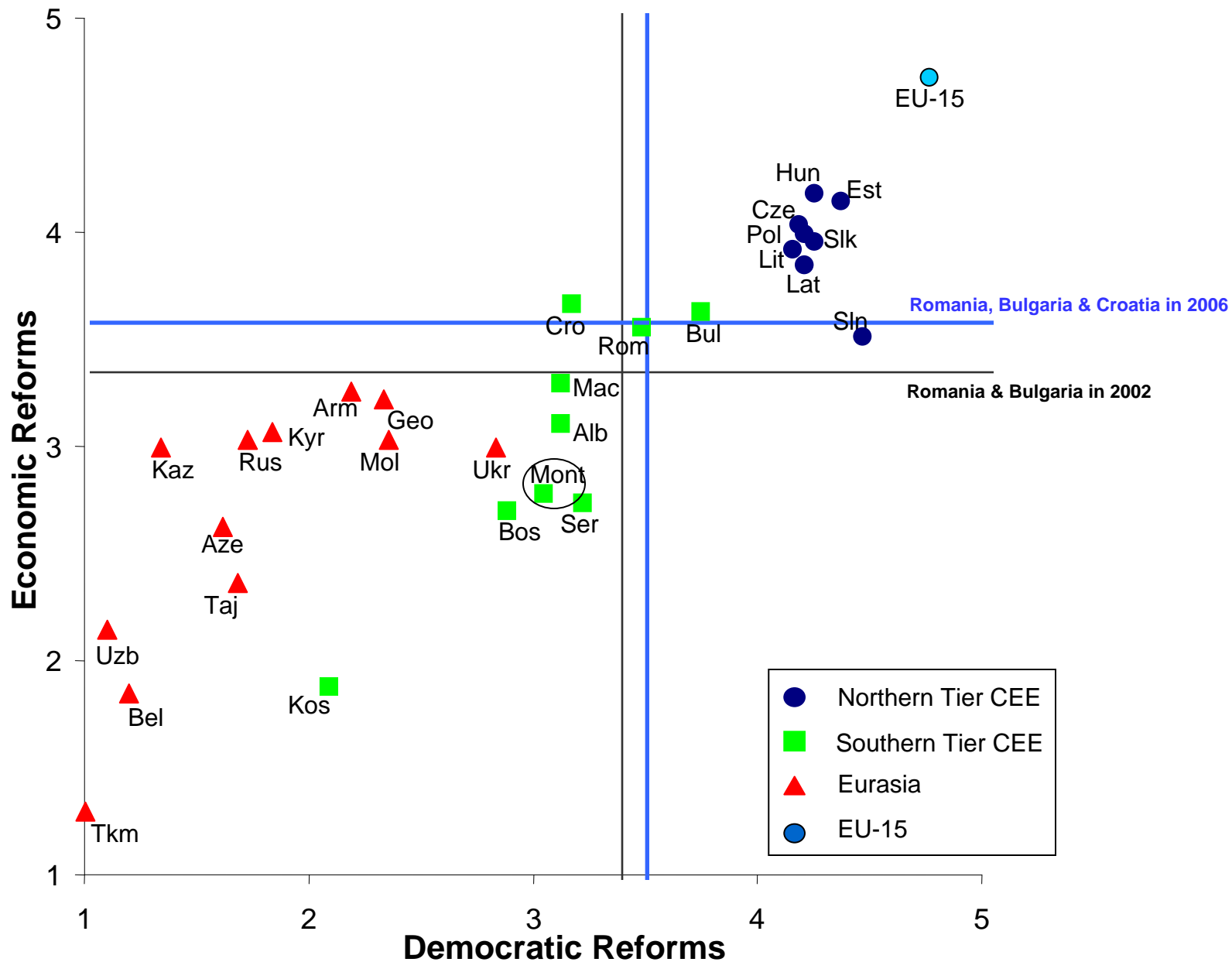
<sup>12</sup> World Bank, *Country Partnership Strategy for the Republic of Montenegro* (May 2007), pp. 12-13.

***Domestic disparities and the north-south gap.*** Finally, it is important to underscore that many of the national estimates of economic and social progress likely mask considerable regional diversity and disparities within Montenegro. The north-south development gap is a frequent theme and focus in much of the analysis, though data are sometimes difficult to come by. The World Bank estimates that poverty rates in the north are close to 20%, and hence roughly two times the national average. An underlying theme throughout the NDI survey was the large perceived discrepancies between progress in the north vs. that of the south.

*Figures 36 and 37* attempt to provide some empirical evidence behind these perceptions and realities. Human development (as measured by the UNDP's Human Development Index) varies widely throughout the municipalities in Montenegro (*Figure 36*). Some municipalities in the south (including Podgorica, Bar, and Budva) have levels of human development comparable to that found in Croatia overall. Other municipalities, mostly in the north (Plav and Savnik in particular, along with Andrijevica) have levels of human development comparable to that found in Tajikistan overall (which scores the lowest of all the transition countries in our MCP human capital index). *Figure 37* displays the disparities among Montenegrin municipalities by average wage. Wages are highest mostly in the south and lowest in the north (with exceptions). The average disposable wage in Podgorica (in 2005) was roughly two times greater than such wages in the northern municipalities of Rozaje and Plav.

Figure 1

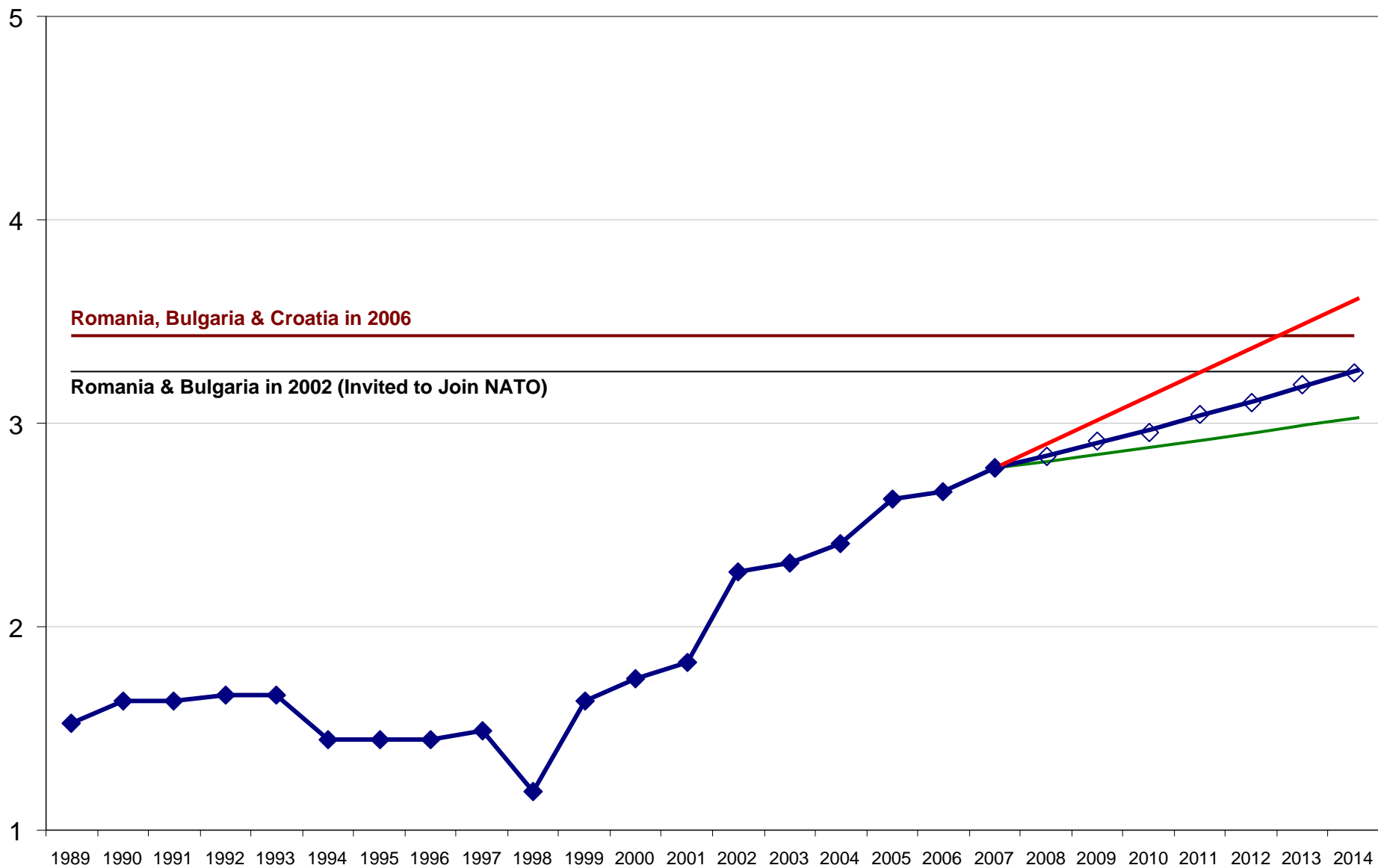
# Economic and Democratic Reforms in 2007



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2007* (2007) and *Freedom in the World 2008* (2008); EBRD, *Transition Report 2007* (November 2007).

Figure 2

# Economic Reform in Montenegro



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID, Monitoring Country Progress in CEE & Eurasia system drawing from EBRD, *Transition Report 2007* (November 2007).

# Economic Reform in Montenegro in 2007

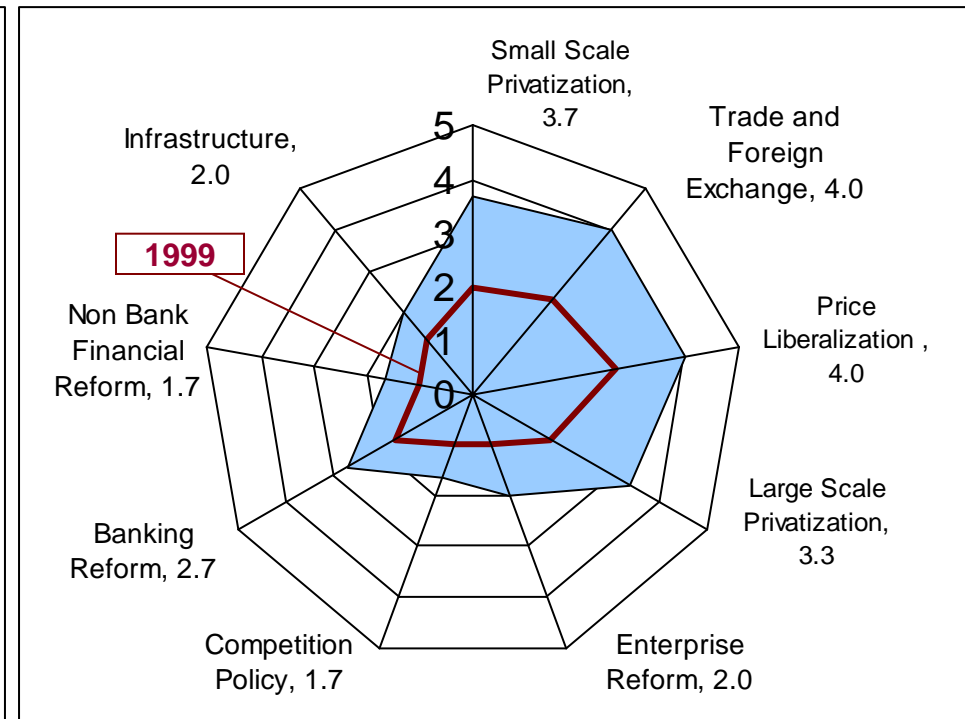
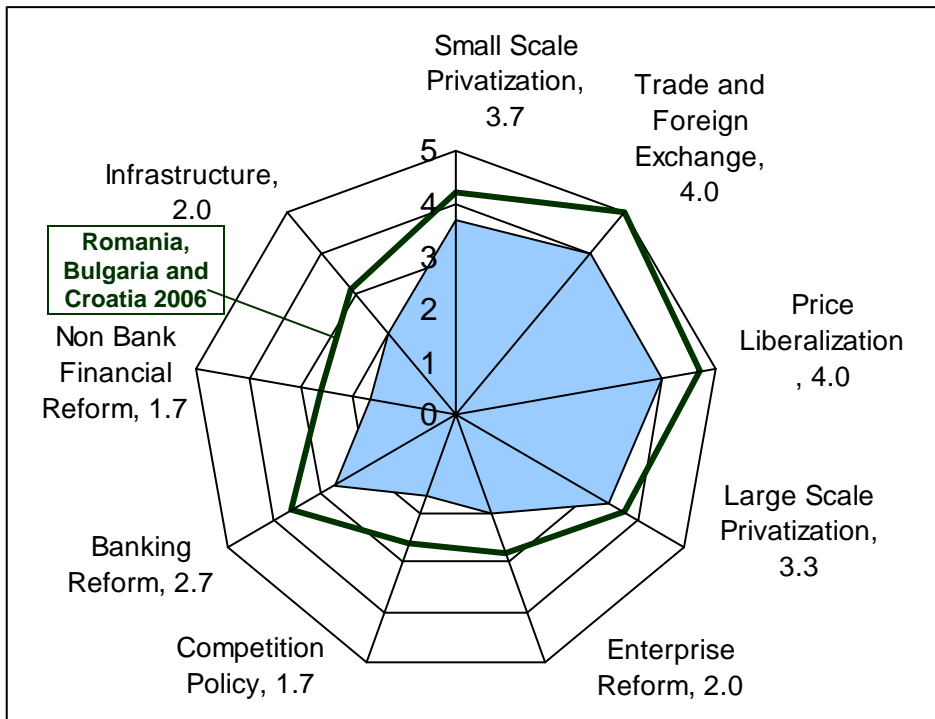
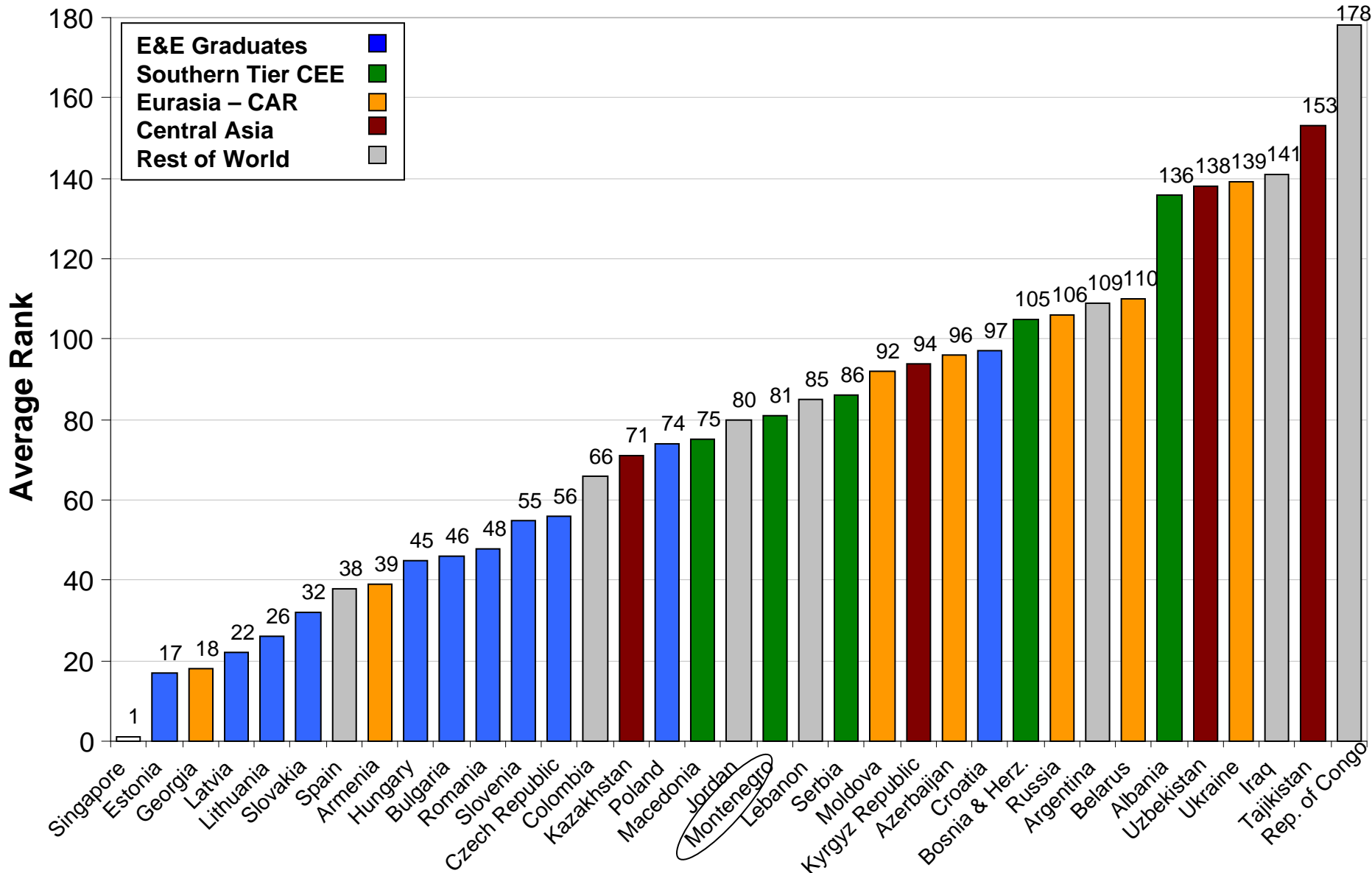


Figure 5

# Business Environment in 2007



World Bank, *Doing Business in 2008* (2007). Worldwide scores range from 1 to 178 and include 10 topics: starting a business, dealing with licenses, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.



Figure 6

# Doing Business in Montenegro

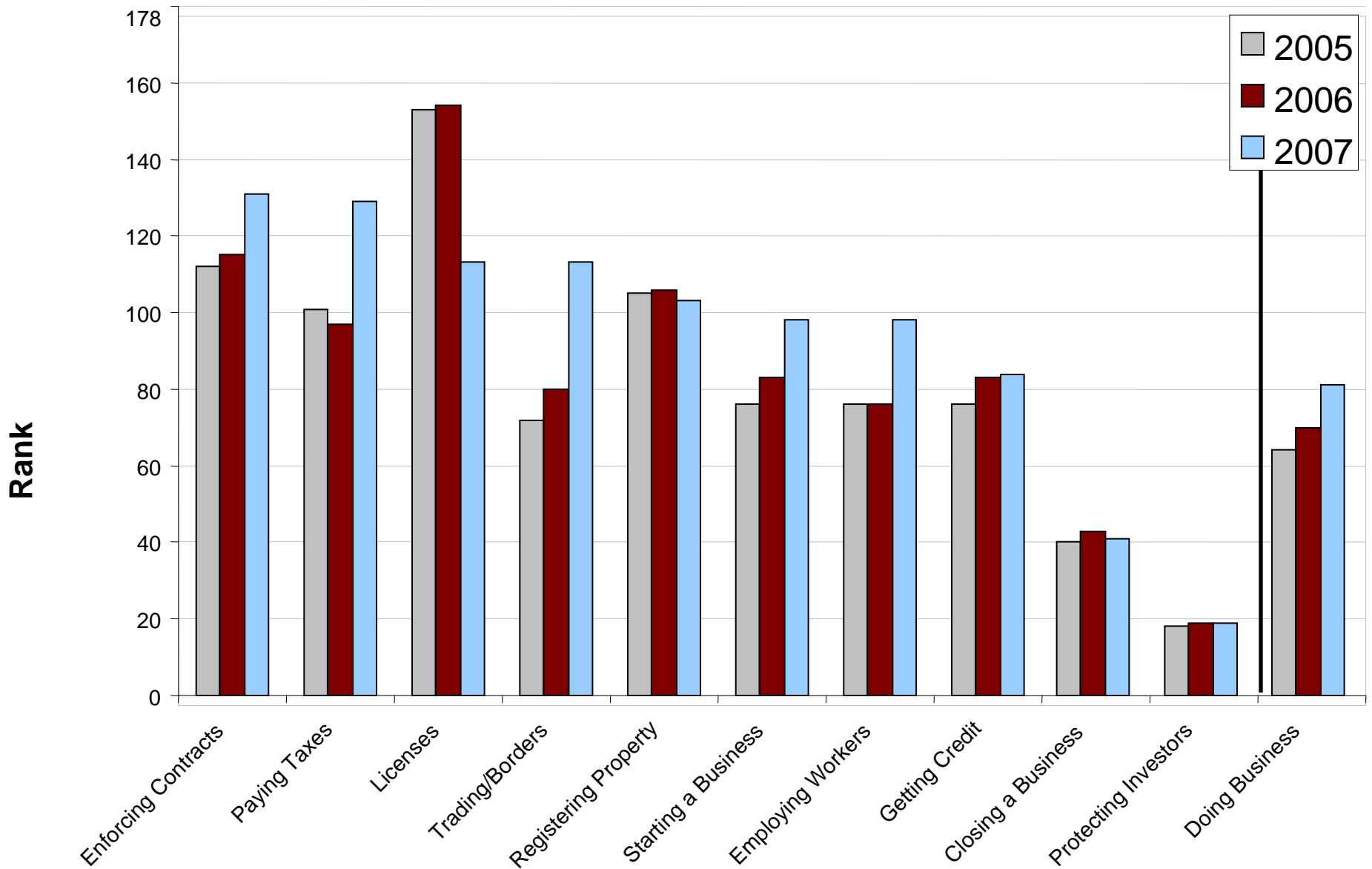
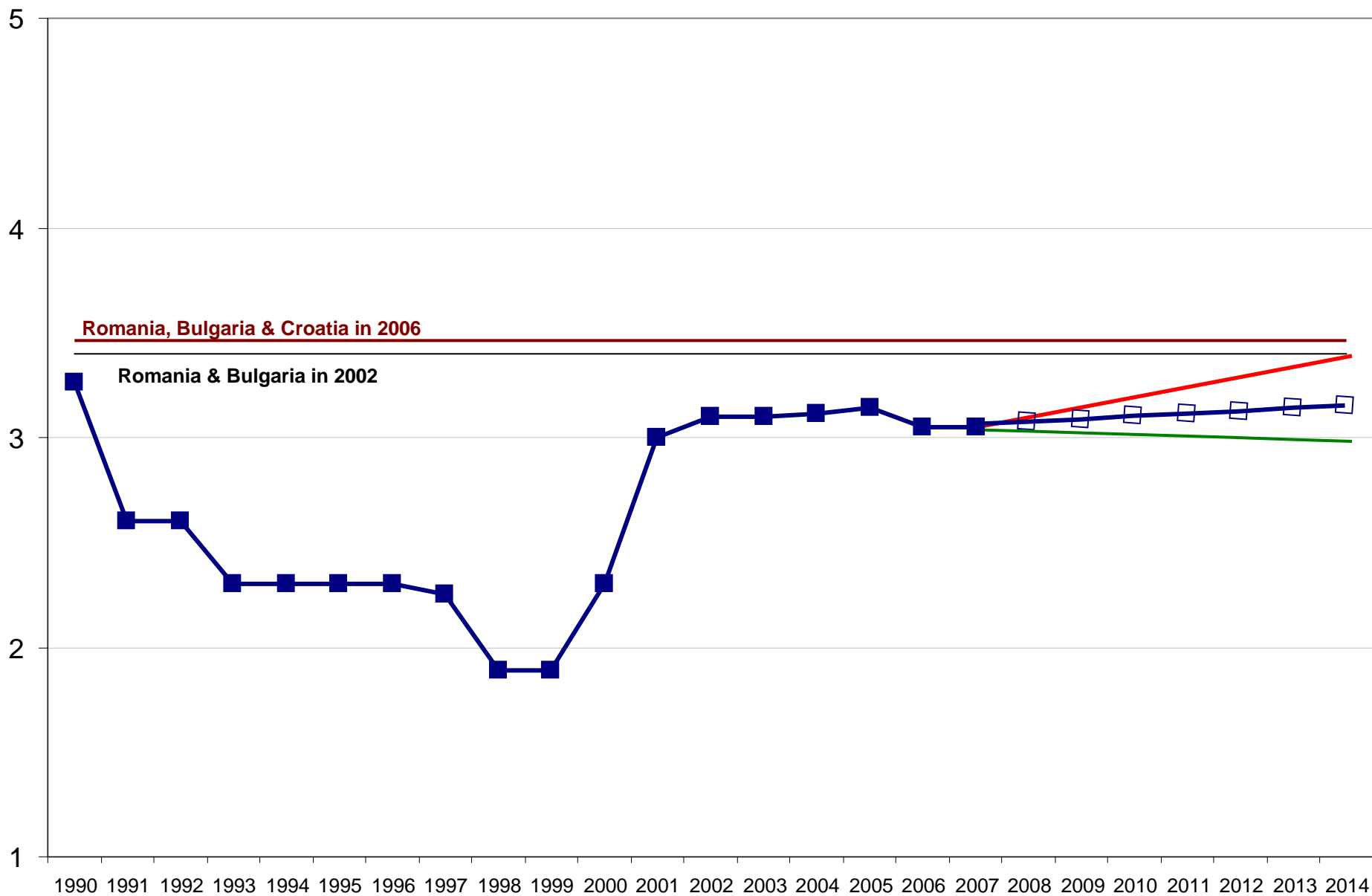


Figure 7

# Democratic Reform in Montenegro



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2007* (2007) and *Freedom in the World 2008* (2008);

# Democratic Reforms in Montenegro in 2006

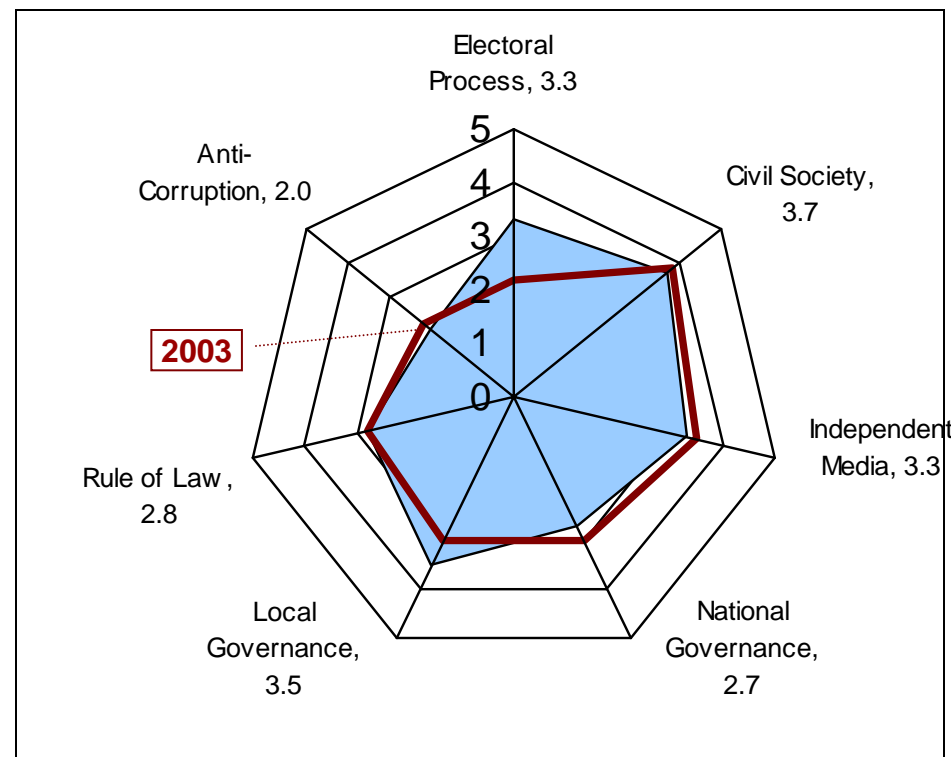
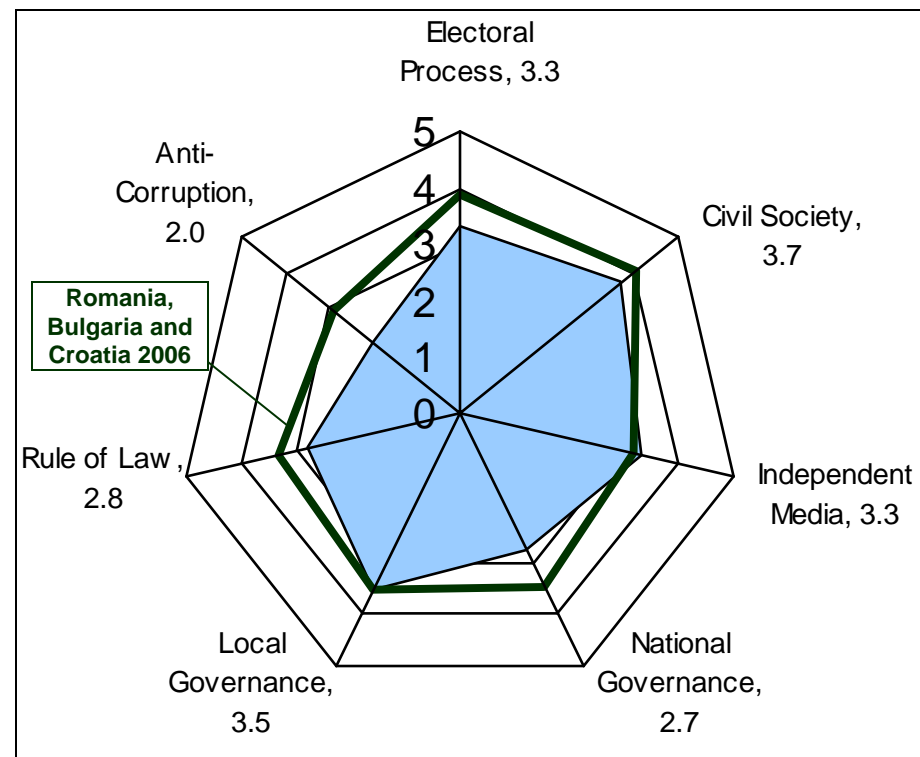
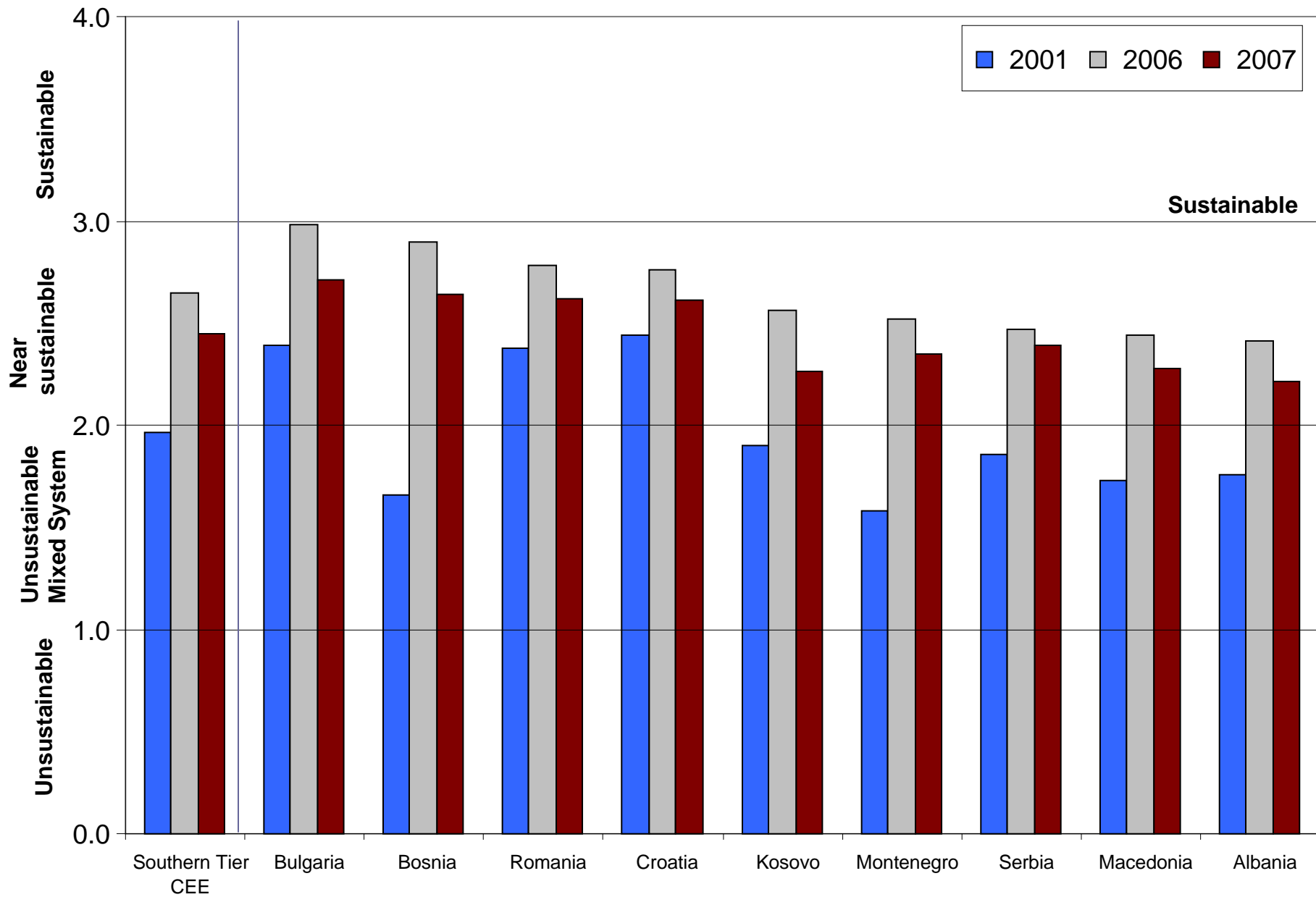


Figure 10

# Media Sustainability Index



# Media Sustainability Index in 2007

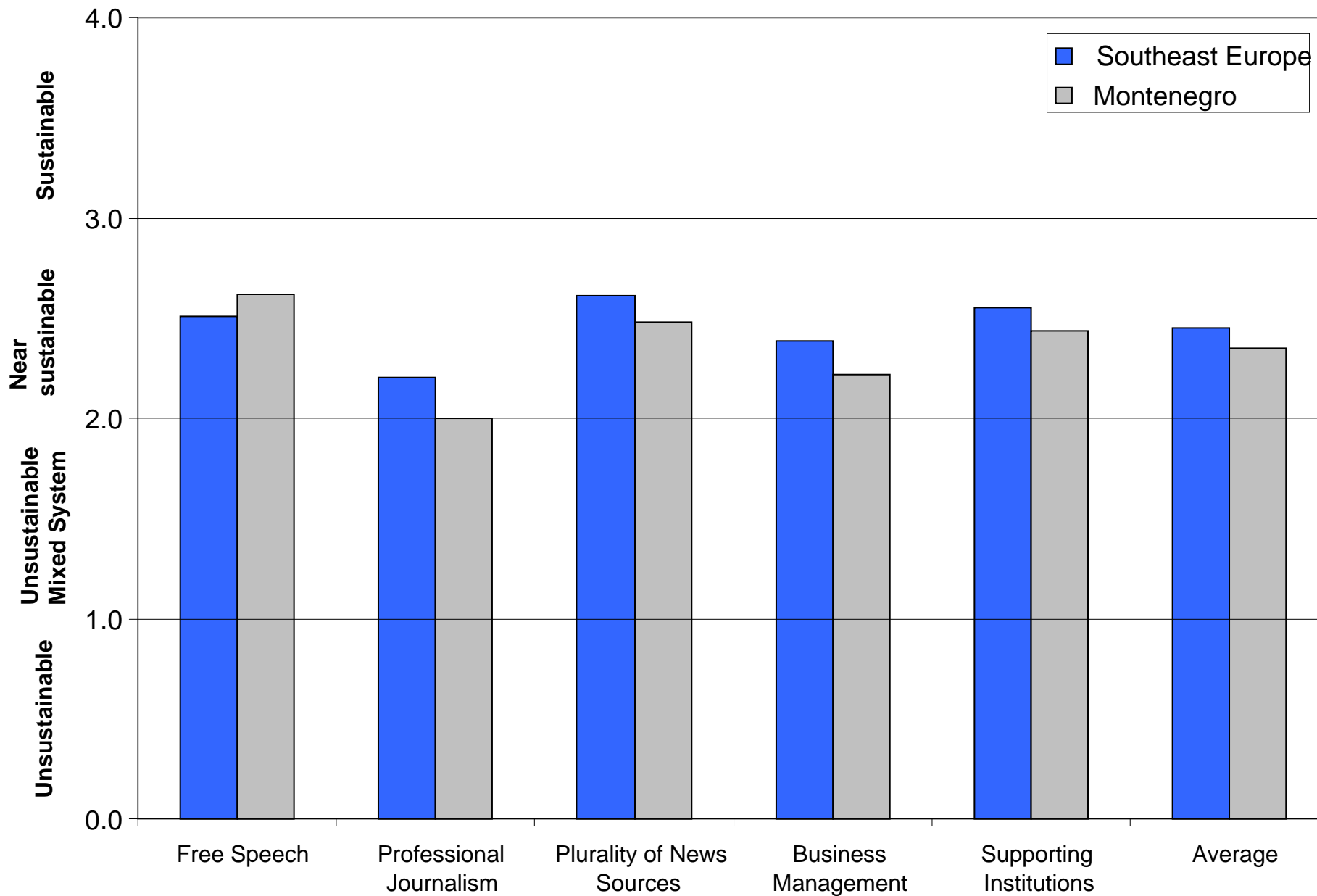
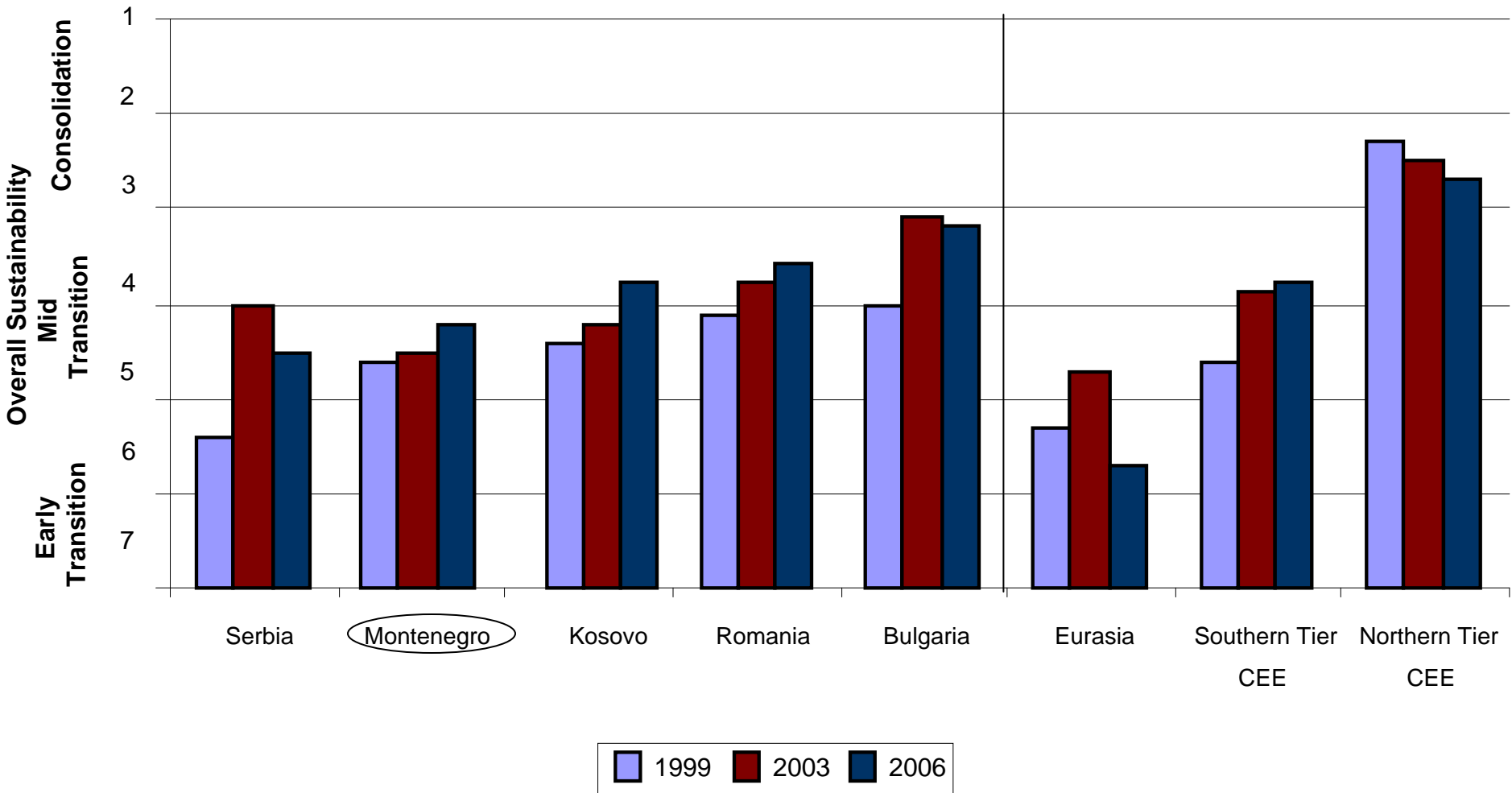


Figure 12

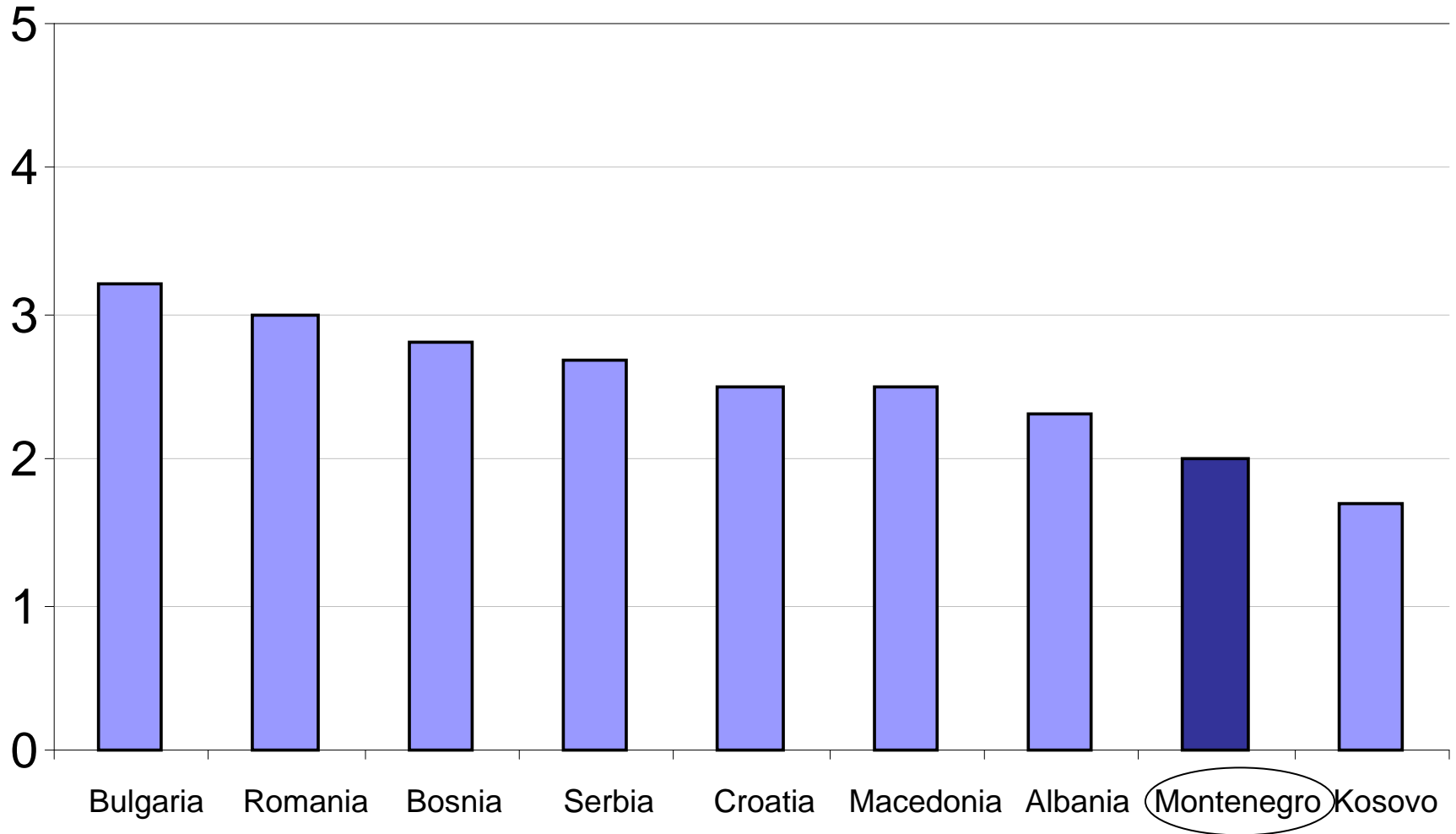
# NGO Sustainability Index



The NGO Sustainability Index is an average score of seven indicators; legal environment; organizational capacity; financial viability; advocacy; service provision; Infrastructure and public image. These are scored on a scale of 1-7 with 1 being the most sustainable. USAID/E&E/office of Democracy. Governance and Social Transition, 2006 NGO Sustainability Index for Central and Eastern Europe and Eurasia.

Figure 13

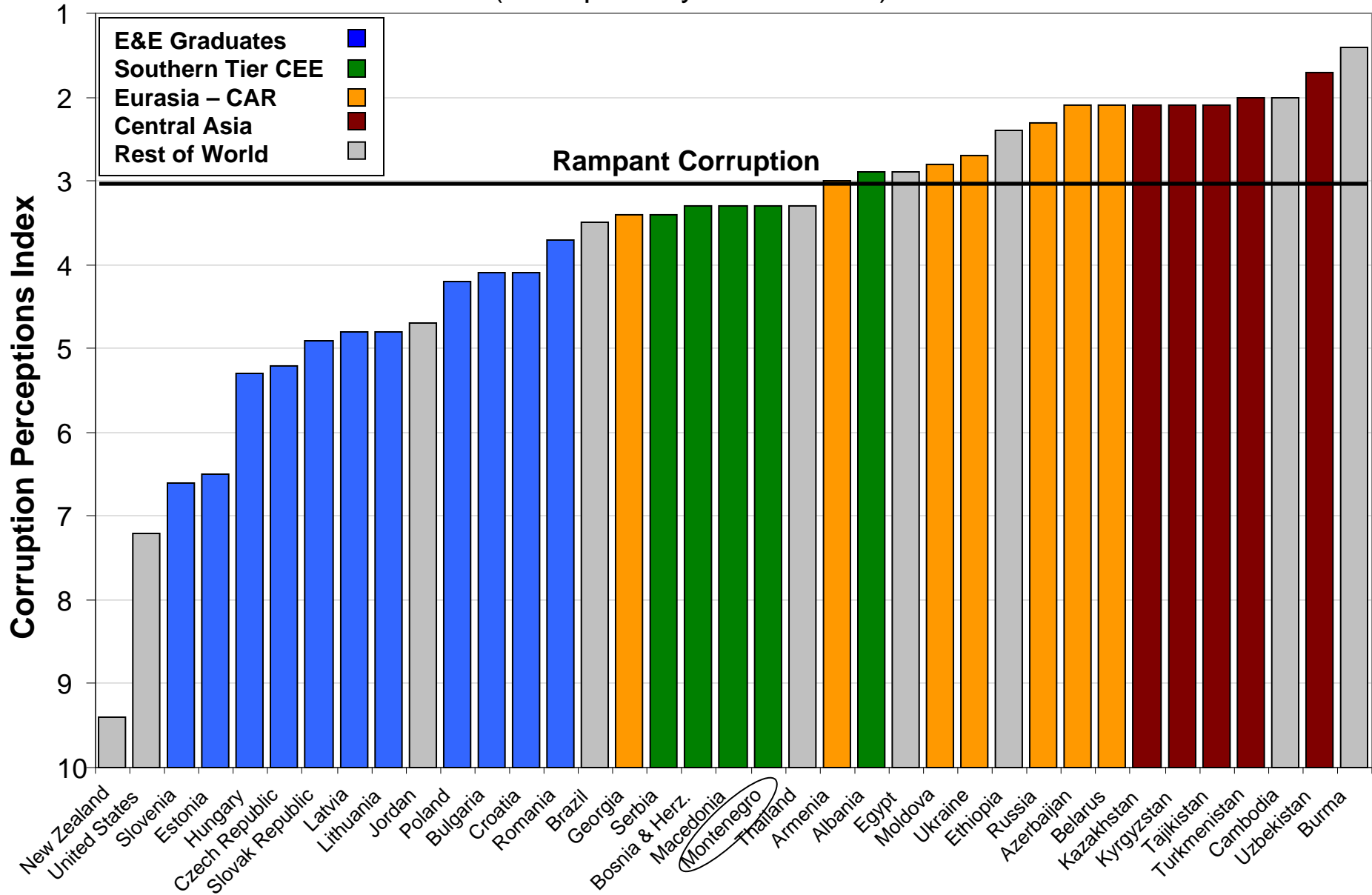
# Anti Corruption in Southern Tier CEE Countries



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #11* (2008 forthcoming) drawing from Freedom House, *Nations in Transit 2007*.

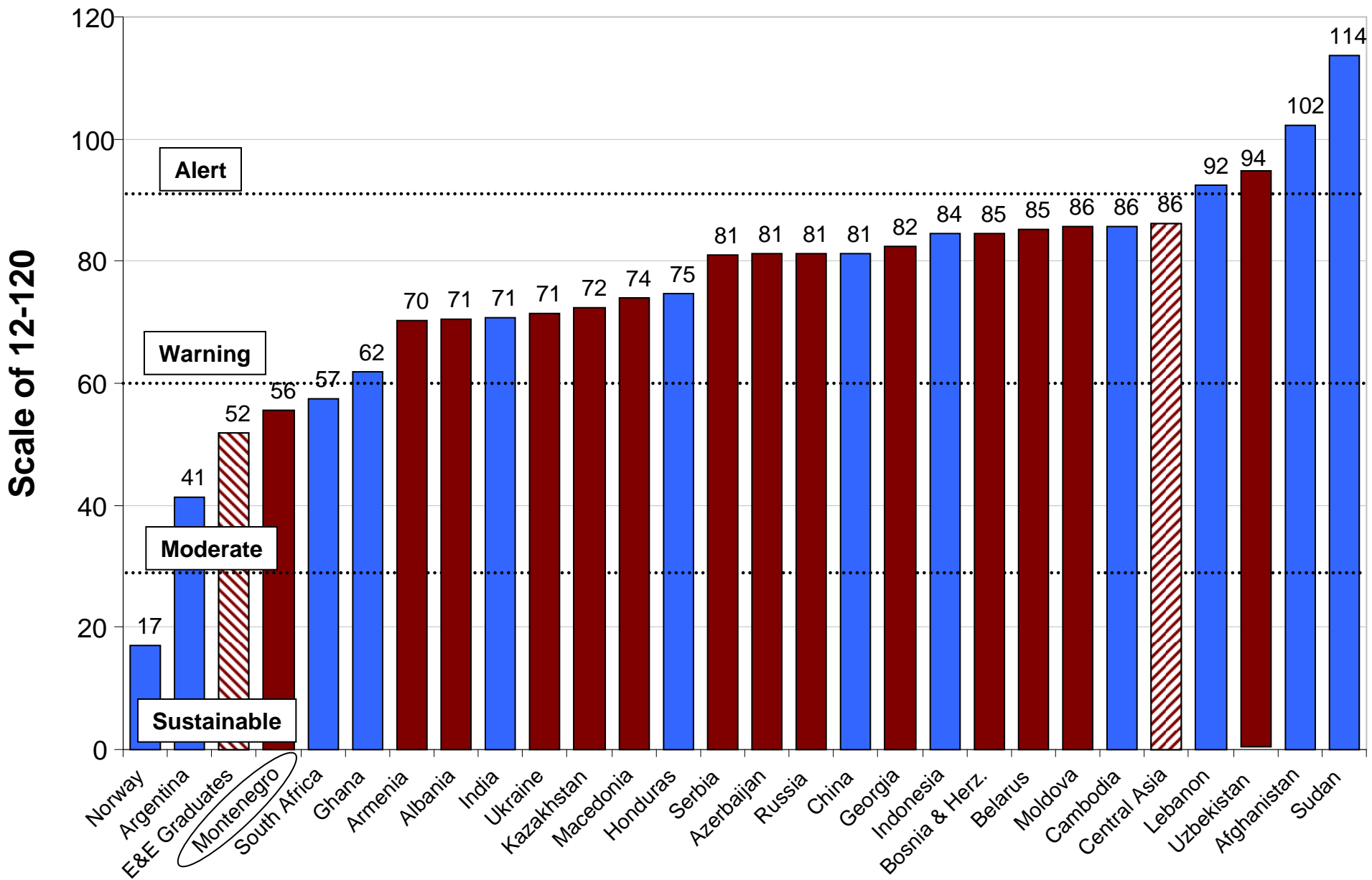
# Corruption Perceptions in 2007

(Transparency International)





# Peace & Security: Failed States Index



# Economic Performance and Human Capital in 2005-2007

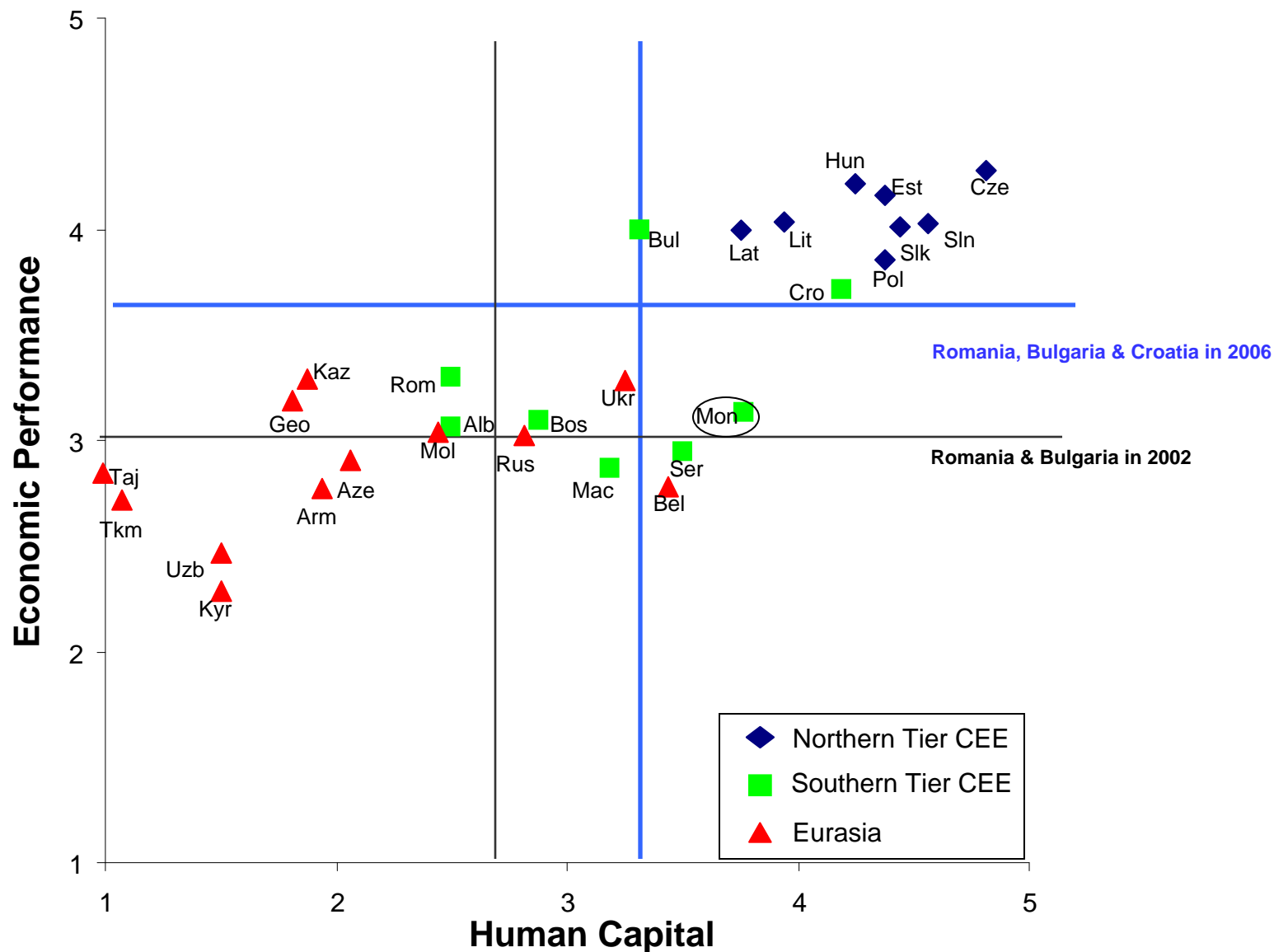
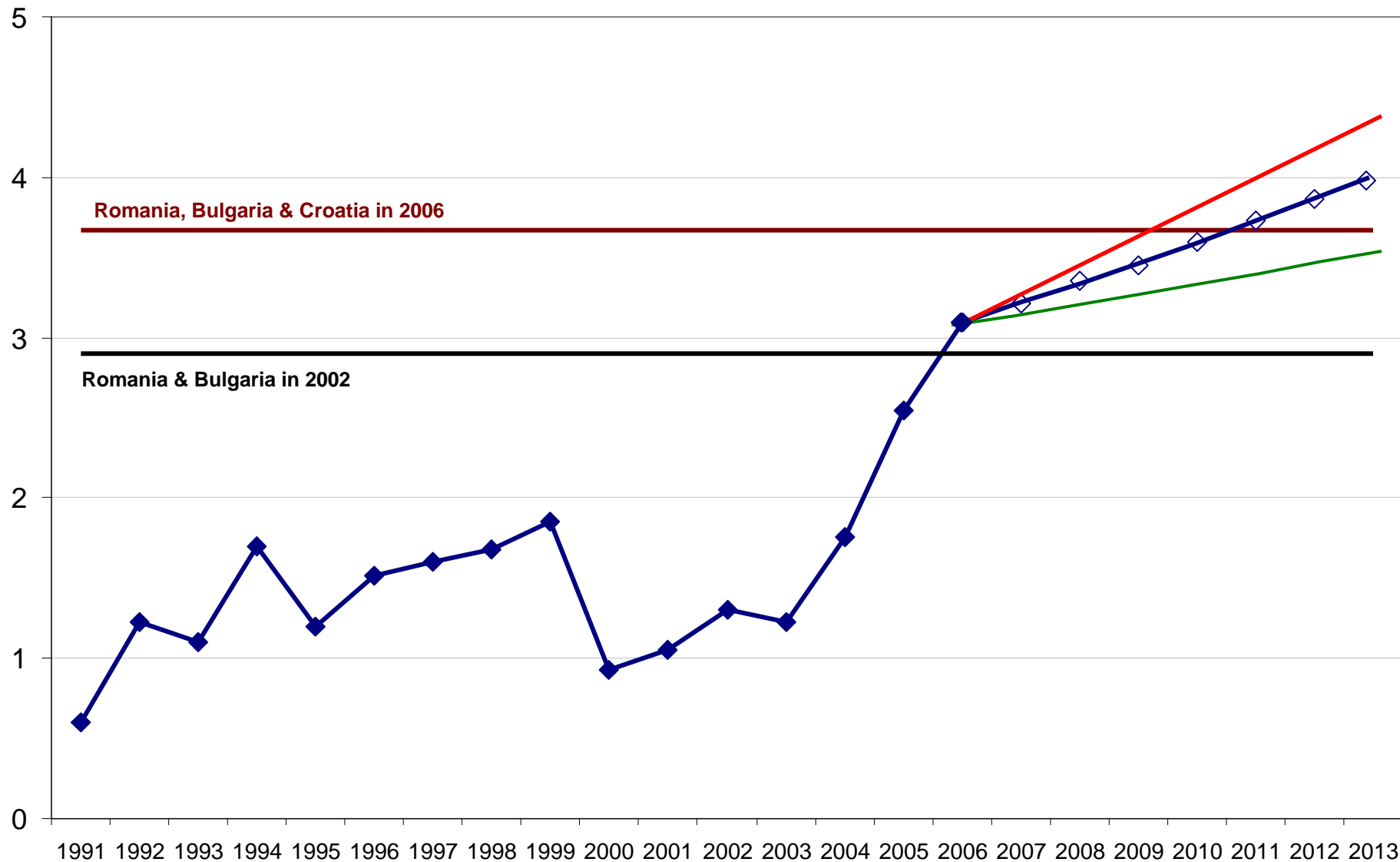


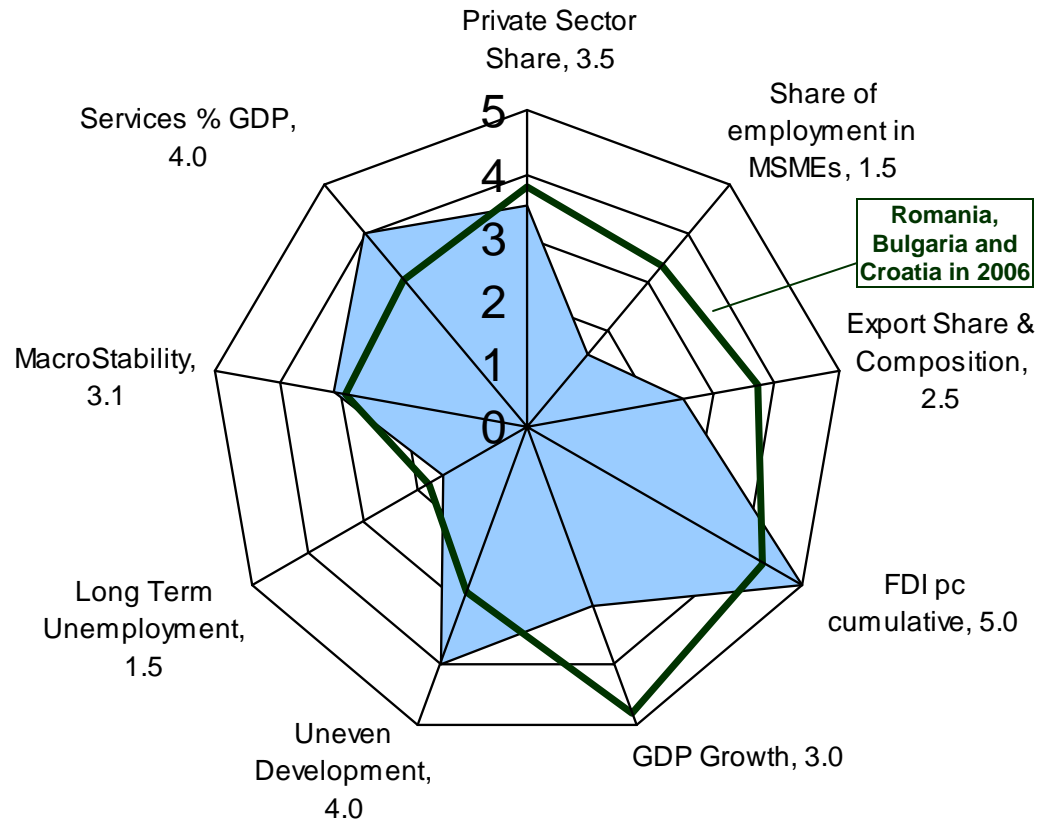
Figure 17

# Economic Performance in Montenegro

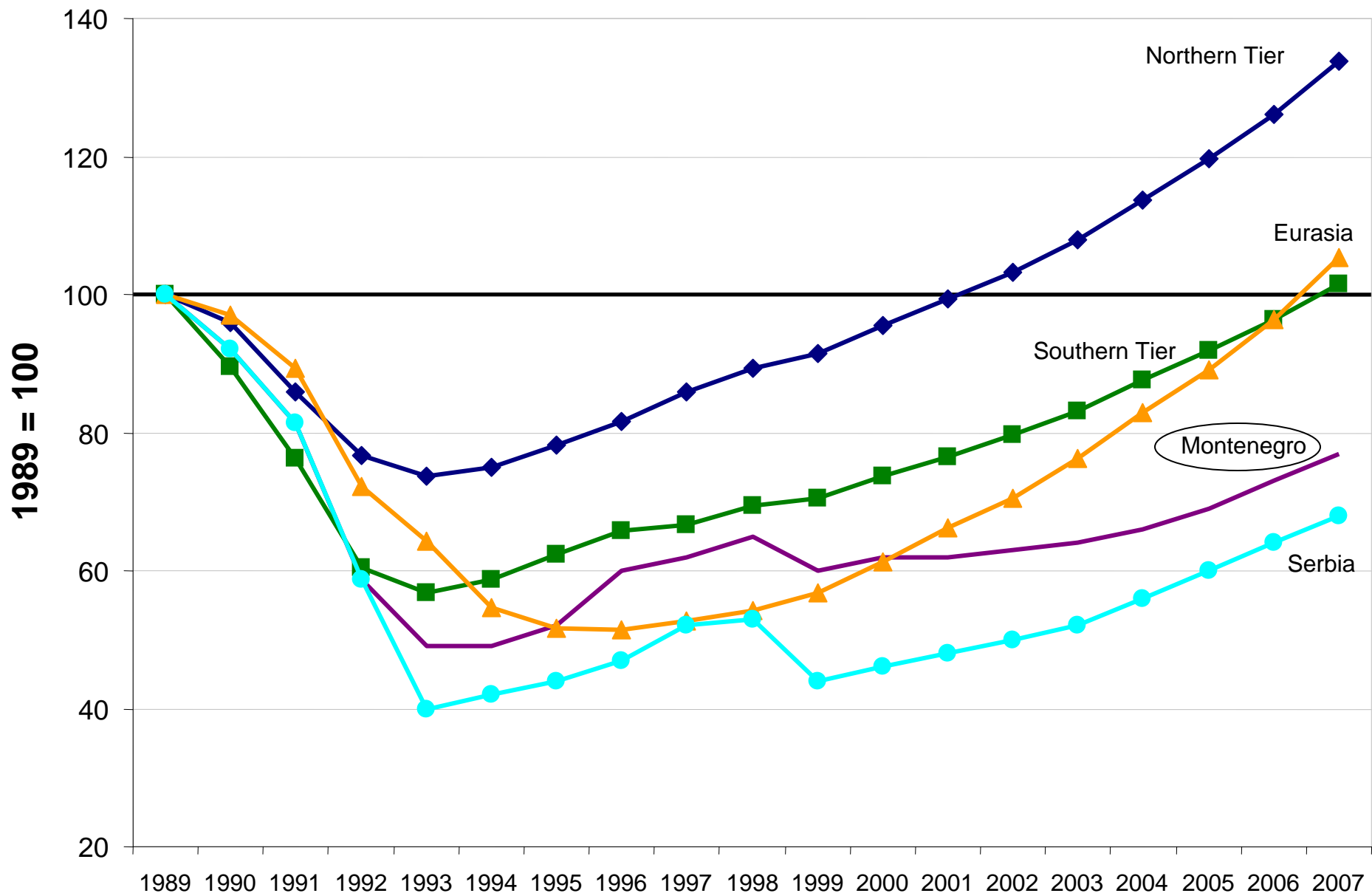


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); EBRD, *Transition Report* (November 2007), UNECE, *Statistical Division Database* (2007); Fund for Peace, *Failed States Index* (2007); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2007); World Health Organization European Health For All Database (2007); IEA, *TIMSS 2003 International Mathematics Report* (2004), *TIMSS 2003 International Science Report* (2004) and *PIRLS 2001 International Report* (2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

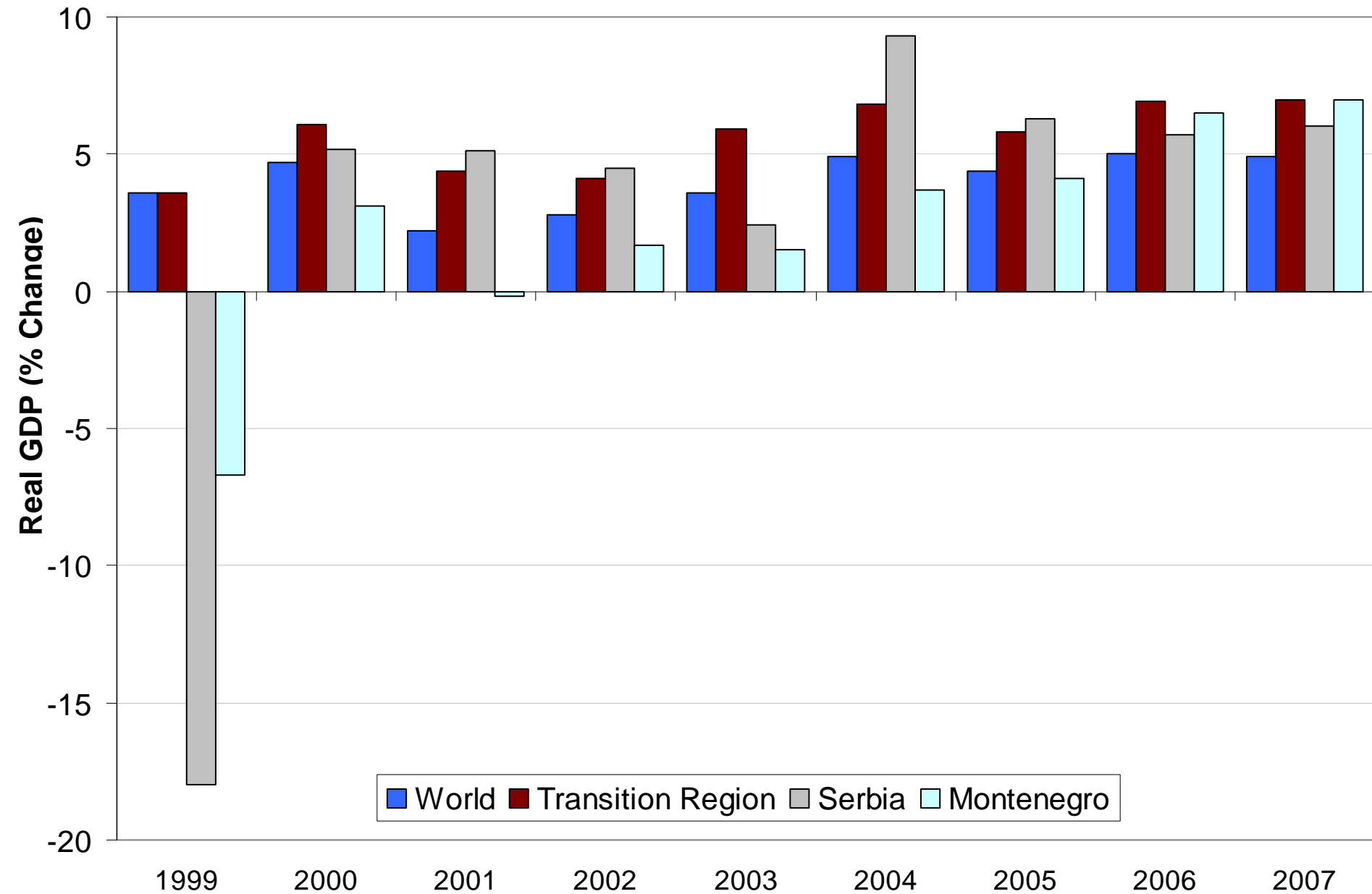
# Economic Performance in Montenegro in 2005-2007



# GDP as % 1989

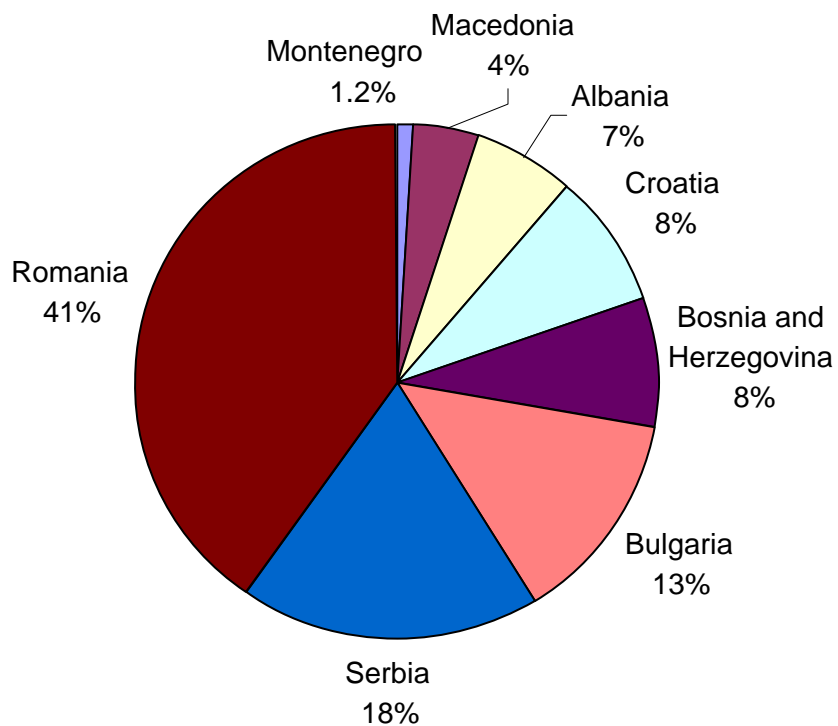


# Economic Growth Trends Worldwide

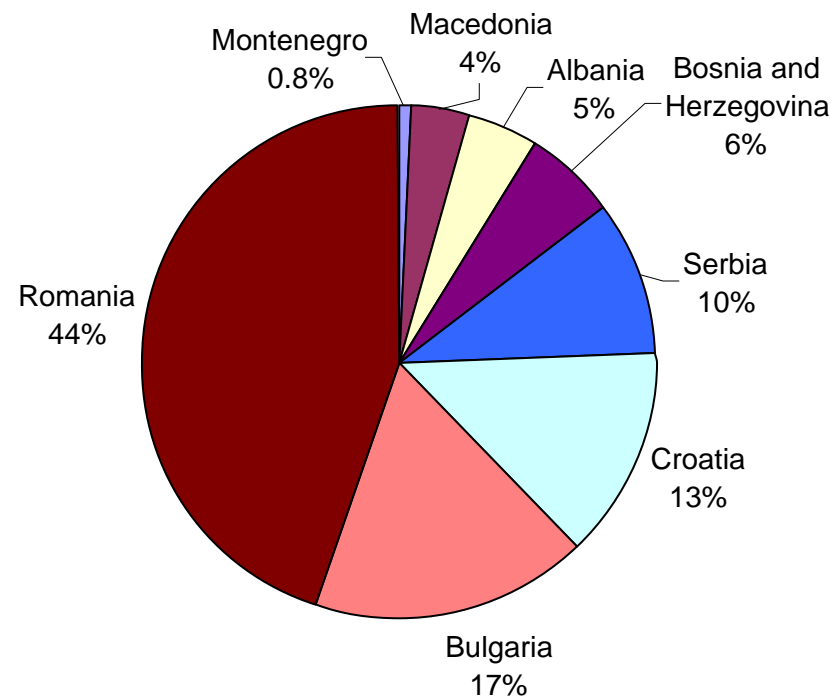


# Size of Economy and Population in the Southern Tier CEE

**Population**



**GDP (PPP)**

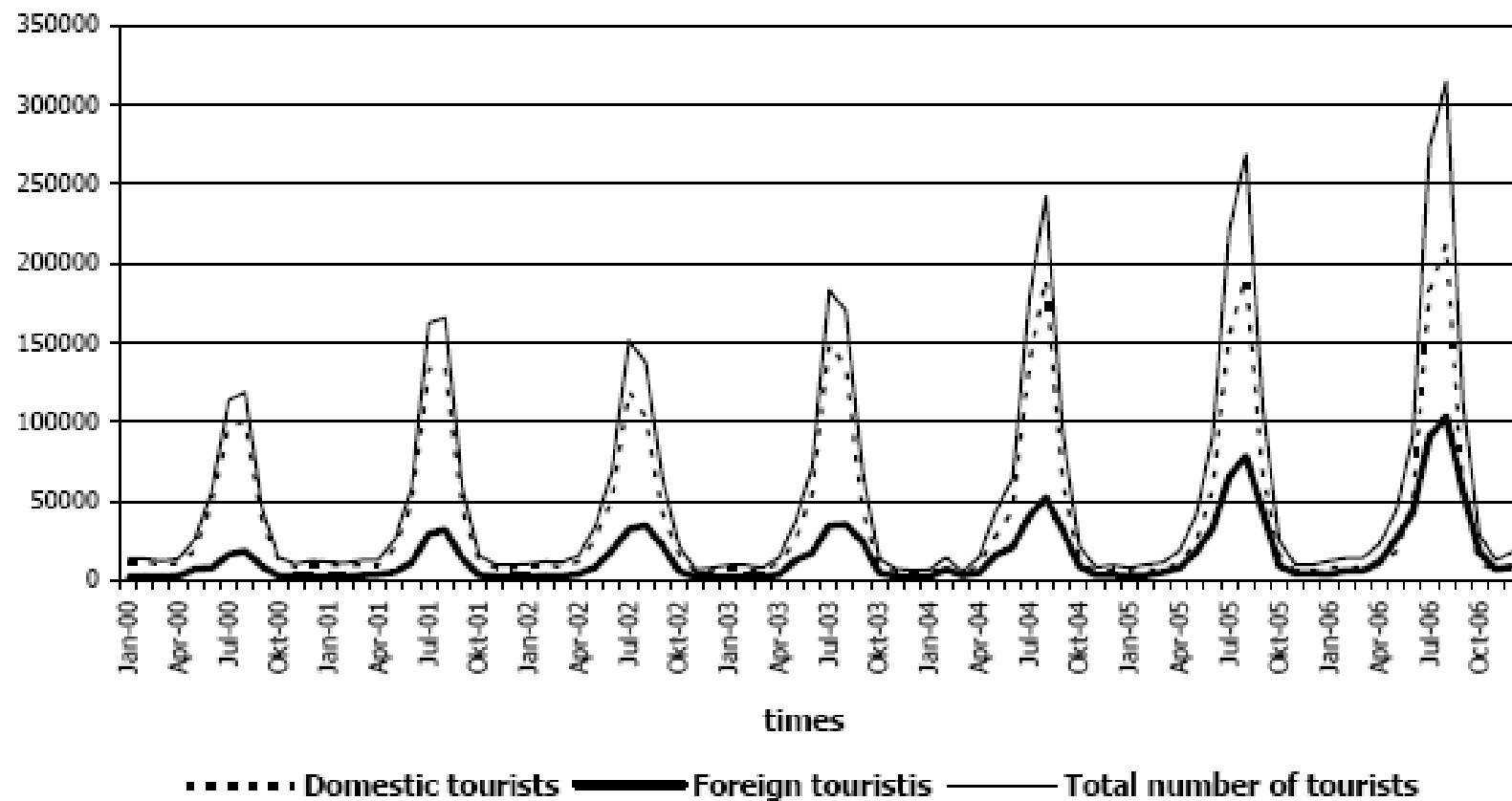


# Tourism in Montenegro

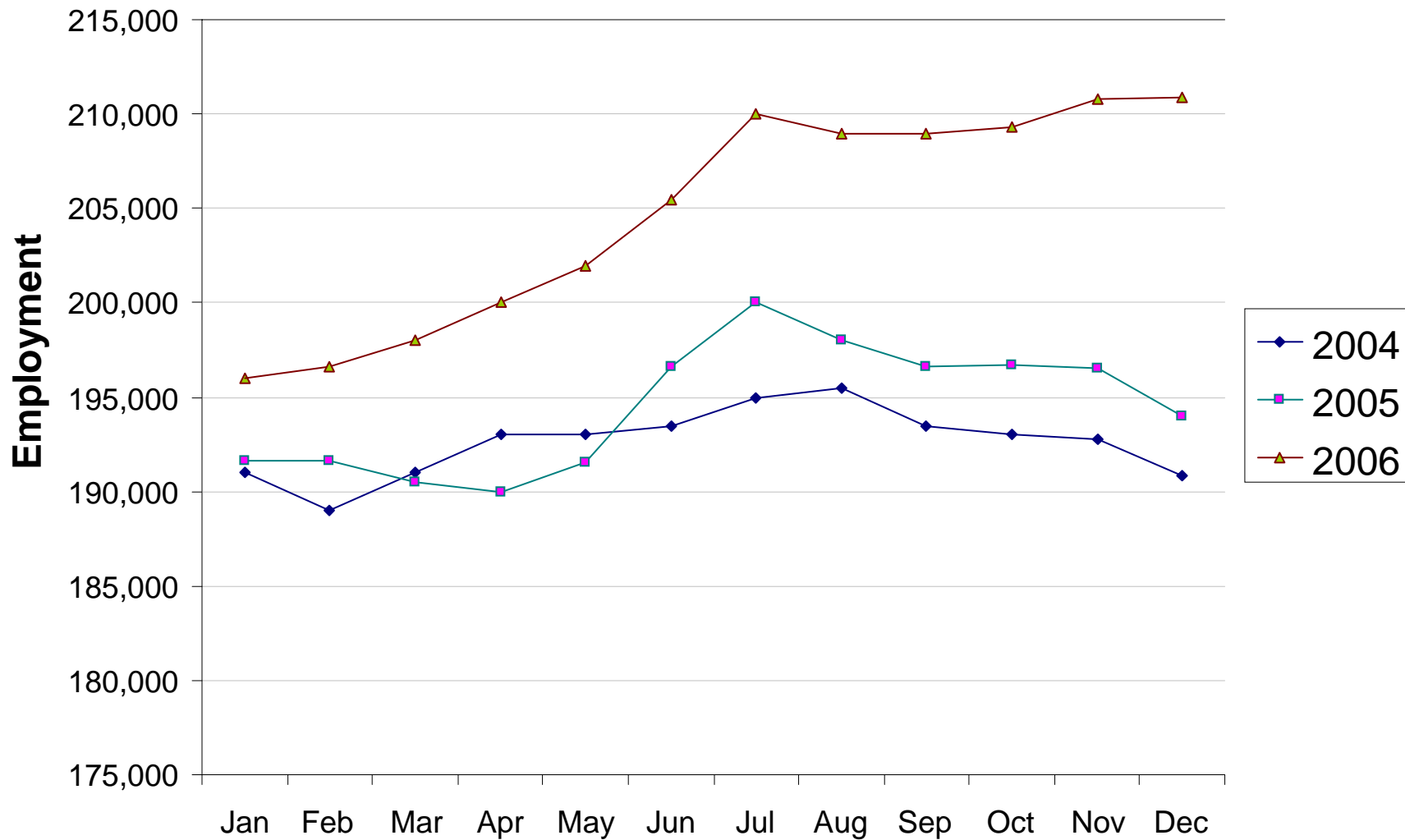




# Tourism in Montenegro



# Seasonal Employment in Montenegro



# Composition of Merchandise Exports in Montenegro in 2004

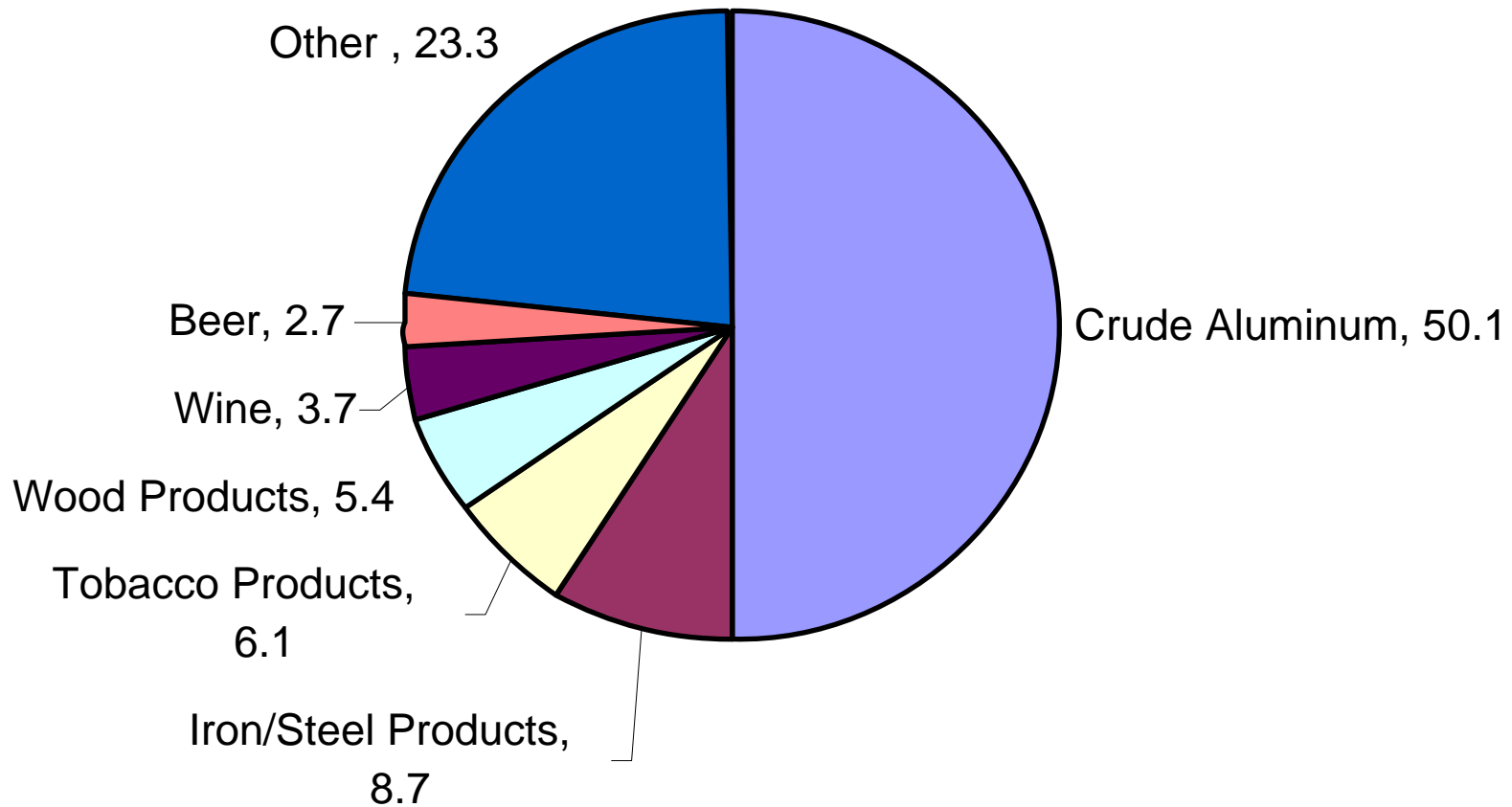
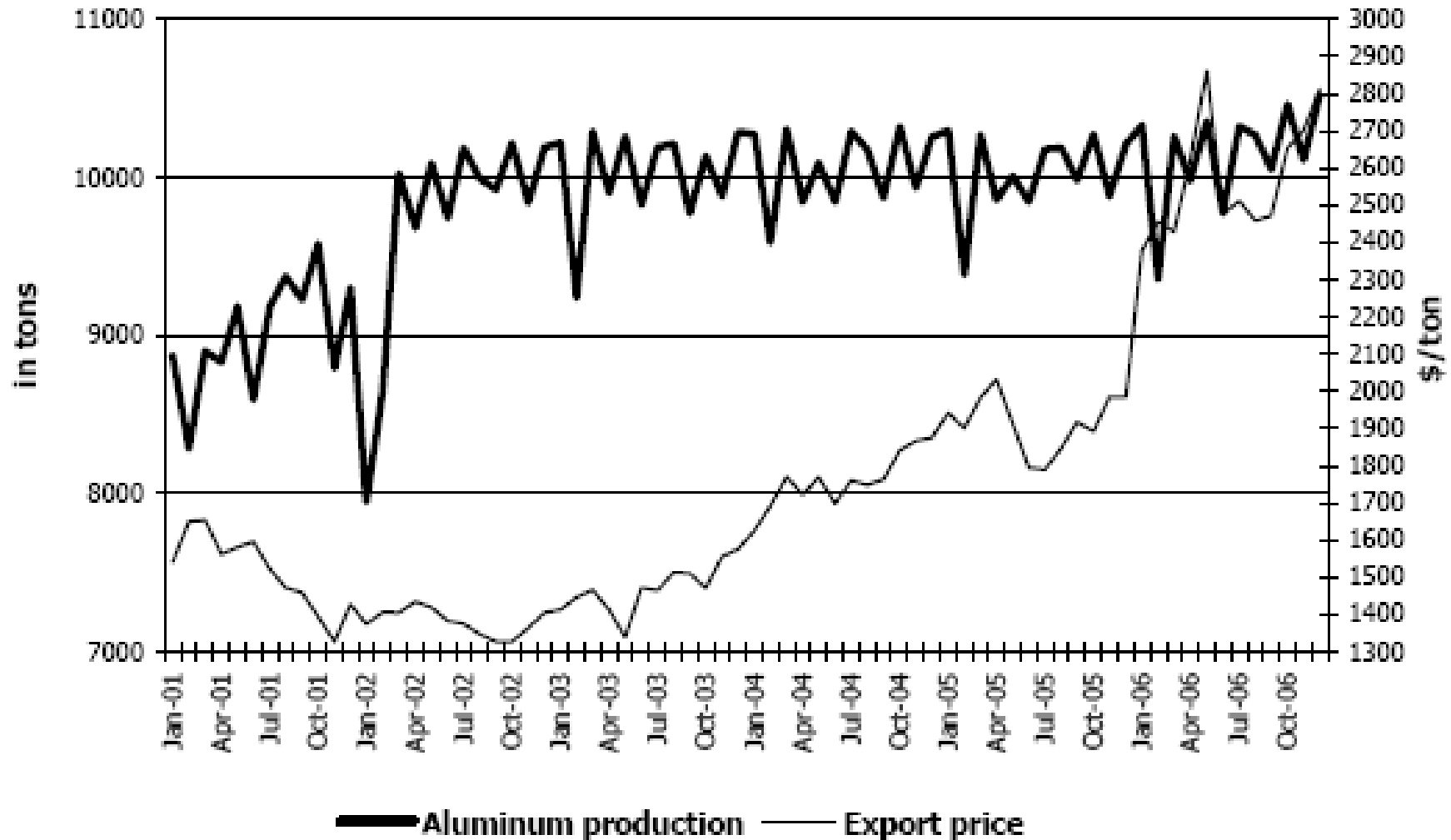


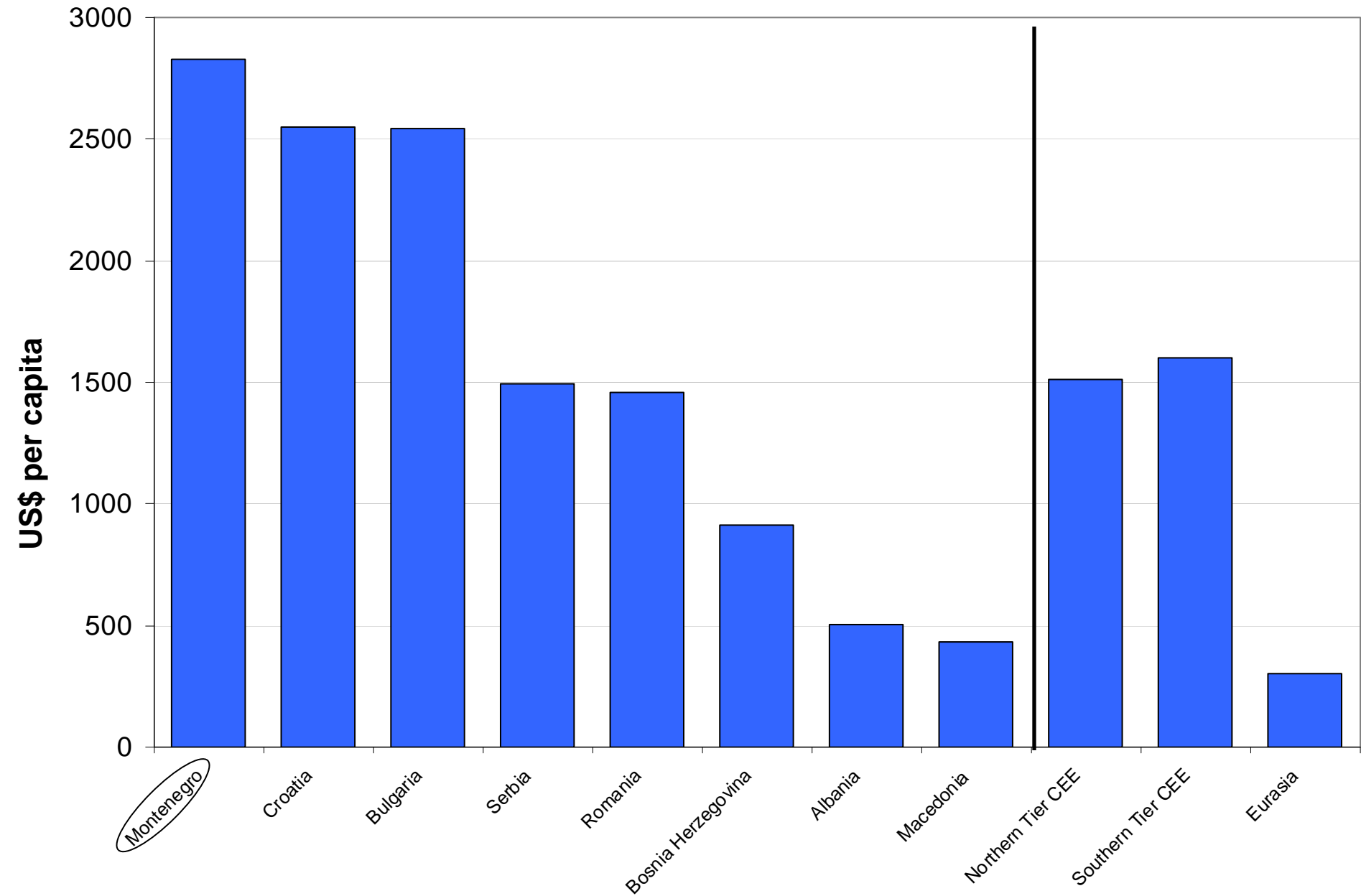
Figure 27

# Aluminum Production and Export Prices in Montenegro

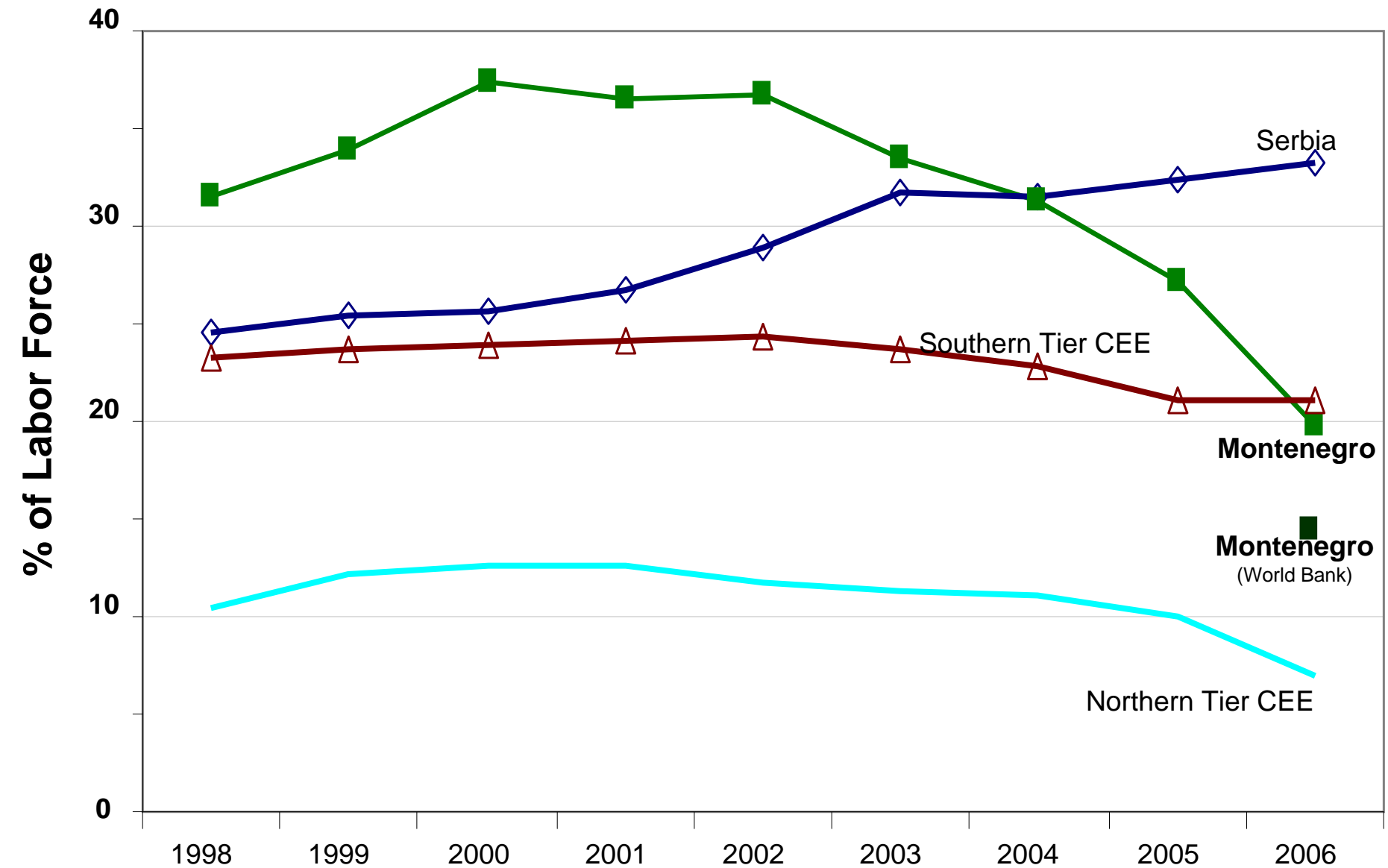


Source: KAP, London Metal Exchange

# Foreign Direct Investment, 2003 - 2007

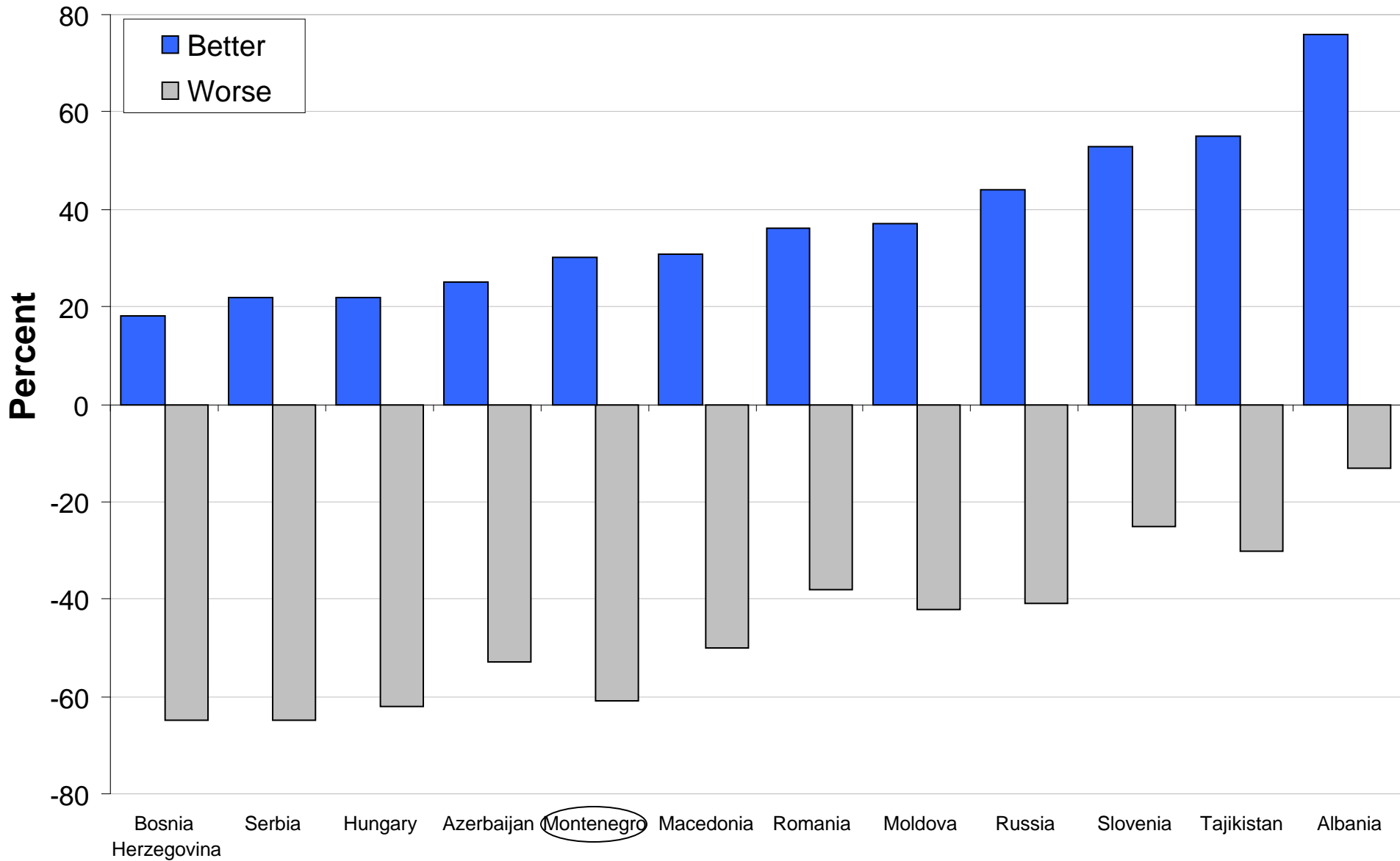


# Unemployment Rate over Time



# Views on Living Standards

## 2006 compared with 1989



# Views on Present Economic Situation

2006 compared with 1989

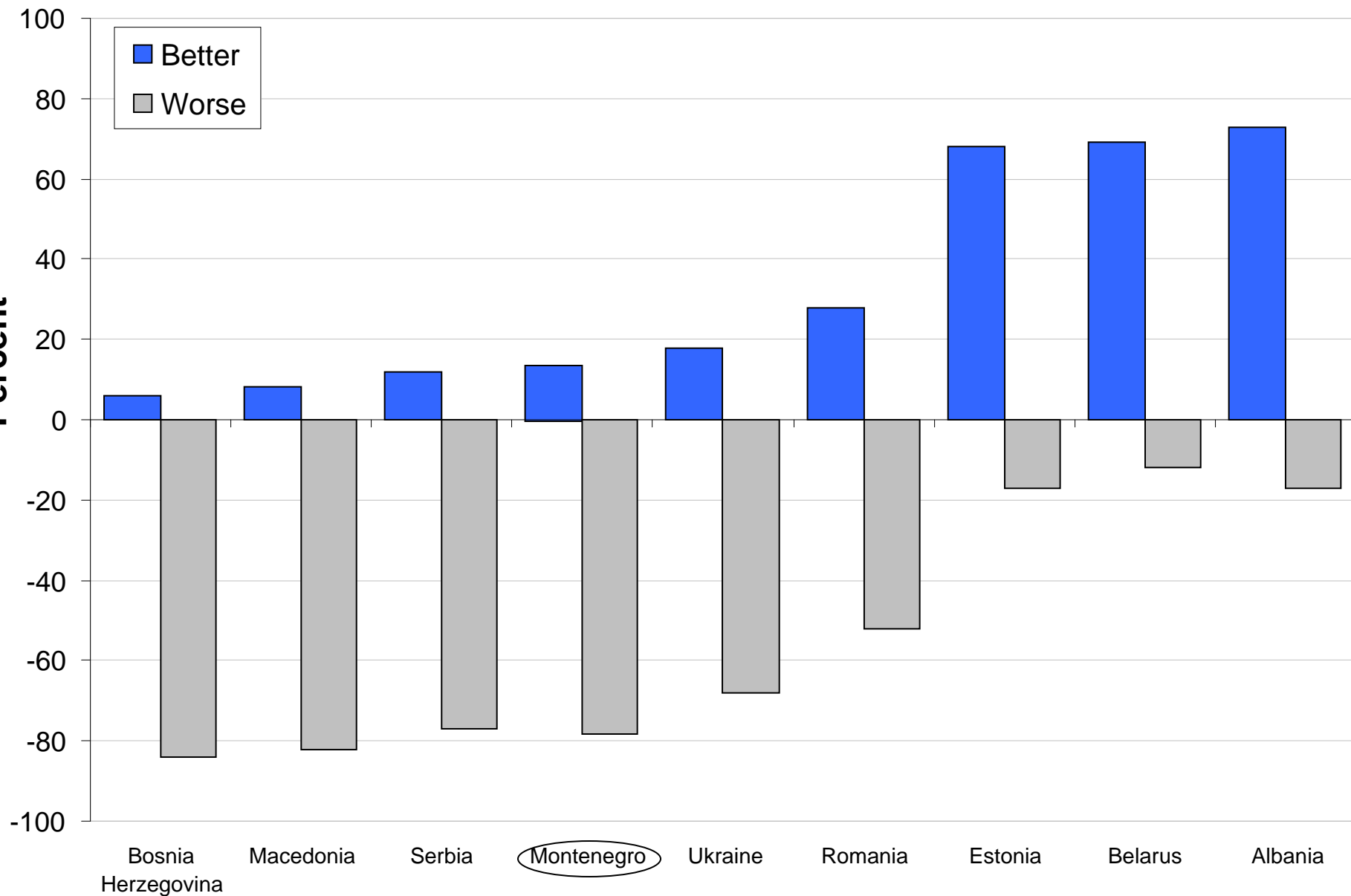
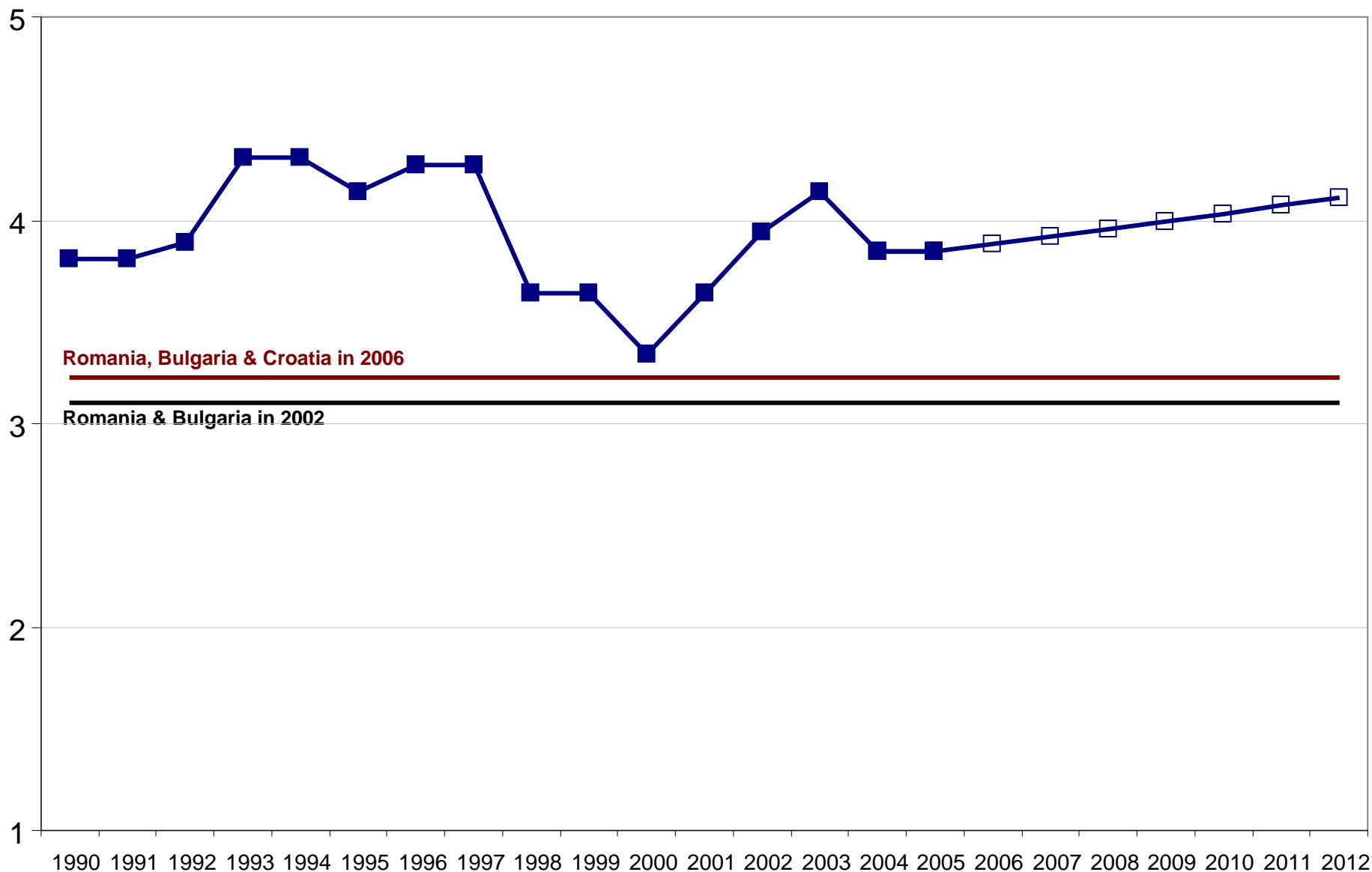




Figure 32

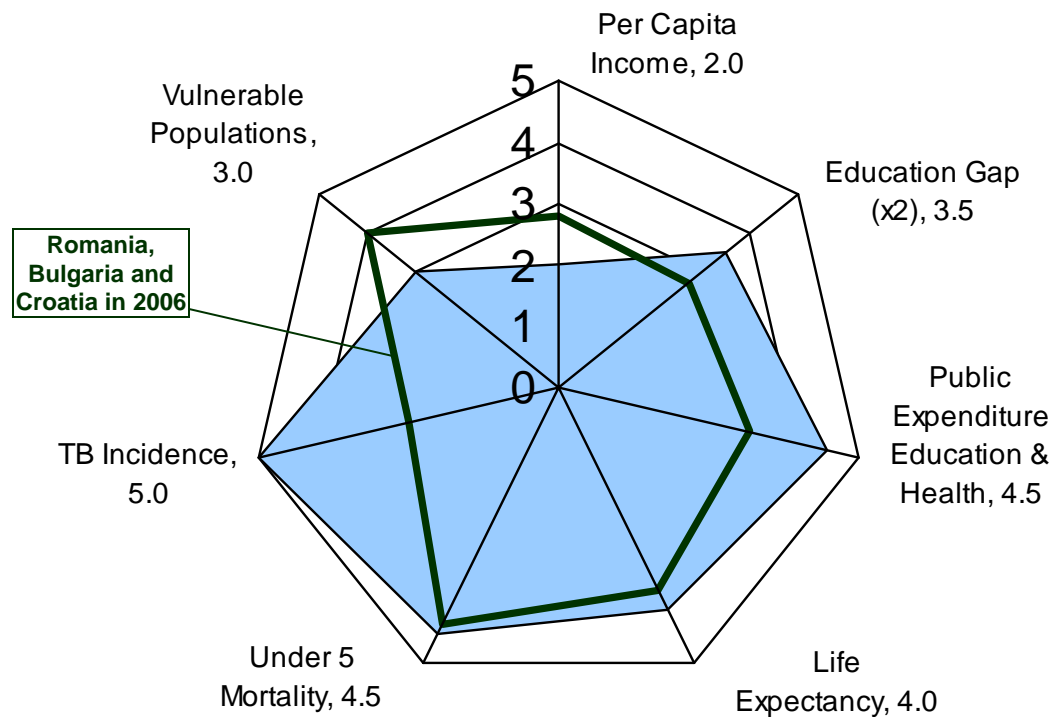
# Human Capital in Montenegro



1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

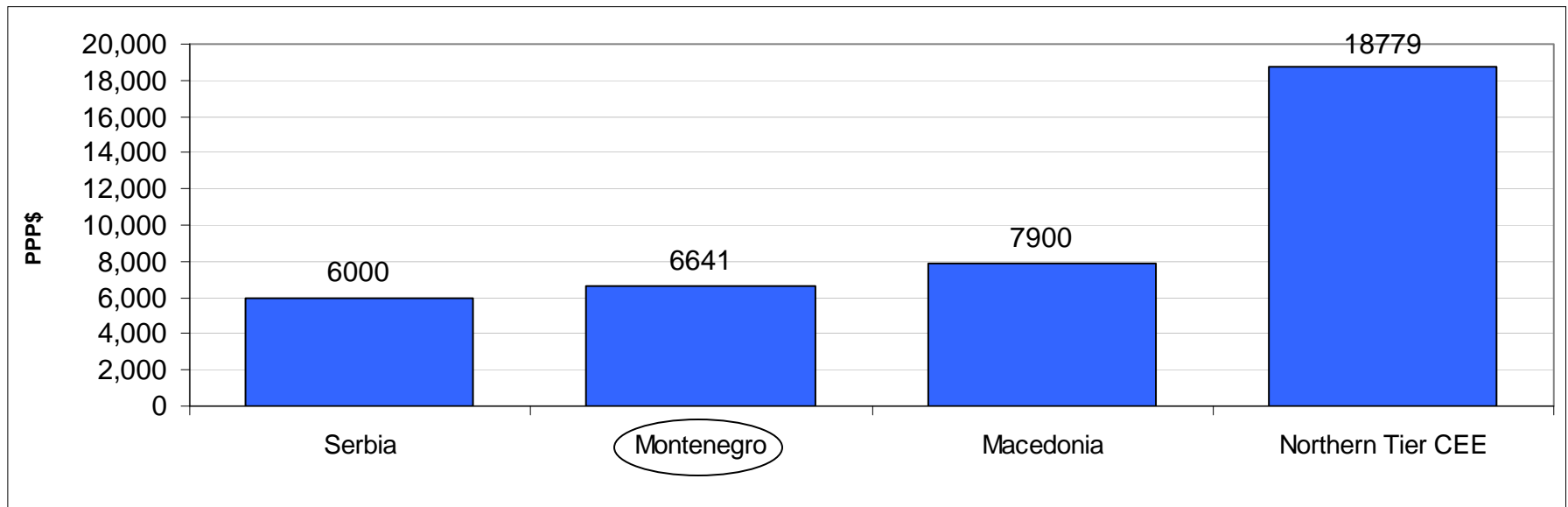
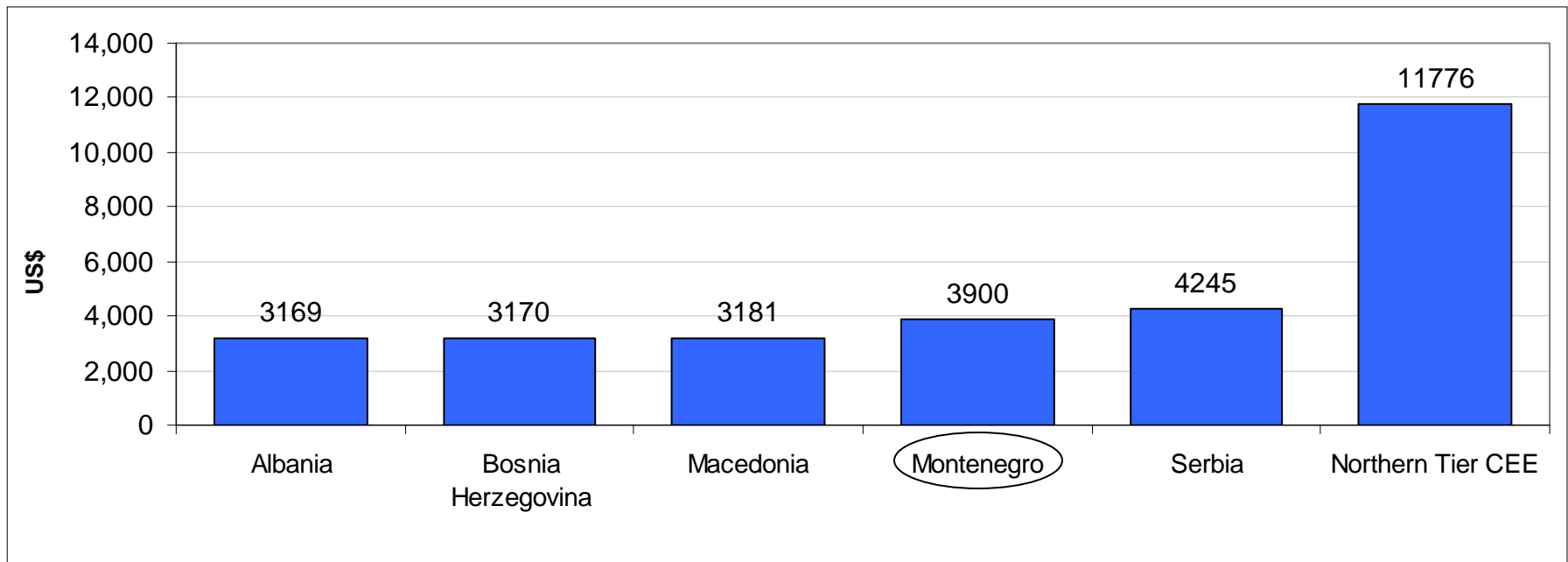
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); EBRD, *Transition Report* (November 2007), UNECE, *Statistical Division Database* (2007); Fund for Peace, *Failed States Index* (2007); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2007); World Health Organization European Health For All Database (2007); IEA, *TIMSS 2003 International Mathematics Report* (2004), *TIMSS 2003 International Science Report* (2004) and *PIRLS 2001 International Report* (2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

# Human Capital Index in Montenegro

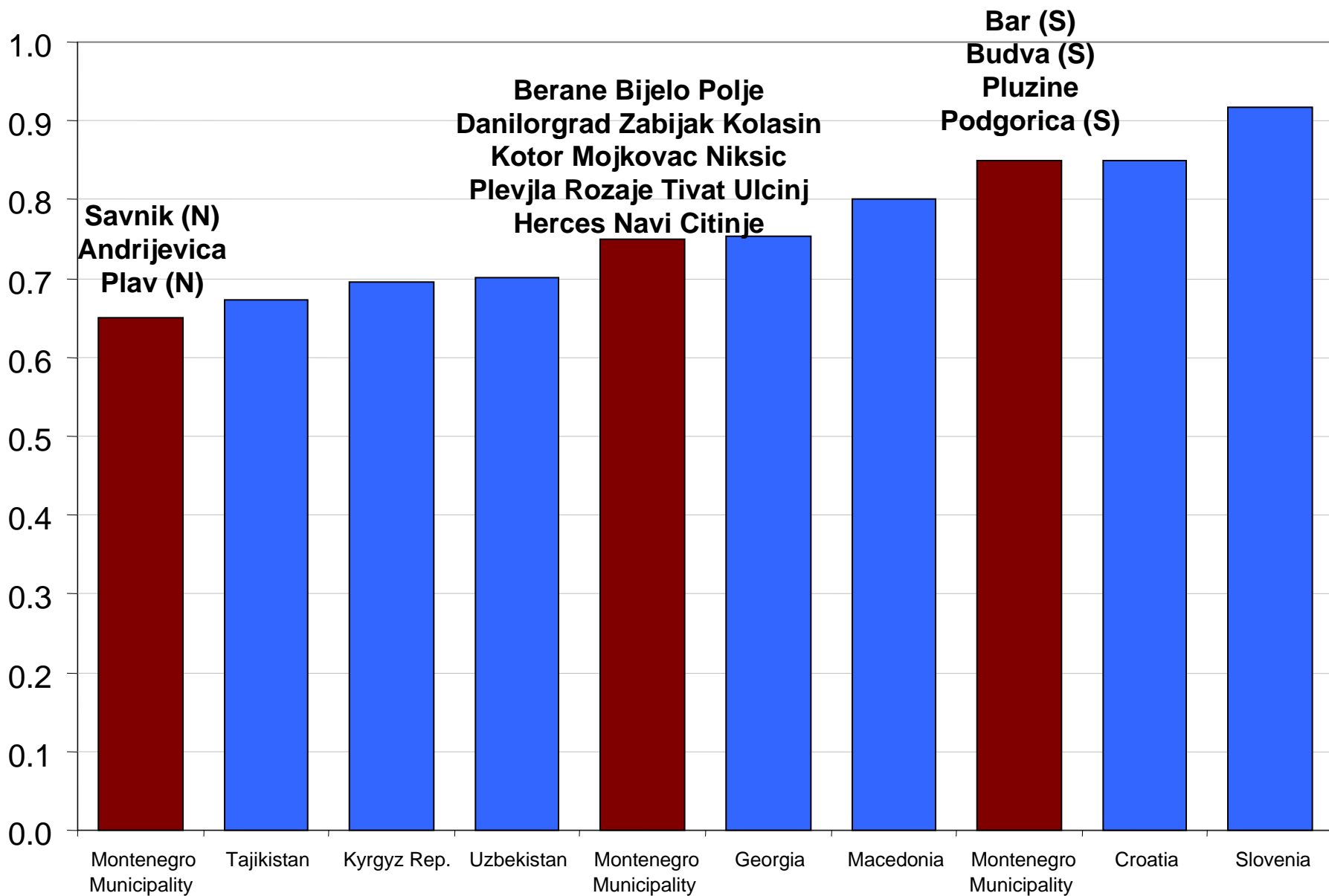


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); UNICEF, *TransMONEE Database* (2007); World Health Organization European Health For All Database (2007); IEA, *TIMSS 2003 International Mathematics Report* (2004), *TIMSS 2003 International Science Report* (2004) and *PIRLS 2001 International Report* (2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

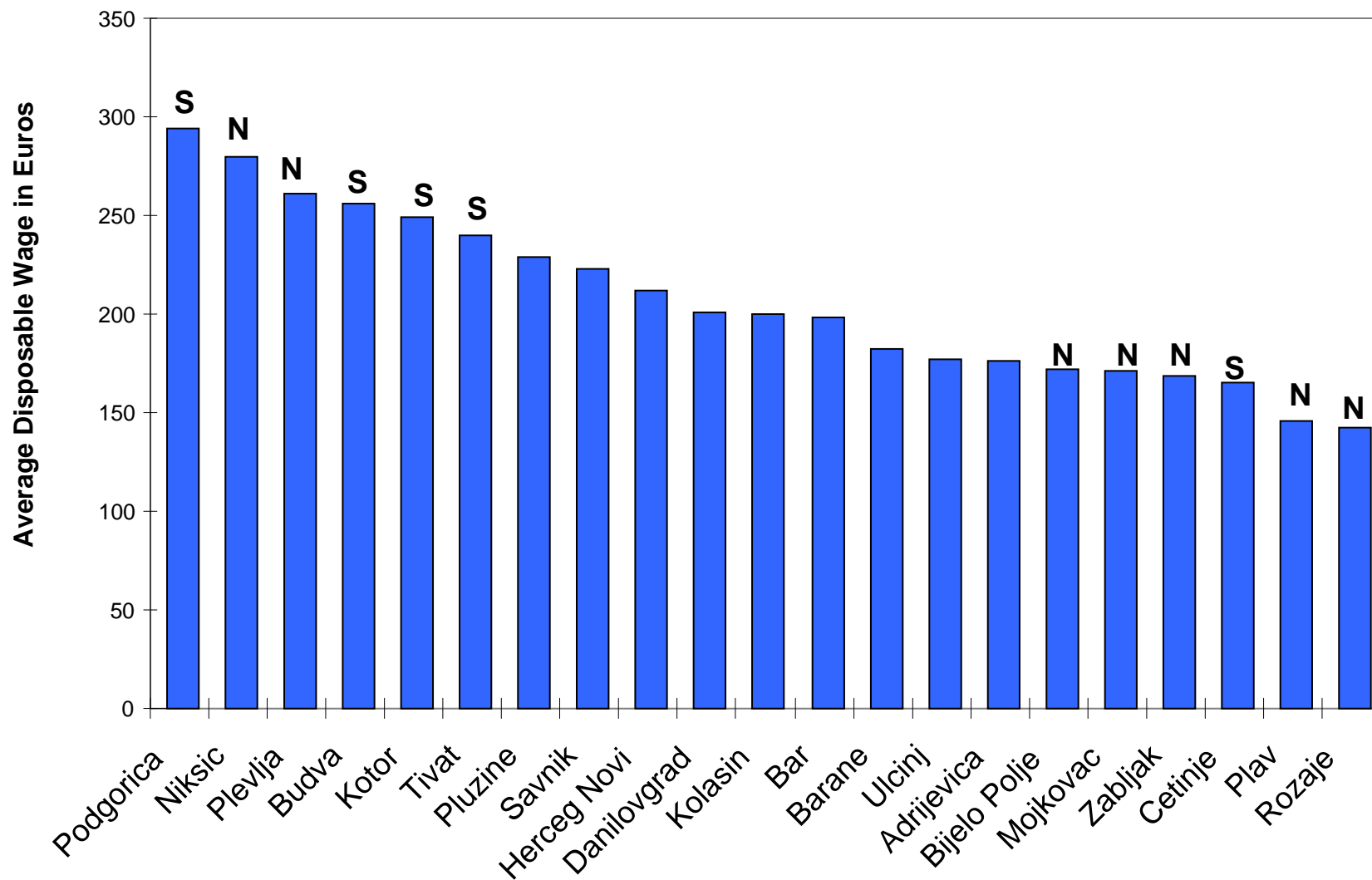
# Per Capita Income in 2007



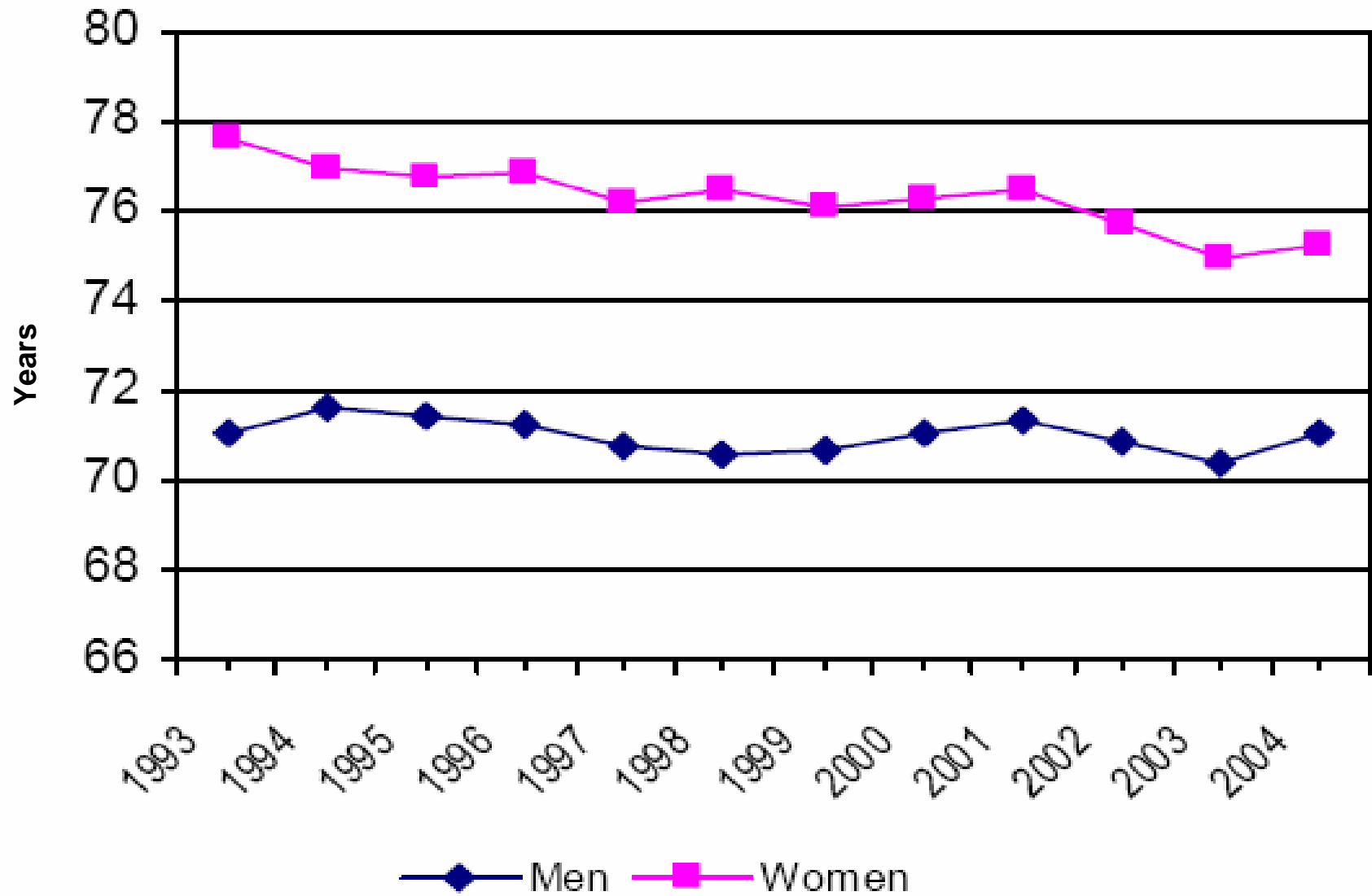
# Human Development Index



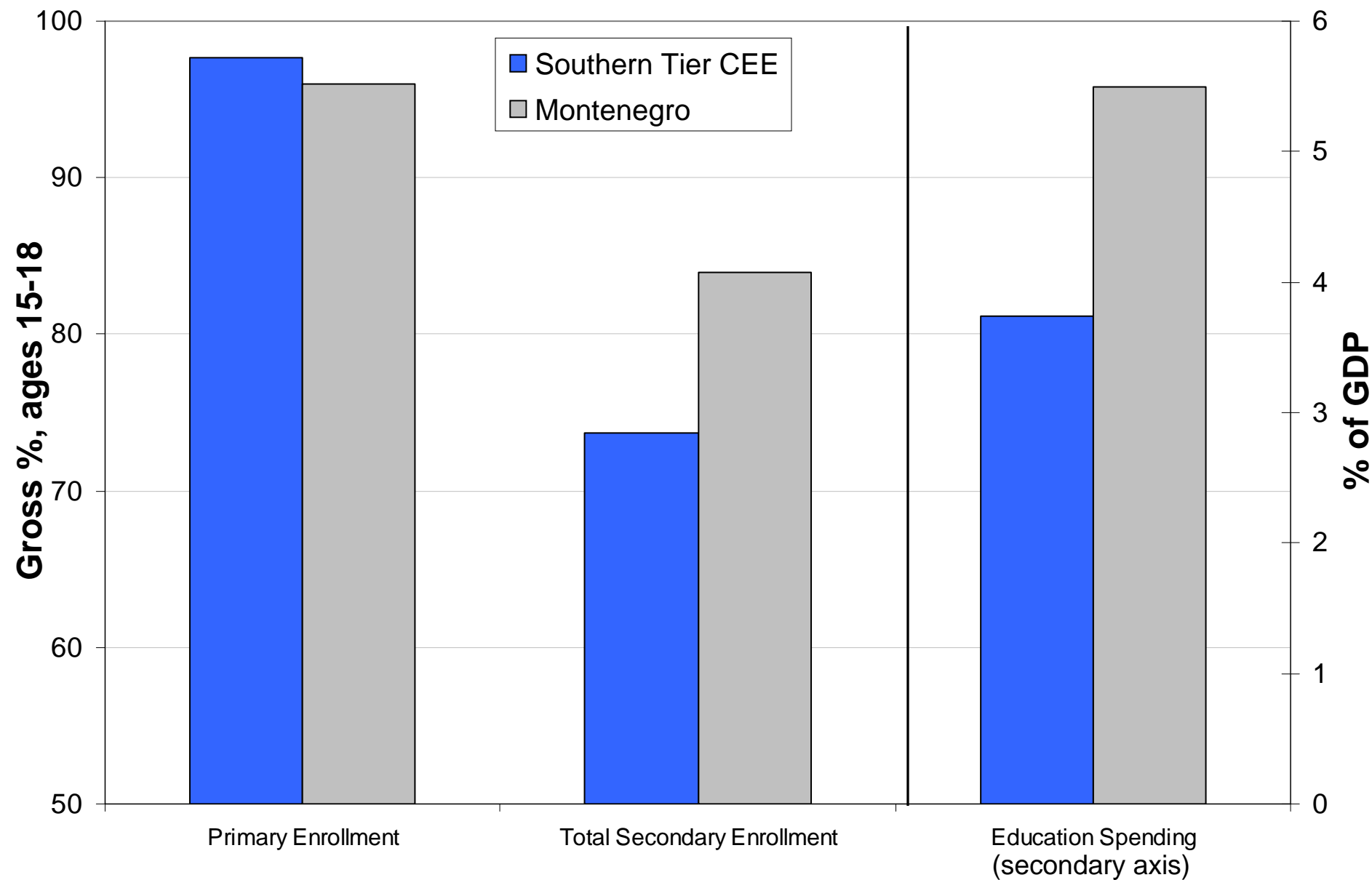
# Average Wage by Montenegrin Municipality



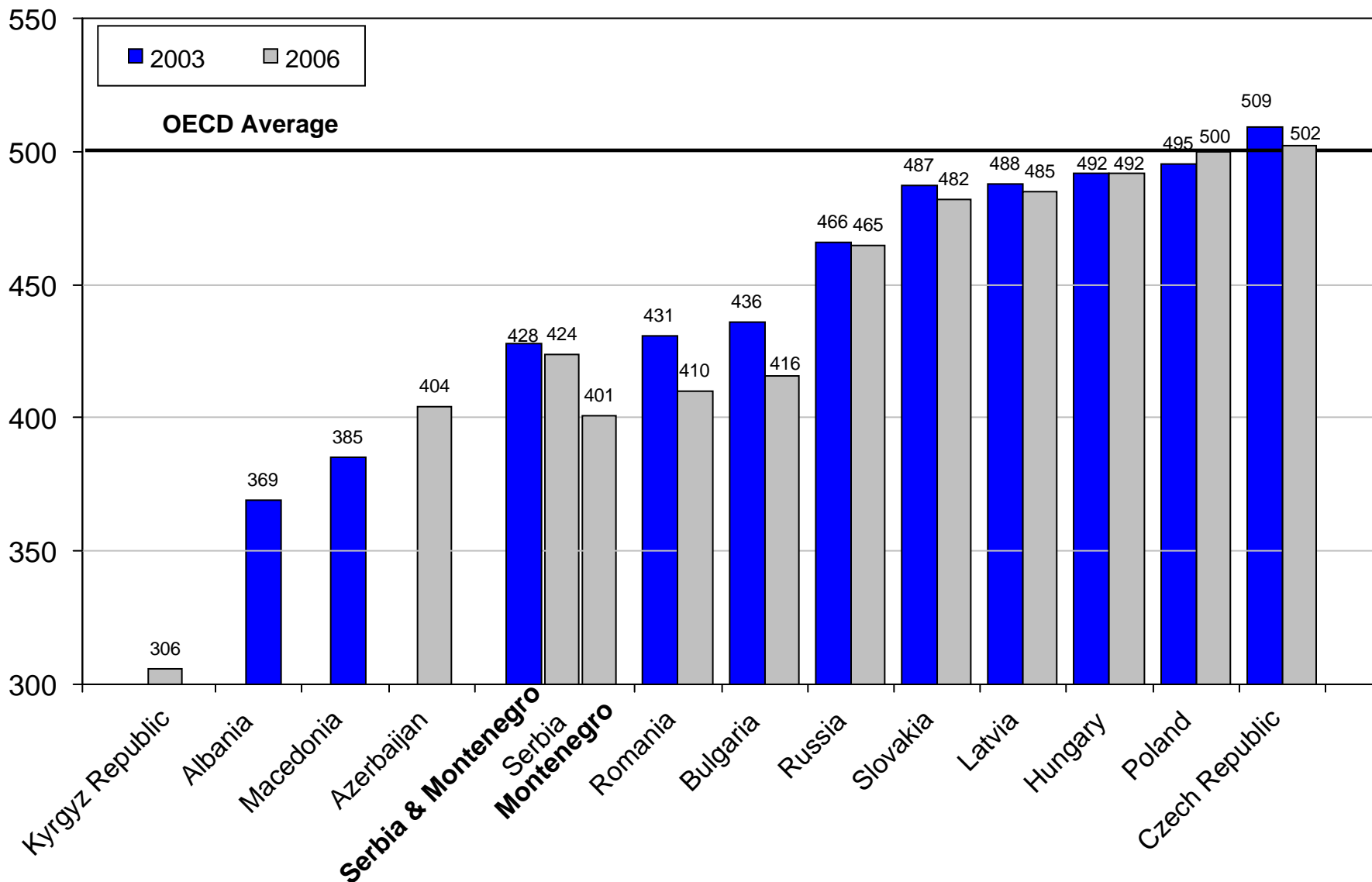
# Life Expectancy in Montenegro



# Enrollments and Expenditures in Education



# Functional Literacy (PISA 2003 vs. 2006)



Mean total score is the average of the reading, math, and science domains. Albania, FYR Macedonia, Romania, and Bulgaria use PISA 2000 instead of 2003. OECD, *Assessing Scientific, Reading and Mathematical Literacy: A Framework for PISA 2006* (December 2007); *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000 (2003)* and *Learning for Tomorrow's World: First Results from PISA 2003 (2004)*.