

Data Sheet

USAID Mission:	Montenegro
Program Title:	Economic Policy and Finance
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	170-0130
Status:	Continuing
Planned FY 2005 Obligation:	\$5,692,000 AEEB
Prior Year Unobligated:	\$340,000 AEEB
Proposed FY 2006 Obligation:	\$3,738,000 AEEB
Year of Initial Obligation:	1998
Estimated Year of Final Obligation:	2007

Summary: The goal of Strategic Objective 170-0130 focuses on two specific and related areas: comprehensive legal and institutional reform to promote the growth of private enterprises, and assistance to develop sector and enterprise competitiveness of Montenegrin firms. Coordinated support for institution building is provided to key Montenegrin government and private sector entities in order to assist them in developing their capacity to create and sustain an environment conducive to private sector development. Targeted institutions include: the Ministry of Finance, Central Bank of Montenegro, the Ministry of Economy, the electric power company, financial institutions such as the Opportunity Bank, non-governmental organizations conducting policy and consulting work (e.g., the Center for Entrepreneurship & Economic Development (CEED), the Institute for Strategic Studies & Prognosis) and selected firms and sector organizations in tourism, agriculture and wood processing. In FY 2006, activities will be directed toward relevant economic growth components of the new mission strategy. Without pre-judging the outcome of the strategy development process, it is clear that important work remains in order to help Montenegro ensure a strong private sector that will contribute to sustainable employment and income growth. Planning for FY 2006 is based on the assumption that USAID assistance will continue to emphasize activities supporting private enterprise development and sector competitiveness, while ensuring an orderly phase-out of activities related to economic policy reform.

Inputs, Outputs, Activities:

FY 2005 Program: Increase Private Sector Growth (\$3,380,000 AEEB, \$340,000 AEEB carryover). The new project, which began in mid-2004, will step up activity in FY 2005, with expanded delivery of assistance to selected enterprises in the agriculture, tourism, and wood processing sectors to achieve maximum impact on sustainable income and employment growth, and to sector-level organizations in the target sectors to help them build and strengthen their capacity to address common barriers to growth and development. A complementary \$350,000 Development Credit Authority (DCA) activity will be initiated to help expand availability of affordable commercial bank small and medium enterprise (SME) financing with longer terms through a portfolio loan guarantee. Activity will continue for focused phase-out support to ensure the maximum chance of success for long-term sustainability of CEED Consulting, the Montenegro Business Alliance (MBA) and Montenegro & Finance Leasing Company (MLF) activities. Principal partners: Center for International Private Enterprise (CIPE) and Booz Allen Hamilton (BAH) (primes), and others to be determined.

Improve Economic Policy and Governance (\$2,312,000 AEEB). Economic policy and institutional reform activities will continue, including those to enhance the financial sector's contribution to economic growth. Work on economic policy reform, including support to prepare technical documents related to World Trade Organization (WTO) accession, will both increase the soundness of fiscal management and improve the functioning of financial markets. These activities will maximize sustainability of the highly successful economic reform program that has to date established an effective and progressive framework for macroeconomic stability - in both fiscal policy and financial sector regulation and operation - and a commercial legal environment

conducive to an open, competitive market economy. This focused final-phase assistance in economic policy reform will address key implementation gaps in the economic reform agenda in order to maximize the extent to which these reforms can be institutionalized to provide the necessary basis for enhanced private enterprise development, sector competitiveness, and future economic growth and income generation. Principal partners: Bearing Point, IBM Consulting Co (primes).

FY 2006 Program: Increase Private Sector Growth (\$2,639,000 AEEB). Planned support of private enterprise development and sector competitiveness will continue. Based on expected initial success of the DCA activity to expand the availability of commercial bank SME financing, further extension of the program will continue, looking not only at SME finance but also at possibilities for micro-finance and municipal finance. Given the economic and social costs of labor redundancy it is anticipated that a pilot phase labor transition activity would be introduced, with assistance to address key gaps in the existing system of employment brokerage. Contractors same as in FY 2005.

Improve Economic Policy and Governance (\$1,099,000 AEEB). Work on economic policy reform, including WTO accession, will ensure a focused final phase of USAID support to address key implementation gaps in the economic reform agenda. This will ensure a sustainable institutional foundation for continued economic growth and income generation through enhanced private enterprise development and sector competitiveness. Contractor same as in FY 2005.

Performance and Results: USAID/Montenegro activities directed toward accelerated growth and development of private enterprise were very successful in FY 2004. At the macro level, Montenegro continued its solid and impressive progress toward increased soundness of fiscal management, with inflation continuing to drop and the fiscal deficit reduced. All revenues now pass through the central budget account and are subject to public disclosure, while progress continues on rationalizing expenditures. USAID support to the Tax Administration (TA) has contributed to maintaining revenue flows, even as tax rates have been cut. On-going development and transfer to the TA of systems for taxpayer data entry, return processing for monthly employer and employee contributions, and audit selection strengthened the transformation to a modern and efficient tax administration. Substantial progress was recorded in the functioning of financial markets, with growth of private bank deposits over 35%. The financial sector is increasingly well-regulated according to Basel II core principles and off-shore banks have been eliminated. Although the level of deposits and consequently of lending has risen dramatically, they are still comparatively low; however, effective implementation of deposit insurance, which began in 2004, should help diminish mistrust of banks. At the micro level, the USAID-supported Opportunity Bank disbursed more than 8.3 million euros in SME loans over the last 12 months, leading to the creation of over 350 jobs and the maintenance of over 1,700 others. Program activities contributed significantly to strengthen development of private enterprises, both in policy and organization and at the firm level. The CEED Consulting fee-for-service business generated over 94,000 euros in fees, working with 94 companies and five private investment funds. In FY 2004, CEED Consulting became the first and only consulting company in Montenegro qualified to conduct ISO 9000 pre-certification and its advising support was critical in establishing MLF, the only registered leasing company in the country, which fully placed its initial capital in exclusively supporting SMEs. Passage and implementation of key legislation has been instrumental in reducing barriers to starting and conducting business, including in business registration, collateral registration, and foreign trade. Important on-going legislation in the final stages of passage includes licensing, domestic competition, consumer protection, and mortgage. For the first time ever the operating accounts of the Electric Power Company of Montenegro (EPCG) for 2003 were given an unqualified audit report; continued progress was made to completing functional unbundling of EPCG by the end of 2004 as required by law, and USAID successfully completed support to establish the independent Energy Regulatory Agency.

US Financing in Thousands of Dollars

Montenegro

170-0130 Economic Policy and Finance	AEEB
Through September 30, 2003	
Obligations	57,527
Expenditures	47,371
Unliquidated	10,156
Fiscal Year 2004	
Obligations	9,854
Expenditures	9,195
Through September 30, 2004	
Obligations	67,381
Expenditures	56,566
Unliquidated	10,815
Prior Year Unobligated Funds	
Obligations	340
Planned Fiscal Year 2005 NOA	
Obligations	5,692
Total Planned Fiscal Year 2005	
Obligations	6,032
Proposed Fiscal Year 2006 NOA	
Obligations	3,738
Future Obligations	6,800
Est. Total Cost	83,951