Data Sheet

USAID Mission:	Montenegro
Program Title:	Economic Reform, Restructuring and Policy
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	170-0130
Proposed FY 2004 Obligation:	$8,454,000 AEEB
Prior Year Unobligated:	$1,400,000 AEEB
Proposed FY 2005 Obligation:	$4,608,000 AEEB
Year of Initial Obligation:	1998
Year of Final Obligation:	2006

Summary: The goal of this program, Accelerated Growth and Development of Private Enterprise, is the development of a comprehensive legal and institutional environment for the promotion of growth of private enterprises. Coordinated technical and institution-building assistance is being provided to key Montenegrin government and private institutions in order to assist them in developing the capacities needed to create and continue to shape an institutional environment conducive to private sector development. Targeted institutions include: the Ministry of Finance, Central Bank of Montenegro, the Ministry of Economy; the Pension Fund; the electric power company; financial institutions such as the Opportunity Bank; and private NGOs conducting policy and consulting work, such as the Center for Entrepreneurship and Economic Development and the Institute for Strategic Studies and Prognosis.

Inputs, Outputs, Activities:

FY 2004 Program:
Economic policy reform ($8,454,000 AEEB, $1,400,000 AEEB carryover). Reform is focused on the creation and institutionalization of an environment conducive to economic growth driven by private sector expansion. This phase of the activity is mainly focused on implementation and institution-building, following a period of intensive support for new legislation. The principal contractor is KPMG/Barents.

Fiscal and macro-economic stability: A primary focus of USAID interventions is to support the movement from a largely discretionary budget process with loose financial controls to a rigorous, analytic process that reflects the development needs of the Republic. Support is being given in implementation of best practice processes and procedures in budget analysis; treasury procedures and execution; pension reform and lowering of public transfers; debt control procedures and management; tax analysis; and, internal audit in the Ministry of Finance. On the revenue side, USAID is supporting the reorganization of the tax administration and the implementation of new taxes, including a value added tax (VAT). With the final closure of the former state monopoly payments system early in 2004, support is being provided to ensure that institutions that were dependent upon the system for operations and reporting have developed alternate methods. The principal contractor is KPMG/Barents.

Financial Sector improvement: After years of sanctions and state intervention of the banking sector, USAID will continue to provide support to increase credibility to the sector and improve financial intermediation. Following privatization of most of the banking sector, USAID is assisting in improving bank regulation. At this time, after two years of USAID support, the Central Bank is largely in compliance; deposit mobilization and a lack of credit continue to be a problem. FY 2004 will be the final year of USAID support for the successfully established Opportunity Bank. The principal contractor is KPMG/Barents.

Private Sector Support: FY 2004 will see the beginnings of a shift away from successful interventions in the macro level institutions toward more direct stimulation of the private sector. Private sector support is centered upon two types of activity designed to improve the overall competitiveness of Montenegrin companies. The first is to work with the Government both to implement new legislation and systematically remove barriers to doing business in Montenegro, including stripping away bureaucratic interference in the licensing and trade regimes. The second will be in direct company support, both in technical assistance and in building trade associations active in advocacy. The principal contractor is KPMG/Barents.

FY 2005 Program:
Economic policy reform ($4,608,000 AEEB). Policy efforts will continue in the implementation and permanent institutionalization of major reforms begun in previous years. FY 2005 activities will continue ongoing training for GoM officials, persons and organizations either in charge of implementing reforms, or affected by them. Activities will also focus on the assessment of reform legislation already passed, and the fine-tuning of that legislation, according to lessons learned. Overall, efforts will continue to move away from the macro level policy reform and toward interventions to stimulate the private sector. The principal contractors will be BearingPoint and one to be determined by tender.

Performance and Results: Considerable progress has been made both in the drafting and adoption of key reform legislation, and in the implementation of that legislation. Areas of particular success include the business organization law; the movable pledge system; the public procurement system; reform of the payments system; the banking laws; the first pillar pension reform; and, the budget law. Considerable work remains, especially in the full institutionalization of some of the more complex frameworks, but at this time it is believed that Montenegro is on a relatively stable path to reform. Continued assistance will ensure that the process of reform will move as rapidly and smoothly as possible. One critical area for ongoing implementation of reforms continues to be the judicial system. Without ongoing support here, especially in the commercial courts, progress could be jeopardized.

At the completion of the USAID-supported economic reform program, in coordination with other donors, Montenegro will have both the legal and operational foundations of a market economy. Though certain improvements will always be needed, the critical areas of budget preparation and execution; tax collection; bank supervision; pension fund management; collateral rights and bankruptcy procedures; payments system reform; and, electricity rate setting will be nearly fully institutionalized. The business regulatory environment will have stabilized and companies and shareholders will be apprised of their rights and obligations.