

Montenegro

The Development Challenge: While Montenegro appears to now be emerging from the political and social instability that disrupted the economy for more than a decade, much remains to be done. GDP remains near 1990 levels (about \$1.3 billion.) Unemployment, once adjusted for the informal market, is steady at 17%. The average recorded wage in the formal sector is under \$200. Inflation in 2001 was 25%. International trade, excluding Serbia, yielded a deficit of \$400 million that same year. And, if arrears accumulation is considered, the government deficit for 2001 is \$90 million. Furthermore, foreign investors have not been active in Montenegro, awaiting political stabilization and implementation of new legislation relevant to business. Even then, Montenegro may have difficulty competing with other countries in the region given, among other things, its small market size, lack of infrastructure, electricity shortages, and labor rigidities. In brief, more work remains to be done in areas such as fiscal planning and control, financial sector development and regulation, restructuring of the energy sector, privatization, completion of reforms in the business regulatory environment, private sector investment and growth, judicial reform, independent media, decentralization, health, and infrastructure. Finally, reforms must take account of both the legal framework and the building of sustainable institutions. More government action is needed to help insure that economic reforms are complemented by attention to the social consequences of those reforms. Safety-net issues such as the pension and health care systems could negatively affect public support for reform. Popular perceptions regarding the government's performance in managing political, economic and social transition are essential for continued citizen support for reform. However, polling data indicate that the public at large is increasingly dissatisfied with the pace of economic transition. It is crucial that the government enjoy wide public support for the democratic transition, which can only be ensured by a transparent reform process, and closer cooperation with civil society.

The USAID Program: The USAID program directly advances a number of U.S. International Affairs Strategic Goals including regional stability, economic development, open markets, global growth and stability, democracy and human rights and environmental improvement. In terms of overall USAID pillars, the strategy directly pursues goals of broad-based economic growth, human capacity development, sustained environmental protection, and strengthened democracy and good governance.

The USAID program directly addresses the development challenges indicated above and recently announced USG foreign policy objectives to address the "inability of new democracies to control borders, to promote the rule of law and to respond to the needs and insecurities of their citizens." The three Strategic Objectives for the Montenegro program -- accelerated development and growth of private enterprise (SO 170-0130); more effective, responsive and accountable democratic institutions (SO 170-0200); and increased, better-informed citizen participation in political and economic decision-making (SO 170-0210) - are supported by a focused program of assistance. They aim to help broaden the base of individual, community and private involvement in the economic and political systems of Montenegro. The impact of this program will provide for greater economic and political empowerment of citizens, a legal and policy environment that encourages transparent and accountable processes, democratic and open institutions that serve citizen needs, a competitive market economy and a more independent judiciary. Two activities being administered by the International Office for Migration were undertaken in FY 2002 to combat trafficking, including a public awareness campaign targeting young women and girls (TV video spot, radio jingle, posters, bus tickets, and sugar packages) and technical assistance to a shelter for victims of trafficking called the Women's Safe House.

The basic institutions of government are in place, but capacity is lacking in areas related to a modern market economy. This is particularly noted in some regulatory institutions, and in some sub-units of the Ministry of Finance, particularly those relating to control over public finances and tax administration.

Other Program Elements: Through the Bureau for Europe and Eurasia's regional energy program, USAID has been supporting regional integration of utility markets, in which Montenegrin officials participate. Plans for the future include working with two programs of the Bureau for Economic Growth,

Agriculture, and Trade (EGAT), the Development Credit Authority and the Financial Services Volunteer Corps.

The U.S. Department of Agriculture maintained a program for the provision of animal feeds to Montenegrin farmers that ended in FY 2002. The Department of Treasury, utilizing funds transferred from USAID, maintains a treasury advisor, working mainly on budget preparation.

Other Donors: Following several years in which USAID was the dominant donor in Montenegro, other donors have become increasingly important and coordination between them and USAID/Montenegro is close on several fronts. In the energy sector USAID will be sharing responsibilities for restructuring the state power company Elektroprivreda Crna Gora with the European Agency for Reconstruction (EAR) and the World Bank. The establishment of the independent regulator for the energy sector will be shared with the British Department for International Development (DFID). USAID also closely coordinates with the EAR on implementation of a value-added tax in the customs service and on development and implementation of the treasury system. EAR has also taken over the role of developing the next phase of the business registry. The German development assistance bank (KfW) has recently provided a line of credit to Opportunity Bank, which was established in Montenegro with USAID support. With the end of USAID budget support, the World Bank begins its support and the International Monetary Fund will assist with monetary stabilization.

**Montenegro
PROGRAM SUMMARY**

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Asst. for E. Europe and the Baltic States	54,878	60,000	25,000	18,000
Supplemental - AEEB	17,462	0	0	0
Total Program Funds	72,340	60,000	25,000	18,000

STRATEGIC OBJECTIVE SUMMARY

170-0130 Economic Reform, Restructuring and Policy				
AEEB	26,785	12,843	7,900	4,608
170-0200 Democratic Transitions				
AEEB	0	0	5,571	5,232
170-0210 Local Governance and Community Development				
AEEB	12,000	23,977	6,619	5,280
170-0410 Special Initiatives				
AEEB	29,900	15,000	0	0
170-0420 Cross-Cutting Programs				
AEEB	1,000	2,000	2,000	1,500

TRANSFER				
AEEB	2,655	6,180	2,910	1,380

SO 170-0130 includes \$2,462 of FY 2001 Supplemental - AEEB.

SO 170-0410 includes \$14,900 of FY 2001 Supplemental - AEEB.

TRANSFER includes \$100 of FY 2001 Supplemental - AEEB.

Mission Director,
Spike Stephenson

Data Sheet

USAID Mission:	Montenegro
Program Title:	Economic Reform, Restructuring and Policy
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	170-0130
Status:	Continuing
Proposed FY 2003 Obligation:	\$7,900,000 AEEB
Prior Year Unobligated:	\$584,000 AEEB
Proposed FY 2004 Obligation:	\$4,608,000 AEEB
Year of Initial Obligation:	1998
Estimated Completion Date:	2005

Summary: The goal of Strategic Objective 170-0130: 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 procurement assistance is being provided to key Montenegrin government and private institutions in order to assist them in developing the capacities they need to create and continue to shape an institutional environment conducive to private sector development. Targeted institutions include: government offices such as the Ministry of Finance, Central Bank of Montenegro, Ministry of Economy, Ministry of Tourism, Privatization Council and Agency for Reconstruction and Foreign Investment; financial institutions such as Opportunity Bank; and private NGOs conducting policy work such as the Center for Entrepreneurship and Economic Development and the Institute for Strategic Studies and Prognosis.

Inputs, Outputs, Activities:

FY 2003 Program:

Economic policy reform (\$6,900,000 AEEB) is focused on the creation and institutionalization of an environment conducive to economic growth driven by private sector expansion. There are three mutually reinforcing avenues to this goal being pursued simultaneously in FY 2003:

1. Economic stability, which includes further training on financial sector development including banking regulation and problem bank resolution. It also includes stabilization of the energy sector involving improved financial management controls at the state power company, reform of the payments system, and building and implementing the framework for fiscal balance and sustainability with further improvements in budgetary processes and debt management. The principal contractor is KPMG/Barents.
2. Private sector environment, which includes programs for promotion of privatization and private sector participation, assisting in the implementation of a wide range of new business regulatory and accounting legislation. A major component of this program is public education to ensure that both companies and citizens are aware of their rights and obligations in the new environment. The principal contractor is KPMG/Barents.
3. Monitoring and evaluation, which includes strengthening the macroeconomic analysis capabilities of the central bank, and the fiscal analysis capabilities of the Ministry of Finance, while improving transparency in government to ensure access to needed information and processes. The principal contractor is KPMG/Barents.

Small and medium enterprise (SME) (\$1,000,000 AEEB) support activities will focus on association building and provide business development services to SMEs to help them better adapt and take advantage of the new business environment. USAID will work in different areas to: build associations to conduct business advocacy work, to provide consultancy services to SMEs to help them better adapt to and take advantage of the new business environment, and to provide support for restructuring several of

the larger and more economically important SMEs in Montenegro. The principal contractor is KPMG/Barents.

FY 2004 Program:

Economic policy reform (\$4,608,000 AEEB) efforts will continue in the implementation and permanent institutionalization of major reforms begun in previous years. FY 2004 activities will continue ongoing training for GOM officials and other 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. Further activities will strengthen public and private institutions to improve their ability to self-monitor and evaluate critically with a view to continually improving the Montenegrin economic environment. The principal contractor is KPMG/Barents.

Performance and Results: There has been considerable progress toward meeting the planned results of this Strategic Objective, such as basic legislation and institutions for a market economy have been established, and efforts are being directed toward the longer and sometimes more difficult stage of implementation. Though some staffing, training and institutionalization issues remain, Montenegro has made much progress.

With the completion of the USAID-supported economic reform program, and 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, critical areas will be nearly fully institutionalized such as: budget preparation and execution, tax collection, bank supervision, pension fund management, collateral rights and bankruptcy procedures, payments system reform, and electricity rate setting. Finally, the business regulatory environment will have stabilized and companies and shareholders will be apprised of their rights and obligations.

US Financing in Thousands of Dollars

Montenegro

170-0130 Economic Reform, Restructuring and Policy	AEEB
Through September 30, 2001	
Obligations	36,184
Expenditures	11,951
Unliquidated	24,233
Fiscal Year 2002	
Obligations	12,259
Expenditures	19,777
Through September 30, 2002	
Obligations	48,443
Expenditures	31,728
Unliquidated	16,715
Prior Year Unobligated Funds	
Obligations	584
Planned Fiscal Year 2003 NOA	
Obligations	7,900
Total Planned Fiscal Year 2003	
Obligations	8,484
Proposed Fiscal Year 2004 NOA	
Obligations	4,608
Future Obligations	0
Est. Total Cost	61,535

Data Sheet

USAID Mission:	Montenegro
Program Title:	Democratic Transitions
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	170-0200
Status:	New
Proposed FY 2003 Obligation:	\$5,571,000 AEEB
Prior Year Unobligated:	\$0
Proposed FY 2004 Obligation:	\$5,232,000 AEEB
Year of Initial Obligation:	2003
Estimated Completion Date:	2006

Summary: USAID's program to strengthen the rule of law and respect for human rights includes training and technical assistance to: advance the effectiveness, independence, and accountability of the judiciary and other legal institutions; improve the capacity of civil society, political parties and trade unions to serve and represent citizens; and build up the capacity and competitiveness of independent media.

Inputs, Outputs, Activities:

FY 2003 Program:

Judicial reform and rule of law (\$3,430,807 AEEB). This new activity will provide expert legal advice and other technical assistance necessary to support the Montenegrin Government's efforts to implement the Courts Act. It will also improve court operations, including the quality and timeliness of judicial decision-making and the basic management and administration of the courts at all levels, with special emphasis on improving the operations of the basic and commercial courts. Rule of law inputs in the form of technical assistance, workshops, expert advice and discussion, as well as training will continue to address legislative reform, judicial training and education, and legal professional association development. The principal implementer is ABA/CEELI (rule of law program) with others TBD (new judicial reform activity).

Civil society strengthening, political party and parliamentary development, independent trade union strengthening (\$1,700,000 AEEB). Training, technical assistance, and financial grants will be provided to NGOs throughout Montenegro, so that they can attain skills required to serve as effective partners in the public policy process. In FY 2003, special emphasis will be placed on establishing regional advocacy centers dedicated to promoting more productive relationships among NGOs, government authorities, and the business sector at the regional level through provision of local infrastructure, space, information, and training opportunities for NGOs in their regions. Technical assistance and training in four general areas of parliamentary development will be provided: (1) parliamentary staff development; (2) improved party caucus operations; (3) assistance in the reform of parliament's internal operations and rules of procedure; and, (4) improving constituency relations. Training and technical assistance will also concentrate on long-term political party development, specifically political party strategic planning and democratic internal reform. Technical assistance and training will be provided to the Confederation of Independent Trade Unions of Montenegro (CITUM). The role of labor unions and their membership in the development of a modern system of labor relations that embraces both modern management and modern structures of conflict management and resolution will also be strengthened. The implementers are the National Democratic Institute (NDI) and the American Center for International Labor Solidarity (ACILS)

Independent media support (\$440,000 AEEB). Training and tailored technical assistance will be provided to a core group of local media partners, including: Montenegro Broadcasting Company (MBC), Montenegro Independent News Agency (MINA), Montenegro Media Institute (MMI), Union of Independent Electronic Media (UNEM), Monitor, and the Association of Young Journalists (AYJ). Priorities will be to: strengthen MBC's production capacity, distribution outreach (marketing and footprint), and management practices with the aim of positioning MBC as the lead player of a projected independent TV network in year two of the Montenegro Independent Media Program; establish a five-month diploma course for

journalists and media professionals in cooperation with MMI and the University of Montenegro Law Faculty; and develop further UNEM's advocacy role during this critical implementation stage of the media laws (Media Law, the Broadcasting Law, and the Law on State Broadcasting Services). The implementer is the International Research and Exchanges Board (IREX).

FY 2004 Program:

Judicial reform and rule of law (\$2,700,000 AEEB). The program will further the development of rule of law in Montenegro by supporting the Government of Montenegro's efforts to: (1) reform and modernize the framework of laws affecting the operation of the judicial system; (2) implement in a timely and effective manner structural changes in the judiciary mandated by recent reform legislation; (3) and improve the day-to-day operations of the courts through the introduction of modern case management and court administration practices and procedures, and the supply of equipment and materials to the courts. Complementary rule of law activities will continue in the areas of legislative reform, judicial training and education, and legal professional association development. Implementers: ABA/CEELI and others TBD.

Civil society strengthening, political party and parliamentary development, independent trade union strengthening (\$1,179,000 AEEB). During the activity's third year of operation, it will implement an exit strategy which leaves behind an infrastructure of advocacy resource centers, including the Advocacy Resource Center (ARC) based in Podgorica as well as three additional regional advocacy centers based outside of Podgorica. The ARC will be equipped to provide training, technical assistance, and other advocacy support services to Montenegrin NGOs. The political party and parliamentary development program will also end in FY 2004. Expected results will be stronger democratic political parties and a reformed parliament with effective and efficient internal rules of procedure. The tri-partite dialogue between labor, business, and government will continue to advance through an institutionalized system of labor-management relations reflecting the new economic reality. A strong and independent trade union movement will emerge that can be a voice for workers in both the initial transition period, and in the post-transition period. Implementers: American ORT, NDI, ACILS

Independent media (\$1,353,000 AEEB). The media program will be in its third and last year of implementation. It is expected to leave behind: (1) a well-established Montenegro Independent Media Institute that prepares journalists to provide balanced and factual current affairs and economic news; (2) an active and effective association of independent broadcasters through UNEM; (3) sustainable media outlets that provide fair and balance news such as MINA and MBC; and (4) an appropriate legal and regulatory framework that supports freedom of the press and speech. Implementer: IREX

Performance and Results: USAID expects that the activities implemented under this Strategic Objective will improve the capacity of citizens to participate more effectively and more knowledgeably in political and economic processes, and will strengthen the capacity of key governmental institutions to effectively implement reforms and protect citizens' essential civil, political and economic rights.

US Financing in Thousands of Dollars

Montenegro

170-0200 Democratic Transitions	AEEB
Through September 30, 2001	
Obligations	0
Expenditures	0
Unliquidated	0
Fiscal Year 2002	
Obligations	0
Expenditures	0
Through September 30, 2002	
Obligations	0
Expenditures	0
Unliquidated	0
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2003 NOA	
Obligations	5,571
Total Planned Fiscal Year 2003	
Obligations	5,571
Proposed Fiscal Year 2004 NOA	
Obligations	5,232
Future Obligations	0
Est. Total Cost	10,803

Data Sheet

USAID Mission:	Montenegro
Program Title:	Local Governance and Community Development
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	170-0210
Status:	Continuing
Proposed FY 2003 Obligation:	\$6,619,000 AEEB
Prior Year Unobligated:	\$1,062,000 AEEB
Proposed FY 2004 Obligation:	\$5,280,000 AEEB
Year of Initial Obligation:	1998
Estimated Completion Date:	2006

Summary: This USAID program focuses on community revitalization through democratic action and good governance. It increases citizen participation in community development decisions and activities, promotes cooperation between communities and between citizens and local government and facilitates the social and economic revitalization of communities in Montenegro. At the same time, the program enables local governments to implement modern transparent and responsive local governance systems that address citizen needs and promote and incorporate informed citizens participating substantively in the decision-making processes of governance. The assistance process involves hundreds of community-scale and cluster community-scale activities, and targeted technical assistance and training at the community, municipal and republic levels.

Inputs, Outputs, Activities:

FY 2003 Program:

Community Revitalization through Democratic Action (CRDA) (\$4,000,000 AEEB). The CRDA program promotes and supports a Republic-wide network of 111 locally elected community development councils (CDCs) that are working individually and collectively to realize activities in small-scale civil works, economic revitalization and income generation, improved environmental practices and conditions, and civic issues support. CDCs receive training, mobilization assistance and USAID co-funding up to a maximum of 75% for community-selected priority activities. Works are contracted through a private, transparent tendering process. A minimum 25% local contribution is required. Community and cluster community partnerships, if performing, may endure and mature over the life of project. In FY 2003, a total of 229 new project/activities are expected to be selected, planned, and executed by communities. Implementers: Cooperative Housing Foundation International (Northern Montenegro) and International Relief and Development Inc (Southern Montenegro)

Local governance (\$2,619,000 AEEB). This program will provide technical assistance, training and small-scale procurement to support implementation of the new legal framework for local government with emphasis on greater transparency through fiscal decentralization reforms, on improved delivery of public services and on increased citizen participation in all processes of local governance. This activity will build on earlier USAID assistance to the government to research and draft the core local government laws and build awareness of and support for local governance reforms among citizenry through Republic-wide campaigns and training. Implementer: TBD.

FY 2004 Program:

Community Revitalization through Democratic Action (CRDA) (\$2,400,000 AEEB). The CRDA program will continue its community-based and community-led development with increased focus on larger activities managed by clusters of communities cooperating with their local governments to improve public services and related quality of life issues. USAID may expand this community revitalization program to encompass other communities in the Republic.

Local governance (\$2,880,000 AEEB). The program will be supported by three long-term technical advisors and targeted short-term technical assistance to local governments. The advisors will provide training and on-the-job guidance to implement new management structures and new own-source revenues, such as a market-based real estate taxation system. Technical assistance will work to institutionalize and regularize public hearings and to introduce media outreach for budget, tax and tariff changes, and community investment planning. Also, joint project activities emphasizing local government's contribution to active partnerships with clusters of communities to improve public services are expected to continue. Implementer: TBD.

Performance and Results: During 2001-2002, USAID helped design laws and support the process for government approval of a legal framework for fiscal and democratic decentralization and devolution of authority and resources. The valuation method for converting Montenegro to market-based real estate taxation was developed. All 21 municipalities benefited from basic training in financial and organizational skills to meet international standards of the Council of Europe, and training and practice in transparent procurement procedures. During 2002, following sound procurement practices, construction for 18 medium-scale municipal projects was launched, and over 100 small-scale community development activities were started--all now nearing completion. Throughout the Republic, communities and their local governments have increased citizen involvement and collaboration in the local government reform process.

By program completion, Montenegrins will be better informed regarding community development and local governance issues, more actively influencing political and economic decision-making, and more proactive in conceiving and executing development activities that improve their lives. Local governments will be professionally run, implementing management systems that are transparent, responsive to citizen concerns and engage citizens actively. An equitable system of international fiscal transfers and a market based real estate taxation system at the local level will be in place, ensuring security and predictability of revenue flows.

US Financing in Thousands of Dollars

Montenegro

170-0210 Local Governance and Community Development	AEEB
Through September 30, 2001	
Obligations	16,829
Expenditures	6,720
Unliquidated	10,109
Fiscal Year 2002	
Obligations	25,055
Expenditures	9,779
Through September 30, 2002	
Obligations	41,884
Expenditures	16,499
Unliquidated	25,385
Prior Year Unobligated Funds	
Obligations	1,062
Planned Fiscal Year 2003 NOA	
Obligations	6,619
Total Planned Fiscal Year 2003	
Obligations	7,681
Proposed Fiscal Year 2004 NOA	
Obligations	5,280
Future Obligations	0
Est. Total Cost	54,845

Data Sheet

USAID Mission:	Montenegro
Program Title:	Cross-Cutting Programs
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	170-0420
Status:	Continuing
Proposed FY 2003 Obligation:	\$2,000,000 AEEB
Prior Year Unobligated:	\$1,467,000 AEEB
Proposed FY 2004 Obligation:	\$1,500,000 AEEB
Year of Initial Obligation:	2001
Estimated Completion Date:	2006

Summary: This objective is designed to accommodate activities that make significant contributions to more than one objective. It finances program development costs, program assessments and learning efforts.

Inputs, Outputs, Activities:

FY 2003 Program:

USAID is funding three U.S. Personal Service Contractors (USPSCs) and twelve Foreign Service National Personal Service Contractors (FSNPSCs) to help monitor and manage USAID's program in Montenegro. Three of the FSNPSC employees will work in each of two field offices being opened in FY 2003 to support the Community Revitalization through Democratic Action Program. The balance of the funds being requested will be used for program-related activities that affect more than one Strategic Objective, such as activity design, evaluations and training.

FY 2004 Program:

USAID intends to again fund three U.S. Personal Service Contractors (USPSCs) and twelve Foreign Service National Personal Service Contractors (FSNPSCs) in FY 2004 to help monitor and manage USAID's program in Montenegro. Funds from this Strategic Objective are also planned for activity design, evaluations and training.

Performance and Results: No U.S. direct-hire staff are stationed in Montenegro. The Montenegro Mission receives support services from USAID/FRY in Belgrade and by USAID's Regional Services Center in Budapest. The roles for each of these posts are clearly delineated and coordination among them has been effective.

US Financing in Thousands of Dollars

Montenegro

170-0420 Cross-Cutting Programs	AEEB
Through September 30, 2001	
Obligations	951
Expenditures	415
Unliquidated	536
Fiscal Year 2002	
Obligations	1,182
Expenditures	979
Through September 30, 2002	
Obligations	2,133
Expenditures	1,394
Unliquidated	739
Prior Year Unobligated Funds	
Obligations	1,467
Planned Fiscal Year 2003 NOA	
Obligations	2,000
Total Planned Fiscal Year 2003	
Obligations	3,467
Proposed Fiscal Year 2004 NOA	
Obligations	1,500
Future Obligations	0
Est. Total Cost	7,100