



MONTENEGRO
THE MINISTRY OF FINANCE

MONTENEGRO DEVELOPMENT DIRECTIONS 2015-2018

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Contents

Abbreviations	1
Introduction	2
The implementation of Montenegro Development Directions 2013-2016	4
1. GENERAL ECONOMIC BACKGROUND	9
1.1. <i>The key priorities of economic policy</i>	9
1.2. <i>Growth pattern changes</i>	10
1.3. <i>Economic situation and prospects</i>	11
1.4. <i>Domestic and external demand</i>	13
1.4.1. <i>Changes in the structure of domestic production and services</i>	14
1.4.2. <i>External demand and foreign direct investment are an important source of growth</i>	15
1.4.3. <i>The banking sector is slowly recovering, but still faces challenges</i>	17
1.5. <i>Public finances</i>	18
1.5.1. <i>The status of public finances and projections</i>	18
1.5.2. <i>Condition and dynamics of government debt</i>	20
1.6. <i>Demographic trends</i>	23
2. DEVELOPMENT DIRECTIONS	25
2.1. SMART GROWTH	25
2.1.1. <i>Business Environment</i>	26
2.1.2. <i>Small and medium-sized enterprises</i>	28
2.1.3. <i>Manufacturing industry</i>	30
2.1.4. <i>Competitiveness/foreign direct investment</i>	32
2.1.5. <i>Science</i>	34
2.1.6. <i>Higher education</i>	36
2.1.7. <i>Information and communication technologies</i>	40
2.1.8. <i>Tourism</i>	42
2.1.8.1. <i>Promotion of culture as a driver for growth (cultural tourism)</i>	45
2.2. SUSTAINABLE GROWTH	46
2.2.1. <i>Agriculture and Rural Development</i>	48
2.2.2. <i>Forestry</i>	52
2.2.3. <i>Energy</i>	54
2.2.4. <i>Environment</i>	58
2.2.5. <i>Transport</i>	65
2.2.6. <i>Construction and housing</i>	70
2.3. INCLUSIVE GROWTH	77
2.3.1. <i>Labor market policy</i>	78

2.3.2 Education	81
2.3.3 Sport	83
2.3.4. Social Welfare.....	84
2.3.5. Health	87
3. PUBLIC SECTOR REFORM	90
4. SWOT ANALYSIS OF MONTENEGRIN ECONOMY	93
5 NECESSARY PUBLIC INVESTMENT / DEVELOPMENT MEASURES IDENTIFIED IN THE MONTENEGRO DEVELOPMENT DIRECTIONS VS. AVAILABLE PUBLIC FUNDS	98
5.1. Quantification of the necessary investment/development measures.....	98
5.2. Quantification of available public funds to finance the investment/ development measures.....	101
5.3. The financial gap between the estimated necessary funds and envisaged available public funds	101
5.4. Optimal and suggested allocation of funding available for three areas of development.....	102
6. FRAMEWORK FOR DD IMPLEMENTATION.....	104

Abbreviations

GDP	Gross Domestic Product
GVA	Gross Value Added
BIO-ICT	Center of Excellence in Bioinformatics
CEFTA	Central European Free Trade Agreement
CIP	Framework Programme for Competitiveness and Innovation
COSME	Competitiveness of Enterprises and SMEs
EBRD	European Bank for Reconstruction and Development
ECDL	European Computer Driving License
EPCG	Elektroprivreda Crne Gore power company
EU	European Union
EUREKA	European network for market-oriented research
EMEP	Transboundary Air Pollution
ETF	European Training Foundation
EE	Energy Efficiency
EEPPB	Energy Efficiency Public Buildings Program
GERD	Gross domestic expenditure on research and development
GCI	Global Competitiveness Indicator
ICT	Information and communication technologies
ILO	International Labor Organization
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IXP	National Internet Exchange Point
ISSS	Information system of social housing
JPP	Public-Private Partnership
KfW	German Development Bank
MIPA	Montenegrin Investment Promotion Agency
MONSTAT	Statistical Office of Montenegro
MSP	Small and Medium Enterprises
OECD	Organization for Economic Cooperation and Development
RES	Renewable Energy Sources
DD	Development Directions
MDD	Montenegro Development Directions
VAT	Value Added Tax
WAEIR	Weighted average effective interest rate
WADIR	Weighted average deposit interest rate
PPP	Purchasing Power Parity
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
R&D	Research and Development
RIA	Regulatory Impact Assessment
SEECCL	South East Europe Centre for Entrepreneurial Learning
SIGMA	Support for Improvement in Governance and Management in Central and Eastern Europe
FDI	Foreign Direct Investment
STO	World Trade Organization
SWOT	Strengths-weaknesses-opportunities-threats analysis
SBA	Act of SMEs
SIP	Real Purchasing Power
SEE	South Eastern Europe
SEETO	South Eastern Europe Transport Observatory
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
CAP	Common Agricultural Policy

Introduction

In accordance with the conclusions of the Government of Montenegro regarding the adoption of the Montenegro Development Directions 2013-2016, and the Government's Work Programme 2015, the Ministry of Finance, in cooperation with the competent institutions, has prepared Montenegro Development Directions 2015-2018. At the same time, the Ministry of Finance i.e. coordination team for the establishment of institutional structures for the implementation, monitoring and evaluation of results, and financial implementation of the Montenegro Development Directions 2013-2016, with continuous monitoring of the realization, are obligated to annually inform the Government on the implementation of the Development Directions in the previous year. A special report on the implementation of Development Directions in 2014 has not been prepared, as this document, through the assessment of the situation by policy areas, gives an overview of the implementation of the Montenegro Development Directions 2013-2016, which, in accordance with the methodology of preparing strategic development documents, among other things, has been the basis for planning future actions/measures/projects.

What has been defined by the Montenegro Development Directions 2013-2016?

Development Directions 2013-2016, as the umbrella development implementation document, established the strategic goal of the development of Montenegro, as follows:

Increasing the quality of life in the long term

In the realization of the strategic development goal, four priority sectors of development have formally been established:

- Tourism;
- Energy;
- Agriculture and rural development
- Manufacturing industry

For the realization of the goals set by the Development Directions, taking into account the natural resources of Montenegro, as well as its comparative advantages and the need to comply with EU standards and requirements, the policy areas have been identified, priorities set and investment/development measures proposed within the development directions "Smart Growth," "Sustainable Growth" and "Inclusive Growth"¹. In so doing, account has been taken of authentic development interests of Montenegro. Development directions, with concrete projects and financial structure, formed the basis for programming investments at the state level, and establishing a direct link between resources and development priorities. At the same time, Development Directions have been one of the basis to identify projects to be financed by IPA funds in the period 2014 - 2020.

Development directions and DD policy areas are as follows:

SMART GROWTH	SUSTAINABLE GROWTH	INCLUSIVE GROWTH
1. Business Environment 2. SMEs 3. Manufacturing 4. Competitiveness 5. Science 6. Higher Education 7. Information Technology 8. Tourism	9. Agriculture and Rural Development 10. Forestry 11. Energy 12. Environment 13. Transport 14 Construction and Housing	15. The labor market 16. Education 17 Sports 18. Social Welfare 19. Health

¹ Development Directions modeled on the Europe 2020 Strategy defined three areas of development (smart, sustainable and inclusive growth). Smart growth is innovation, digitization and mobility of young people, sustainable growth represents improved resource efficiency and industrial policy, while inclusive growth is aimed at increasing employment and reducing poverty. All EU member states as well as candidate countries, have in mind such a structure when preparing strategic documents, prior to the allocation of resources from the structural funds or IPA

Why are Montenegro Development Directions 2015-2018 being adopted?

Development directions are a "live" document, which requires permanent monitoring over the implementation of development measures/projects and, where appropriate, their innovation and their adaptation to the current situation and needs and the developmental aspirations of the EU.

Montenegro Development Directions 2013-2016 have been prepared and implemented in the post-crisis period, with the negative external influences, but also internal restrictions, i.e. the vulnerability of the fiscal, banking and real sectors of the economy.

In accordance with the foregoing, as well as the need to respect the current situation in the Montenegrin economy and the efforts taken to create conditions for strengthening economic growth and development, with increased competitiveness, which depend on the funds available for the implementation of measures/projects, and, to some extent, on developments at the global and regional levels, the need arose for drafting the Montenegro Development Directions 2015 -2018.

From a macroeconomic standpoint, the choice of "right" investment/development measures is a decisive factor for the initiation of growth. Specifically, these are investments that increase the productivity of the economy through the multiplier effect, not only in one specific sector but throughout the economy. The priority sectors of development supported through public investment and measures proposed in the DD produce synergetic effects on the entire Montenegrin economic system and enable creation of new jobs. Selecting adequate investment and development measures by policy areas will enable the efficient use of public resources.

What is the relationship between the Montenegro Development Directions 2015-2018 and the Montenegro Development Directions 2013-2016?

Montenegro Development Directions 2015-2018 'lean' on the Montenegro Development Directions 2013-2016. The strategic goal, targets and directions of development aligned with the strategy Europe 2020, and the selected policy areas, are still underlined. Based on the assessment of the situation and the importance of individual policy areas for overall socio-economic development of Montenegro, as well as the results and identified problems in the implementation of projects/development measures identified in the Development Directions 2013 – 2016, development measures/projects have been proposed for the period 2015-2018.

Development Directions cover the four-year period (2015-2018) because, in the current economic situation, due to a number of challenges on the domestic and international levels, it is difficult and unproductive to design macroeconomic projections for a longer period of time.

In accordance with the new approach to economic dialogue between Montenegro and the European Union, which has become crucial in the enlargement process, Montenegro, through the creation of a National Economic Reform Program, is obliged to annually report to the European Commission on guidelines of economic and development policy, and reforms being implemented in order to establish long-term growth and strengthen the competitiveness of the national economy. In this connection, Development Directions will present one of the starting points for the development of these annual programs.

The implementation of Montenegro Development Directions 2013-2016

Montenegro Development Directions 2013-2016 have been implemented in the post-crisis period, with the negative external influences, but also the internal constraints i.e. vulnerabilities of fiscal, banking and real sectors of the economy. By realizing the largest number of investment/development measures significant results were achieved, with effects to be completely visible in the medium or long run.

The implementation of the Montenegro Development Directions 2013-2016, according to the directions of development/policy areas

This section provides a brief overview of the realization of investment/development measures defined by Montenegro Development Directions 2013-2016, while a detailed review of their implementation, for each policy, is presented in Chapter 2. In proposing investment/development measures for the period 2015-2018, the results achieved have been taken as a starting point, i.e. the identified problems in the implementation of investment/development measures in the previous period, as well as current trends and conditions by sectors/policies and, in general, the situation and conditions for the overall social and economic development of Montenegro.

Smart growth

Business environment. Reform efforts aimed at improving the business environment have resulted in a multi-year trend of progress, which is reflected in the reports of the relevant international institutions. According to the World Bank Report, Doing Business 2015, Montenegro on a global scale climbed from 42nd to 36th place among 189 countries of the world, which reflected the improved competitive position in both regional and global terms.

The reforms of the business environment, which were initiated in the previous period and are currently being implemented, related to the following areas: business registration, construction permits, loan approval process, tax collection, registration of immovable property, enforcement of contracts, employment of foreigners, licensing. In addition, in previous years, Regulatory Impact Assessment Analysis (RIA) has been introduced in the Montenegrin regulatory system, while the implementation of the recommendations from the "Guillotine of Regulations" that fall within the regulatory reform, has been completed. Speaking of major reforms, one specific reform standing out is the reform of the public administration, which is implemented in accordance with the "Public Sector Reorganization Plan".

Small and medium-sized enterprises. The effects of the support measures implemented for the SME sector, to a large extent, are in line with the plans. The greatest improvement in the past two years has been evident in the area of provision of financial resources, loans and factoring for the operation of SMEs. Measures to strengthen the competitiveness of SMEs are taking place continuously, while the support to start-ups is under the planned, with the exception of direct financial support to start-ups. Deviations from the full realization of the planned activities are the result of the limited availability of financial resources for infrastructure expansion (establishment of an incubator in Berane). A significant part of the activities in this regard has so far been realized with the support of international projects/donors, while a smaller part was funded by the Budget.

Manufacturing industry. The Manufacturing Industry Development Strategy 2014-2018 has been adopted as the first strategic development document analyzing the situation in this sector, establishing development objectives and providing guidelines for the development, based on the significant natural resources of the country. Strategic development goals of the "manufacturing" sector are: increasing employment, increasing competitiveness, strengthening export capabilities, as well as GDP growth. The country has defined the framework priorities to achieve the same, namely: improving the business and investment environment, the completion of the privatization and restructuring of enterprises, strengthening the supply and availability of financial resources, positioning towards higher value-added products, stimulating the implementation of new technologies and innovations in the production process, strengthening human resources and adapting to the requirements of the labor market, promotion of

entrepreneurship infrastructure, as well as increasing concerns about environmental protection and sustainable development.

Competitiveness/foreign direct investments. In order to strengthen competitiveness and attract foreign direct investment, a series of activities have been implemented: declared eight business zones (in Kolašin, Berane, Nikšić, Bijelo Polje, Podgorica, Cetinje, Mojkovac and Ulcinj); Regulation on direct stimulation of investments adopted (awarded funds in the amount of €3,000 up to €10,000 per new job), according to which the funds for the promotion of investments are allocated for investment projects with the minimum value of investments of € 500,000, which ensure opening of at least 20 new jobs; among the state aid programs the following are implemented: Program for Cluster Development Enhancement and Program for Enhancing Regional and Local Competitiveness Through Harmonization with International Standards of Business for the period 2014-2016; amendments were made to the Law on Foreign Investment, which significantly improved the investment environment.

Science. Awareness of the importance and impact of science and technology on the daily lives is growing, as an important mechanism for increasing the competitiveness of the economy. The measures foreseen in the identified policies: "The Development of the Scientific Research Community", "Connecting science and Economy" and "Higher Education and Research for Innovation and Competitiveness (HERIC)," have been implemented in accordance with the planned schedule, and in an appropriate financial framework.

Higher education. In the past period, the focus was on the implementation of activities that should contribute to improving the quality of higher education, creating better links between vocational and higher education, allowing the comparability between the national qualifications framework and the European qualifications framework, and ultimately, creating personnel that will meet the needs of the labor market, i.e. the society. We should place special emphasis on the activities undertaken to improve the quality of higher education, and adapt the outcome of the education process to the actual needs of the labor market. The Situation Analysis in the field of recognition of foreign educational documents has been adopted; feasibility study was done to monitor careers of graduates; through the implementation of the Program of Professional Training of Persons with Acquired Higher Education, going on for the third year, the country gets information on the actual market needs for specific qualifications; this year, the national scholarship for excellence in master's, doctoral and post-doctoral studies will be allocated; identification of appropriate models of funding higher education is ongoing; a National Qualification Development Plan for Performing Regulated Professions with the Action Plan for the period 2013-2018 has been adopted; activities were carried out to improve vocational education and develop the National Qualifications Framework, with the participation of employers; the lifelong acquisition of career management skills has been encouraged; a Strategy of Vocational Education (2015-2020) has been adopted, which established goals relating to the creation of a quality, labor market-oriented vocational education system, and the like.

Information and communication technologies. Activities have been undertaken, aimed at achieving the stated goal to increase broadband access. In this respect, the country is continuously working to provide reliable and uninterrupted internet connection; activities aimed at establishing a National Internet Exchange Point (IXP) are coming to an end; the digitalization process has been completed; the country is working to reduce the prices of telecommunication services in roaming, as well as to ensure the availability of broadband Internet access (free WiFi Internet is available in several locations in Podgorica, Budva, Nikšić, Bar, Kotor, Tivat, Pljevlja, Bijelo Polje, Žabljak and Rožaje), etc.

Tourism. Of the activities undertaken to create the reputation of Montenegro as a tourist destination, which in many respects depends on the quality of offer, primarily high-end hotel capacities, we should emphasize the importance of large investment projects, which are in various stages of implementation (Porto Montenegro/Tivat/ first Regent Hotel there, Luštica Bay/Tivat/, and Portonovi/Herceg Novi/, and the construction of the first Hilton Hotel in Podgorica, hotel Riviera Crystal in Petrovac, as well as reconstruction of the Center for vacation, treatment and recreation "Igalo" in Igalo). What should be noted also is the construction of luxury tourist complex in the Gulf of Pržno near Tivat, on the site of the former Hotel "Plavi Horizonti" (there are ongoing activities to create conditions for the implementation).

Promotion of culture as a driver of growth (cultural tourism). In accordance with the country's capacities, we continuously work on implementing a number of activities, thus creating conditions for adequate definition and better valorization of cultural and tourism potentials of Montenegro.

Sustainable growth

Agriculture and Rural Development. In recent years, activities were focused on further capacity building and preparation for the use of EU funds earmarked for agriculture. In this sense, measures were implemented aimed at strengthening the administrative capacity of the *Managing Authority* and the *Directorate for IPARD payments*. The work on drafting the *IPARD Program* has continued. In order to achieve development goals, defined under the Montenegro Development Directions 2013-2016 (sustainable resource management; a stable and acceptable supply of safe food; provision of adequate living standard for the rural population and improvement of competitiveness of food producers), the measures were implemented, which include: investments in primary agricultural production, processing and marketing of agricultural products; investments to implement the policy of agricultural land (development, use and improvement of the quality of agricultural land, increasing the size of family farms and preventing the fragmentation of property); improvement and development of rural infrastructure and diversification of economic activities in rural areas; implementation of agri-environment measures and others.

Forestry. In order to create conditions for realization of the main strategic goal of providing and improving long-term resistance and productivity of forests, the Strategy with the Forests and Forestry Development Plan has been adopted, with the corresponding three-year action plan. Strategy sets forth the objectives and guidelines for the development of forests and forestry in accordance with the national forest policy and development goals of timber industry. Significant efforts have been made in the implementation of the Plan of rehabilitation of forests degraded by forest fires in 2012.

Energy. Activities have been realized relating to the creation of institutional preconditions for the unhindered development of the energy sector, i.e. compliance with the obligations to the Energy Community. In this sense, Montenegro Energy Development Strategy by 2030 was adopted and the National Plan of Action for the use of energy from renewable sources by 2020, which aims to determine the dynamics of valorization of renewable energy sources in Montenegro until 2020. Montenegro, through the legislation, recognized facilities for the production of electricity as facilities of general interest, and electricity generation as an activity of public interest. In order to encourage the production of energy from renewable sources appropriate measures have been adopted to encourage this type of production.

In order to meet the objectives of the Energy Policy and the main recommendations of the Energy Development Strategy, the country implemented, among others, the activities on the realization of the projects of construction of new production infrastructure facilities (HPP on Morača, HPP on Komarnica, TPP Pljevlja II and Maoče, small hydropower plants, wind power plants, solar farms, etc.), as well as activities in the field of energy efficiency. Special attention was paid to connections with neighboring systems.

Environment. Environmental policy is a prerequisite for the preservation of a healthy environment and human health, sustainable tourism, agriculture, forestry, rural development, transport and energy in the ecological state of Montenegro. Although significant results were achieved, additional efforts are needed for the full implementation of the planned investment/development measures. Significant activities have been realized in all aspects covered by this policy.

During 2014, 9.045% of the continental part of the territory of Montenegro has been under national protection (the goal is to increase protected natural resources to 10% of land and 10% of marine areas). The country is working to create conditions for the establishment of a NATURA 2000 network. The deadline for the preparation of strategic noise maps for particularly sensitive zone is 2017 (in 2014, there were no activities). Apart from the newly established municipalities Petnjica and Gusinje, all local governments have performed the acoustic zoning of their territories.

The project proposal for the establishment of the Register of Chemicals has been prepared; preparation of the National Strategy on Climate Change goes as scheduled; measures are implemented aimed at reducing pollution from industrial plants; activities on the project "Preventing industrial accidents and reducing the impact of those incidents that cannot be prevented (remediation of environmental black spots)" are ongoing; work on establishing a national network for air quality monitoring and air quality reporting system is ongoing.

In the area of water supply and wastewater management, relatively satisfactory results have been achieved, particularly in terms of projects in the field of wastewater management. Somewhat weaker results have been achieved in the area of water supply, where local government units should get more involved in improving water supply systems and restoring dilapidated pipelines, in order to eliminate technical losses.

A delay in the implementation of the activities contained in the 2004 National Waste Management Policy and the 2005 Strategic Master Waste Management Plan has been detected.

Transport. Significant activities in the area of implementation/preparation for the implementation of significant projects in all modes of transport have been carried out. Regular and investment maintenance, reconstruction and construction of state roads is implemented in accordance with the respective annual plans. The construction of priority sections of the highway Bar-Boljare, Smokovac-Uvač-Mateševce has started. The country is to create conditions for the realization of the project of the construction of the Adriatic-Ionian highway and fast road along the coastline. At the same time, the following projects are in progress: repair of railway Vrbnica-Bar, modernization the Port of Bar and revitalization/expansion of the merchant fleet, the modernization of airports in Podgorica and Tivat.

Construction. Information system to support spatial planning, urban planning and construction has been introduced to monitor and report the degree of realization of individual business processes, and statistical reports on business processes, their activities, spatial facilities and documents. The drafting of the Law on Urban Planning and Construction of Structures is in progress, stipulating the introduction of electronic commerce in the area of planning and construction. The reforms conducted in the legislative part, among others, relate to the release of the fee for communal equipping of building land. The country works to create the conditions to achieve the highest degree of safety and technical quality of construction (the Action Plan for the adoption of the Eurocodes and the Action Plan for the implementation of the Eurocodes).

Housing. Activity related to the integration of illegally constructed buildings in the formal housing sector has not been completed as the Law on legalization of informal buildings has not been adopted, so that the preconditions for the implementation of the planned measures have not been met. Lack of funding is one of the major challenges for sustainable social housing system. Planned measures are implemented continuously through the implementation of the projects meeting the housing needs of the target groups, defined by the Law on Social Housing and social housing programs. The country works to create conditions for improving the management and quality of facilities for collective housing (the new Law on Housing and Maintenance of Residential Buildings is in the preparation).

Inclusive growth

The labor market policy. The measures and activities carried out in the past have had a positive effect on the labor market, which is reflected in the improvement of the business environment and labor market management. Measured by labor market indicators, the population activity rate (15-64) in 2014 was 61.6%, the employment rate 50.4%, and the unemployment rate 18.2%. Compared with data from 2013, the activity rate increased by 2.7 percentage points (from 58.9% to 61.6%), the employment rate increased by 3 percentage points (from 47.4% to 50.4%), while the unemployment rate decreased by 1.6 percentage points (from 19.6% to 18.0%). Of particular importance is the audited Labor Law allowing for the exercise of rights for unpaid contributions for pension and disability insurance to persons who are eligible for retirement in terms of age of life and years of service, through the Labor Fund, as well as the signing of the General Collective Agreement, which enabled easier letting down of employees, through the introduction

of provisions relating to termination of employment contracts. When it comes to improving the integration of persons with disabilities, the country continuously provides for subsidies for the employment of persons with disabilities. At the end of 2014, 71 employers achieved the right to wage subsidies for 89 employees with disabilities. 81 persons with disabilities were included in programs of vocational rehabilitation.

Education. The measures and activities in Pre-University Education are aimed at establishing a quality, flexible education system, providing every individual equal opportunity for personal and professional development and social inclusion. The construction of new facilities for the work of institutions of public preschool education, improved teaching conditions for children staying. Conditions are created for expanding pre-school education services to as many children, especially those from marginalized groups. Preparatory kindergarten for Roma and Egyptian children has been developed. The country works on improving the system of support for gifted students. Measures and activities have been established aimed at strengthening the entrepreneurial competence in students (for the first time the course "Professional orientation" is in the list of electives in primary schools). Special attention is paid to the education of children of RAE population. Implementation of the project "Scholarships and mentoring support for RE students and high school pupils in Montenegro" is in progress.

Sport. Activities aimed at creating conditions for the implementation of programs of public interest, as defined by the National Sport Development Program, include normative extension of the sports system in Montenegro. There has been a high level of rationalization of budgetary spending in the field of sports, particularly through the introduction of conditions and criteria for awarding them. In this respect, the program of funding sports clubs has continued. In the area of sports for all, there is greater involvement of citizens, especially young people in sports and recreational activities in a system of competitions, sports recreation, school and student sports.

Social welfare. The most important activities: realization of the project "Social Card - Social Welfare Information System (SWIS)" in Montenegro (this project is one of the basic pillars of the system reform, which will significantly improve the operation of centers for social work and, at the same time, provide for cost savings in the administrative costs of social welfare system); implementation of the campaign "Fostering social inclusion and improving social welfare system" is ongoing; activities aimed at permanently resolving the status of refugees and internally displaced persons are in progress; the activities on the implementation of the Regional Housing Program continued.

The pension system. Analysis of the pension system in Montenegro in 2013 showed that the reform in the pension system, aimed primarily at ensuring long-term financial sustainability, gave the anticipated effects, and the effects will be even more visible with the full implementation of the reform. However, the reform effects are, to some extent, disturbed and limited by introduction of specific requirements for retirement, which, among other things, have a significant negative impact on the population activity with trend continuing in 2014, and in 2015, with significantly increased number of such initiatives, seeking to prescribe special conditions for retirement of certain categories of policyholders.

Health. The Health Care Development Strategy is based on improving the quality of public health with the aim to make health care more efficient, of higher quality, and the health care system of Montenegro included in the European and World health development process. We have worked intensively on: health care of the population; rationalization of the network of health institutions, as well as the optimal spatial arrangement of the capacities of public health institutions and concessionaires; the implementation of development programs for palliative care at national level; the implementation of national and international clinical guidelines and establishing clinical directions, standards, protocols and professional rules based on scientific evidence.

1. GENERAL ECONOMIC BACKGROUND

1.1. The key priorities of economic policy

The strategic objective of development and economic policy, raising living standard, will be achieved with the provision of conditions for a more dynamic economic growth and development. A key challenge for Montenegro is to again increase economic growth, and to reduce or even completely eliminate barriers to fuller evaluation of significant development potential. A framework for progress and development of the economy is defined by the obligations in the process of Euro-Atlantic integration.

In this sense, the concept of the economic policy of Montenegro is focused on solving the identified problems, namely reducing/eliminating the effects of an unfavorable macroeconomic environment, which primarily relate to fiscal sustainability and financial stability, and particularly that of the banking sector. The same is supported by a package of structural reforms that will, along with the implementation of priority sectoral policies and infrastructure projects, have impact on the competitiveness of the Montenegrin economy, and thereby the acceleration of economic growth.

The focus of economic policy in the medium term will be to remove barriers to economic growth and development and, consequently, to increase the competitiveness of the economy.

The aim of the Government of Montenegro in the field of fiscal policy is to increase budget revenues, reduce current spending and increase investment in infrastructure, establish a trend of reducing public debt and its financing from economic growth.

The largest capital expenditure but, at the same time, a chance for development, is the construction of the highway Bar-Boljare. This project will impact negatively the balance of public finances in the medium term. However, the highway is not only a cost, but also the commitment of all the factors of the economy, which encourages more intensive investment cycle, and has positive impact on competitiveness. Highway is a project that changes the course of economic growth and development of Montenegro for the better and for the benefit of present and future generations. With the highway, the country will solve the problem of missing and provide safer road infrastructure, a better connection of the northern region with the central and southern, and better connectivity with the rest of South East Europe, links of the port of Bar to the Danube region, and support the growth of the sectors of tourism, agriculture, trade.

Pension and health systems create growing pressure on public finances. An aging population, increased life expectancy at birth, early retirement and privileged conditions for retirement, have resulted in the deterioration of the rate of dependence and have impact on the growth of expenditures for pensions. These trends are evidence that pension reforms of 2004 and 2010 are not sufficient and that the sustainability of the pension system must be addressed continuously. In this regard, the Government has considered several aspects of the pension reform, but at this point, any systemic pension reform carries high transition costs, and such decision in a situation of growing debt has to be responsible and considered in detail.

On the other hand, on the revenue side, there are significant efforts to increase fiscal discipline. The primary reason is to reduce the informal economy as a barrier to economic growth. The increase in revenue collection is essential to maintain competitive tax rates and have a positive effect on the budget balance. Revenue growth in the medium term is projected on a conservative basis (lower than the growth of GDP) and in accordance with the intention of the Government to maintain a competitive basic tax rate.

Economic policy measures taken in order to further stabilize the banking system are aimed at tackling the high share of non-performing loans in banks' balance sheets, strengthen the capital base and liquidity position of banks, find effective solutions in terms of the realization of collateral and increase the efficiency of court procedures. In addition, it is necessary to increase supervision of the banking system and continue activities towards providing easier access to financial resources under favorable conditions.

Measures of macro policies are crucial, but not sufficient, so that the structural reforms have become a priority of economic policy of the Government of Montenegro. The creation of a competitive economic system, which will, in the long run, secure a sustainable and more balanced economic growth and development, is conditional upon the effective implementation of the initiated structural reforms and implementation of relevant sectoral policies. In accordance with the identified obstacles, and in response to the imperative of development, systemic solutions are implemented towards improving the business environment, financial and institutional support to development of entrepreneurship and of small and medium-sized enterprises, improving labor legislation, pension system, health, education, and achieving greater efficiency and productivity of state administration.

A particular challenge for Montenegro is to improve the physical capital, primarily in the areas of transport and energy, which is an obstacle to a better evaluation of the potential, as well as to reduce differences in development between different regions of the country and provide adequate connections to neighboring countries and the EU.

In order to create conditions for the resources in these sectors to be valorized in the best and most efficient manner, special fiscal preferences for investments have been introduced within the framework of the tax policy reform. At the same time, to better integrate into global flows, efforts will be made to increase the competitiveness of companies, by complying with the requirements of international standards and by improving quality; to promote agri-food products, and to improve the institutional framework for the promotion and encouragement of investments, with a focus on the manufacturing industry.

The success of economic policy will be measured by the following indicators:

1. The average GDP growth rate in nominal terms of 5.3% and in real terms of about 3.6%;
2. Reducing unemployment rate from 18.0% in 2014 to 16.6% in 2018;
3. Maintenance of current and development needs of the budget;
4. The total volume and dynamics of investments (average growth rate of 7, 9%), with an inflow of FDI and the level of 13.2% of GDP in 2018.

1.2. Growth pattern changes

The Montenegrin development model considerably changed in the past decade. In the first years after the restoration of independence, the economic growth was based on the growth of domestic consumption, caused by the high inflow of foreign accumulation in the form of foreign direct investment and bank loans. The outbreak of the crisis caused a decline in economic activity, as in most world economies, followed by a hard, but relatively successful recovery period. The economic and financial crisis has revealed a multitude of structural vulnerabilities in the Montenegrin economy, which had been in the shadow of the strong economic boost in the period from 2006 to 2008. In the period from 2009 to 2012 there was a decline in foreign direct investments, and a negative balance of public finances and rising unemployment. At the same time, the crisis has not only affected the slowdown in real economic growth (on average 0.5% since 2009), but also reduced long-term potential growth to 2.5%. Montenegro's economy, after exiting the recession that marked 2012, has made significant economic growth in 2013 (3.3%), which has continued, although at slower pace, in 2014 (1.5%), as a result of the high dependence of our economy on external factors, but also internal vulnerability of the fiscal, banking and real sectors. Reduced economic activity internationally and hydrological conditions caused the lower production of electricity in relation to 2013, and during the summer months, weaker than expected results in the tourism sector, which resulted in a lower rate of real economic growth than planned, which at the same time was above the average for countries in the region, but also the average growth rate achieved in the eurozone (0.9%) and the EU (1.3%).

The prospect of the global economy at the beginning of 2015 is showing signs of moderate growth while a significant impetus will come from the positive developments in the EU, after a long series of weak or negative growth combined with deflationary tendencies and rising unemployment.

Table 1: GDP growth and projections for specific countries, 2012-2016

	2012	2013	2014	2015	2016
EU	-0.5	0.0	1.4	1.8	2.1
Eurozone	-0.8	-0.4	0.9	1.5	1.9
Germany	0.4	0.1	1.6	1.9	2.0
Slovenia	-2.6	-1.0	2.6	2.3	2.1
Croatia	-1.9	0.0	1.4	0.3	1.2
Serbia	-1.0	2.6	-1.8	-0.1	1.2
Macedonia	-0.5	2.7	3.8	3.8	3.9
USA	2.3	2.2	2.4	3.1	3.0
Russia	3.4	1.3	0.6	-3.5	0.2

Source: Spring Economic Forecast, European Commission, May 2015

The foundation of economic and development policy, which must be countercyclical, has been the creation of the potential for eliminating the negative impacts and increasing resilience to potential instability. At the same time, policy must be of long-term character, allowing for consideration of the time gap between the occurrence of the risk and its materialization.

1.3. Economic situation and prospects

Montenegro's economy is faced with all the characteristics of a small and open economy:

- I. a high growth after the opening of the economy;
- II. a high level of sensitivity to trends in the international economy; and
- III. dependence on international markets and the inflow of foreign investment in domestic funds.

The global economic and financial crisis has shown that the traditional sources of growth and economic policy instruments have been exhausted, so that the world and European economic scenario change. It is necessary, by choosing the right instruments and measures of economic and development policies, to timely adapt to current processes and trends.

In 2014, GDP amounted to €3,424.9 million, i.e. € 5,506.0 per capita and, on the basis of purchasing power parity (PPP), GDP per capita was 39% of the EU27 average, while the indicator of real purchasing power (SIP)² was at a level of 49% of the EU average.

Table 2: Purchasing power parities in selected countries, 2013, EU27 = 100

Country	GDP per capita by purchasing power parity	Real personal consumption	Price index
EU 28	100	100	100
Slovenia	83	74	83
Croatia	59	59	67
Montenegro	39	49	57
Macedonia	36	40	47
Serbia	35	44	53
Albania	29	34	50
Bosnia and Herzegovina	28	37	53

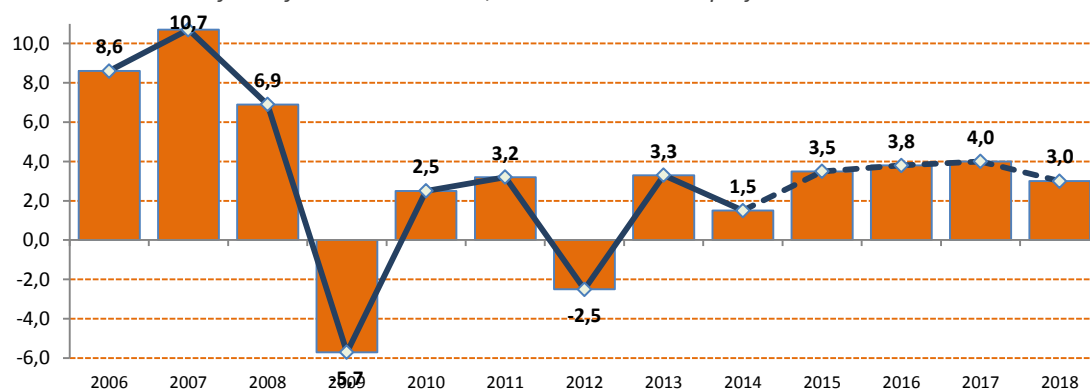
Source: EUROSTAT

² This indicator next to the goods and services purchased directly by households also includes the services that are provided by non-profit institutions and government for personal consumption (e.g. health and educational services)

Montenegrin economy, before the outbreak of the global financial and economic crisis, was characterized by the rapid growth that was mainly based on high inflow of foreign direct investment. The average growth rate of GDP in the period from 2006 to 2008, was 8.7%, which has overheated demand and caused rising prices, or inflation of 18.7%.

In the period from 2009 to 2014 there have been two recessions, but at the end of the period there was some consolidation of economic activity. The first recession, which broke out in August 2008, was followed by a stronger decline in economic activity and the second, from 2012, a slightly smaller decline, due to the unstable economic situation in Europe, particularly in its peripheral countries (Greece, Ireland, Portugal, Spain and Italy). In 2009, there was a decline in economic activity by 5.7%, in 2012 by 2.5%. The average growth rate in the period 2009-2014 was 0.4%. Only in 2013, the country reached the pre-crisis level of GDP, reflecting the strong consequences of these turbulent movements, i.e. exposure of the domestic economy to negative trends in the closer and wider environment. In 2014 compared to 2009, the number of employees was lower by 0.3%, while the number of unemployed increased by 15%, resulting in an unemployment rate of 14.9%³ at the end of 2014. Average earnings increased by 3%, reflecting the process of adjustment in relation to the strong growth in the period 2006-2008. The level of foreign direct investment is still high, although on average lower than in the previous period, so that in the entire period it amounted to over € 2.0 billion. Under the influence of economic activity and weak demand, prices in this period were depressed, so that at the end of 2014 inflation was negative at -0.3%.

Figure 1: Growth rate of GDP from 2006 to 2018, the realization and projections



Source: the Ministry of Finance

Table 3: Key macro-economic indicators, for the period from 2009 to 2014

	2009	2010	2011	2012	2013	2014
GDP at current prices, in mil. €	2,981	3,104	3,234	3,149	3,327	3,425
GDP, real growth, in%	-5,7	2,5	3,2	-2,5	3,3	1,5
Consumer structure of GDP share in%						
Household consumption	84,0	82,2	84,4	83,6	80,6	79,5
Government spending	22,2	23,4	22,1	21,6	21,6	20,0
Gross investments in fixed assets	26,8	21,1	18,4	19,5	18,1	20,4
Net exports	-33,3	-28,4	-26,0	-24,7	-20,3	

Source: the Ministry of Finance

Prospects to 2018

In the medium term, from 2015 to 2018, the expected average annual GDP growth amounts to 3.6%, as a result of strong investment cycle, with investments in infrastructure (construction of the highway Bar-Boljare, from Smokovac to Mateševo worth 20 % of GDP) and announced investment activities in tourism, energy and agriculture.

³ Data from the Employment Agency of Montenegro

Table 4: Key macroeconomic indicators, estimates and projections for the period from 2015 to 2018

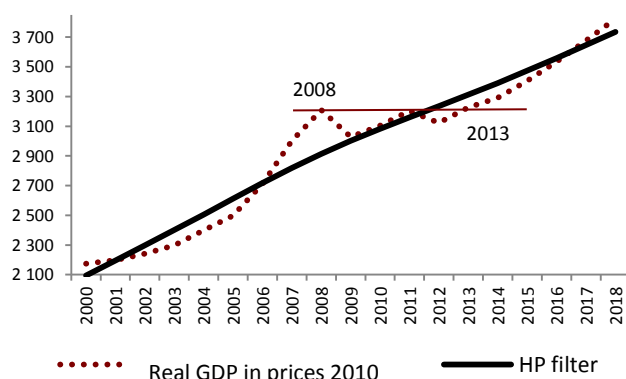
	2015	2016	2017	2018
GDP at current prices, in mil. €	3,324	3,493	3,687	3,912
GDP, real growth, in %	0.5	2.5	3.0	3.5
Household consumption	85.4	85.4	84.6	82.5
Government spending	21.7	21.4	21.1	21.0
Gross investments in fixed assets	18.1	18.9	18.9	19.9
Net exports	-25.2	-25.0	-23.9	-22.7

Source: the Ministry of Finance

BOX 1: Potential growth in Montenegro

Montenegro's economy from 2006 to 2012, went through a boom period and double-dip recession, which nullified the economic

Figure 2. Potential GDP -HP filter, 2010=100



growth achieved at the beginning of the period under review. In the period 2015-2018, with projected growth rates, the economy will slowly approach the potential GDP. What should be borne in mind are the risks associated with activation of the negative impact of weak economic activity in the euro zone and the neighboring countries, the structural weaknesses and the need for fiscal adjustment.

The average growth rate in the period 2001-2014 was 3.1%, while potential growth rates have had a downward trend as a result of problems caused by failed privatizations, and delays in the construction of hotel capacities that were privatized, as they are not yet in operation, closure of unsuccessful manufacturing plants and problems in the functioning of the repro chain in metal industry. Another important factor of falling potential growth rates are reduced sources of financing in the

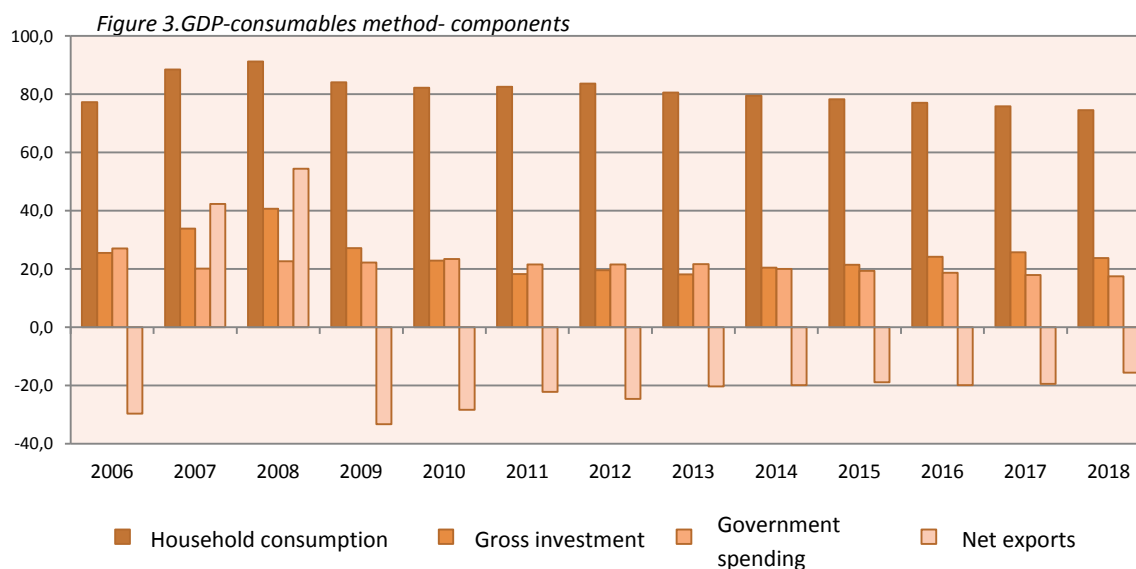
parent banks from the EU, which is reflected in a reduction or withdrawal of capital from branches or daughter banks.

It is expected that strong investment activity in the sectors of transport, tourism, energy and agriculture in the coming period, will raise the value of capital, which will influence the potential growth rate of economic activity. Additional impetus to the growth potential will come through further implementation of structural reforms in the labor market, as well as the removal of bottlenecks for stronger economic growth, which relate to various types of business barriers.

The labor force, as a factor of growth in economic activity, is a limiting factor in terms of availability, due to the aging population, with pressure on the sustainability of the pension and health systems. A significant problem is structural unemployment, which is reflected in the mismatch between supply and labor demand, in the sense that the offer of occupational and educational profile does not match the demand. Structural unemployment is visible through the high unemployment of young people, who are registered with the Employment Agency for more than a year, which reduces their chances for re-employment. Unemployed over 40 years of age make up 44% of the total, while older than 50 years make up 30% of the total number of unemployed. The unemployed who are registered with the Employment Agency for longer than a year accounted for 58% of the total number of unemployed.

1.4. Domestic and external demand

GDP structure, by expenditure method, in the period from 2006 to 2008, suggests the increased consumption of households from 77% to 91% of GDP as a result of a significant increase in household income from sale of property and wage increases. However, a sharp decline followed in 2010. In the period 2011-2013 the household consumption fell from 82.5% to 80.3% of GDP, as a result of changes in methodology of calculating GDP of services (tourism revenues). Following the growth in the share of government expenditure in GDP since 2007, in the period 2011-2013, the government spending has stabilized and its share in GDP was around 21.5%. The share of gross investment in fixed assets increased from 21.9% of GDP in 2006 to 38.2% of GDP in 2008, which, after the outbreak of economic and financial crisis, fell to around 21% of GDP. In the period 2011-2013 gross investments fell to the level of 18% of GDP. Foreign trade balance recorded a constant negative trend, which in the period from 2006 to 2008 increased from 30% to 54.5%, and, after the onset of the financial crisis stabilized. In the period 2011-2013 the deficit on the goods account was above 40% of GDP.

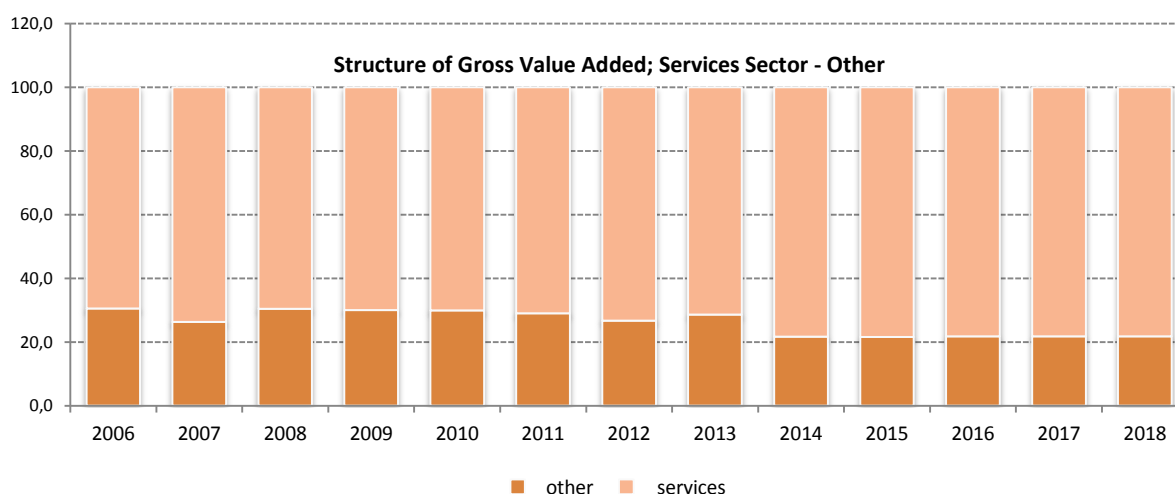


1.4.1. Changes in the structure of domestic production and services

Based on the structure of the economy from 2006 to 2014, and projections from 2015 to 2018, it can be concluded that Montenegrin economy is restructuring towards the economy of services, which will at the end of the period make up nearly 80% of gross value added. The growth model based on strong household consumption growth in the boom period now moves towards a growth model based on strong investment inflows. Economic development will depend on foreign direct investments and capital appreciation, which will contribute to an increase in potential growth and create new jobs. The increase in employment will result from new employment in the construction of infrastructure, tourism and energy facilities, while after the completion of investments, the employment will arise from the use/operation of the completed projects, with a multiplier effect on all sectors of the economy.

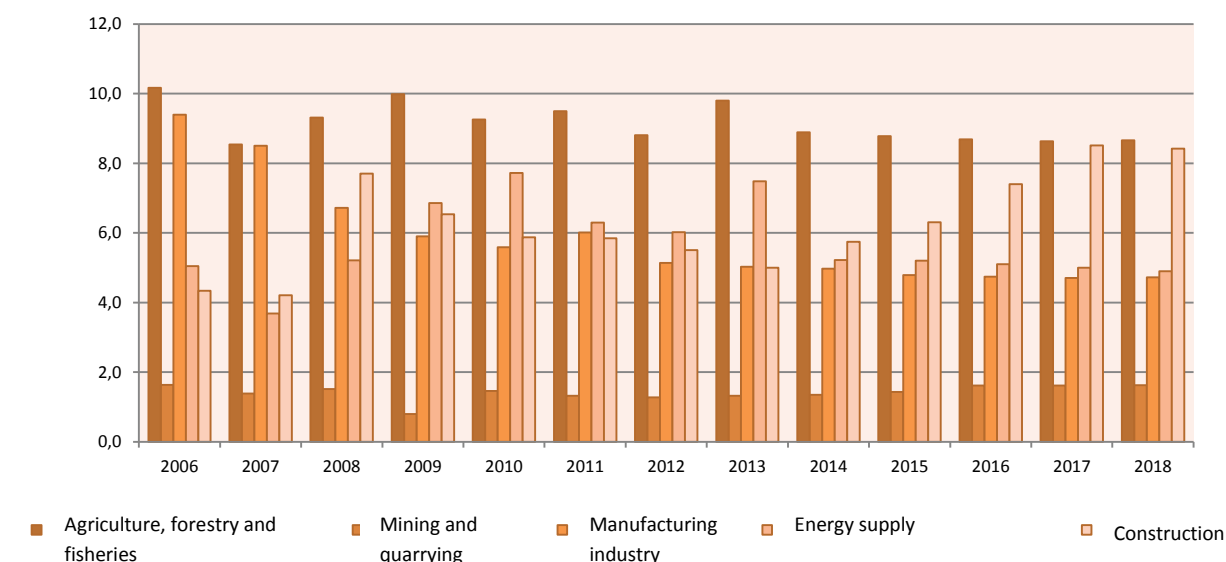
In the period from 2006 to 2014, there was a decline in the share of agriculture in GVA, from 10.2% to 8.9%, in manufacturing by 9% to 5% of GVA and mining sectors, production of electricity and water supply and construction had an average share of 1.3%, 6% and 5.6%, respectively.

Graph 4 Structure of GDP by major sectors, from 2006 to 2018



Source: MONSTAT and the Ministry of Finance

Chart 5. Participation in the gross value added by main manufacturing activities for the period from 2006 to 2018, respectively.



Source: MONSTAT and the Ministry of Finance

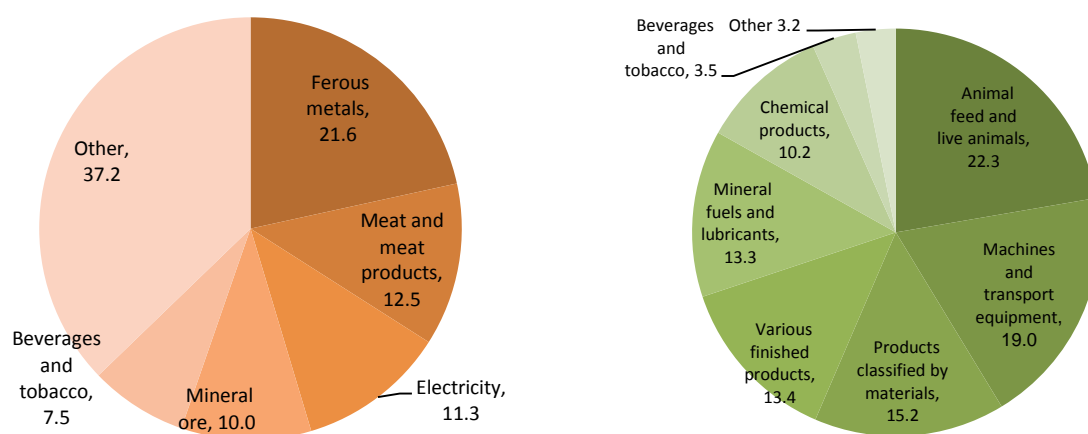
Because of the strong investment activity in infrastructure, tourism and energy, we expect the increase in the share of the construction sector, which could at the end of the period amount to 8.4% of GVA.

1.4.2. External demand and foreign direct investment are an important source of growth

Montenegro, as a small and open economy, records a negative balance of trade with foreign countries, with imports significantly exceeding the export. In the structure of exports dominate raw materials and semi-finished products, including base metals, aluminum, food and beverages, and machinery and equipment. The main import items are food, energy, machinery and equipment, mineral products, chemicals and vehicles. Exports of goods in 2013 and 2014 has been stagnant as metal production halved, which represented the main export product in 2012. The decrease in exports of goods will, in part, be offset by better performance of the service sector, especially the tourism sector.

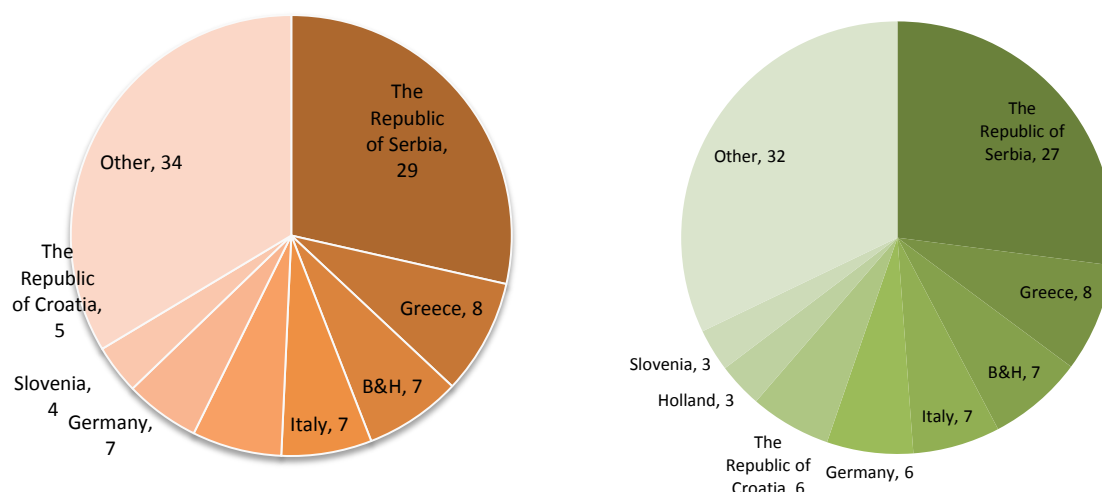
The structure of exports in 2014 is dominated by non-ferrous metals and aluminum (21.6%), food (18.1%), electricity (11.3%) and mineral ore (10%). In Montenegro, major import products are food and animals (22.3%), mineral fuels (13.3%) and machinery and transport equipment (19%). In European Union countries we placed about 38% of exports and about 46% in the countries signatories of CEFTA. Most imports originated from countries of the European Union (about 46%), while imports from the countries signatories of the CEFTA make up about 38% of total imports. The biggest trade partners of Montenegro are Serbia, Hungary, Greece, Croatia, Slovenia, Italy, Germany, China and others.

Chart 6: Exports and imports by product groups for the year 2014



Source: Monistat

Chart 7. Structure of exports and imports by country - 2014



Source: Monstat

The persistent and large **current account deficit** is one of the serious risks for the Montenegrin economy, which, in the long run is unsustainable. In this regard, the inherited patterns of growth, grounded in foreign direct investment inflows and high transfers from abroad, must be adjusted. The Montenegrin economy is faced with problems of high import dependence and a very low value of exports. Deficit financing is mostly provided from foreign direct investment and the inflow of portfolio investments by issuing euro bonds on the international market.

BOX 2: Balance of payments

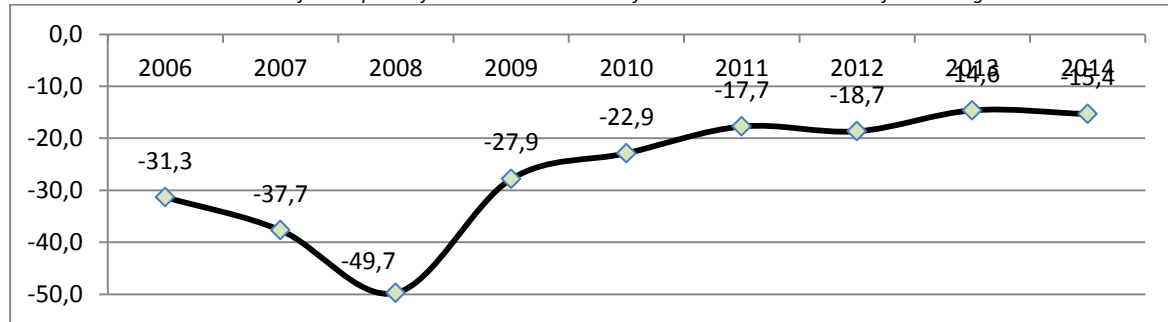
The current account deficit remains high and is funded primarily through the high influx of foreign direct investment. The adjustment of such a high deficit is a priority because of the high risk of an outbreak of balance of payment crisis, caused by the reduced inflow of foreign direct investment and, to some extent, by reduced inflow of transfers from abroad.

Due to the use of the euro as legal tender, as well as the predominantly cash payments, especially in the field of tourism (gray economy), it is not simple to encompass all transactions, because there is no possibility of distinguishing domestic euro from that of foreign origin⁴. Therefore, it is possible to underestimate some positions of the balance of payments, such as income from tourism, remittances, retail deposits sourced from transactions with non-residents, and others.

Source: CBM

⁴ Such is the case with most countries using the euro (Germany, Austria, France, etc.) as the basis of the methodology used, is that each country has its own currency. In countries where this is not so it is difficult to cover all balance of payments flows and hence substantial net errors and omissions occur.

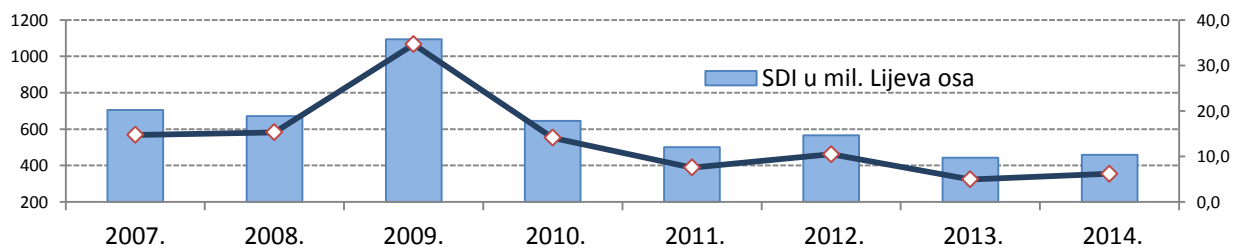
Chart 8. Current account balance for the period from 2006 to 2014 in % of GDP Source: Central Bank of Montenegro



Source: CBM

Foreign direct investment (FDI) is an important factor in increasing growth and competitiveness. Unfavorable developments on the global level and a lower level of foreign interest in the 2011-2014 period, resulted in a reduced inflow of foreign direct investment, which is still above the average of neighboring countries. Montenegro has enormous potential for attracting foreign direct investment, so that in the period 2015-2018, strong investment activity is expected, and the biggest investments are expected in the construction of infrastructure, above all, the road from Smokovac to Matešev. The value of this investment is 20% of GDP. In addition, there are announced major investments in tourism, in the amount of at least 30% of GDP, energy, industry and agriculture.

Chart 9. Foreign direct investment for the period from 2007 to 2014, in euros and % of GDP



Source: CBM

1.4.3. The banking sector is slowly recovering, but still faces challenges

The rapid growth of the banking system is caused by the entry of foreign banks. Of 14 banks operating in Montenegro, 11 were foreign owned, while in 2003 of a total of 10 banks, only 3 were foreign.

Table 5. Balance of Payments of Montenegro, in % of GDP

	2006	2007	2008	2009	2010	2011	2012	2013	2014
A. Current account (1+2+3+4)	-31.3	-37.7	-49.7	-27.9	-22.9	-17.7	-18.7	-14.6	-15.4
1. Goods**	-45.0	-55.0	-65.6	-44.3	-40.8	-40.4	-44.1	-39.9	-40.2
2. Services	7.7	14.1	12.0	13.4	15.0	18.2	19.4	19.6	20.2
3. Primary income	1.7	1.1	1.5	0.2	-0.7	0.8	1.7	2.0	1.3
4. Secondary income	4.2	2.1	2.4	2.9	3.7	3.6	4.3	3.7	3.3
B. CAPITAL AND FINANCIAL ACCOUNT	28.0	43.1	47.5	21.5	16.6	12.4	10.9	7.1	3.6
B1. Capital account	-0.7	-0.1	0.0	0.1	0.0	-0.1	0.2	0.1	0.0
B2. Financial account	28.7	43.1	47.5	21.4	16.6	12.5	10.7	7.0	3.6
1. Direct investments	21.9	20.2	18.9	35.8	17.8	12.0	14.7	9.7	10.3
2. Portfolio investment	-0.5	-0.2	-0.5	-1.4	6.2	4.6	-0.8	1.3	2.5
3. Other investment	13.7	28.5	24.1	-10.1	-6.8	-7.7	-1.7	-1.6	-5.7
B3. Changes in reserves of CBM	-6.4	-5.4	5.0	-2.8	-0.5	3.5	-1.4	-2.3	-3.5
C. NET ERRORS AND OMISSIONS	3.3	-5.4	2.2	6.4	6.3	5.3	7.7	7.5	11.7

The banking sector is facing a number of internal and external challenges. Credit activity is below the level that would have been the engine of growth. Expansion of the banking system was based on extremely high rates of credit growth, which was one of the highest in Europe and Central Asia, after which, by the end of 2008, followed a strong decline in lending activity, which in the period 2010-2014 remained at a very low level. A weakened economy and, above all, poor operating results in the construction sector and the real estate market during the crisis had caused an increase in non-performing loans. For these reasons, the banks were forced to increase their provisions for loan losses and reach for capital reserves, which resulted in a capital increase in 9 banks.

The banking system of Montenegro during 2014 was liquid and solvent, which is the evidence of the security and stability of the most important segment of the Montenegrin market. At the same time, profitability indicators have improved significantly compared to the previous year, where the banking system has achieved 11.6 times higher gain.

The balance sheet of banks in the same period had a predominantly growing trend. Growth in foreign assets resulted from the growth of cash and deposits with depository institutions, as well as banks' claims on the basis of purchased securities, while on the liabilities side the most significant growth was recorded by deposits. Total loans of banks in 2014 have receded and at the end of the year amounted to € 2,367.2 million, which is 1.9% lower compared to the end of 2013. In this connection, placements of new loans reduced by €6.2 million, or 0.8% over the same period, with the decrease in the household sector amounting to € 9.8 million or 3.5%, while the positive trends were recorded in the sector of the economy, which has been granted € 99.4 million, or 28% more new loans.

The security of the banking system is reflected in the continuous growth of deposits in banks in previous years. Funds deposited in the banks, at the end of 2014, amounted to €2,308.1 million, which represents growth of 10% per annum. Borrowings from banks in 2014 recorded a constant decrease. Reliance on deposits, as the dominant source of financing, and the high amount of liquid assets in banks in recent years, reduced the demand for this source of funding for banks. Banks' capital, on an annual basis, increased by 11.6%. Although still a significant portion of the loans of the banking system is of bad quality, at the end of 2014, non-performing loans of banks amounted to € 375.6 million and were at a 11.2% lower level than in the comparative period. The high level of non-performing loans as a barrier to more rapid economic development, stressed the need for effective solving of this problem. In this connection, in April 2015, the Law on Consensual Financial Restructuring of Debts to Financial Institutions was adopted. Specific strategies for reducing the level of non-performing loans shall be applied, which will contribute to the revival of loan activity and the consolidation of the real economy.

The average weighted effective interest rate on total loans of commercial banks until October 2014 had predominantly growing trend, after which it began to record a decline. In December 2014, the weighted average effective interest rate (WAEIR) amounted to 9.22% and the annual rate decreased by 0.14 percentage points. On the other hand, deposit interest rates throughout 2014 tended to fall, while the weighted average deposit interest rate (WADIR) stood at 1.83% and was lower by 0.71 percentage points annually.

Established tendency to increase competition in the banking market, as a result of the entry of new banks into the Montenegrin banking market, will contribute to increasing competition in the banking market, which should condition the reduction in lending rates and intensified loan activity.

1.5. Public finances

1.5.1. The status of public finances and projections

Fiscal policy measures are implemented towards ensuring the sustainability of public finances, limiting the growth of public debt, combating the gray economy, reducing the tax burden and improving the environment for new investments.

Preliminary consolidated public revenues in 2014 amounted to € 1,560.5 million or 45.6% of GDP (€3,424.9 million), which is by approximately € 118.5 million or 8.2% higher compared to the previous year and plan. Consolidated public consumption in 2014, according to preliminary data, amounted to € 1,606.6 million or 46.9% of GDP, an increase of € 18.7 million (1.2%) as compared to 2013, but lower than planned by € 141.8 million (9.7%).

Preliminary public spending deficit at the end of 2014 decreased by € 114.3 million compared to the same period, and € 46.1 million or 1.3% of GDP. In 2014, a primary surplus of 1.0% of GDP was realized. Unplanned expenses of the central budget, which amounted to about €60.0 million, hindered the policy aimed at reducing the budget deficit, i.e. the decrease of the public debt in GDP. If not for these costs, public finances would achieve a surplus of about € 15.0 million or 0.4% of GDP.

Budget revenues in January-April 2015, continued to grow, so that €369.8 million in total were collected, representing an increase of 2% compared to the same period and 1.9% in relation to the plan. Budget expenditures in the same period amounted to €434.5 million and were lower by €83.3 million or 16.7% than planned and higher by 1.0% over the same period previous year. The budget deficit, at the end of April 2015, amounted to € 64.5 million or 1.8% of GDP, a decrease of € 2.9 million compared to the same period 2014. The primary deficit in the first four months of the year amounted to € 53.8 million or 1.5% of GDP.

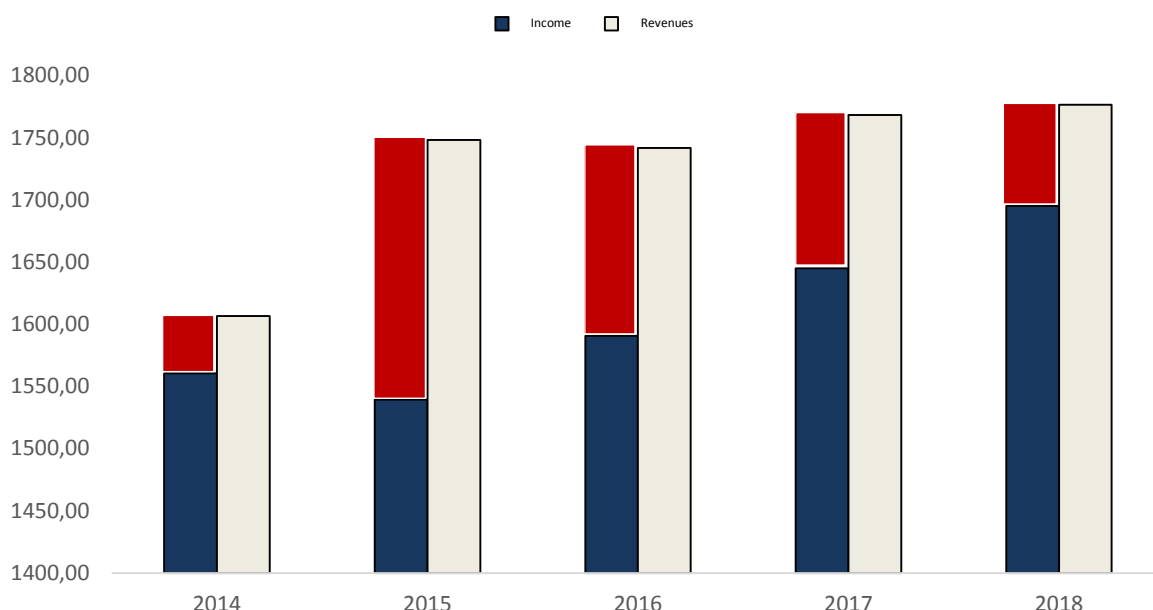
Assessment of the Budget by the end of 2015. Budget revenues in 2015 are estimated at € 1,342.8 million or 37.5% of GDP, which is € 13.6 million or 1.0% more than planned. The estimates are based on the projection of real GDP growth for 2015 and the implementation of fiscal policy. It is estimated that the expenditure of the state budget will be at the planned level, and will amount to €1,565.0 million, or 43.7% of GDP, of which the current budget expenditure amounts to €1,280.3 million, or 35.8% of GDP, while the capital budget amounts to € 284.7 million or 8.0% of GDP. The state budget deficit in 2015 is planned in the amount of €235.8 million or 6.6% of GDP. However, it is estimated that by the end of the year it will increase by €20.2 million, so it will amount to € 256.0 million or 7.1% of GDP. Assuming stable economic activity, the estimated revenue collection will not be sufficient to cover the expenditure arising from the repayment of liabilities from the previous period in the amount of €33.8 million or 1.0% of GDP, which will be reflected in the primary budget deficit, which is estimated at € 180.2 million or 5.0% of GDP.

Projections to 2018. Source revenues of the public finances will range from € 1,539.5 million in 2015 to € 1,695.2 million in 2018. Despite significant nominal growth, it is expected that the share of public revenue in GDP will decrease from 43.0% in 2015 to 40.3% in 2018. In the structure of public revenues the largest share will be recorded by value added tax and contributions (which on average account for about 60% of revenues), as well as taxes on personal income, while excise duty will record constant growth, due to the need for harmonization of excise policy of Montenegro with that of the EU. The effects of these measures are estimated at about €25.0 million per annum.

Public spending for 2015-2018 will be very high, given that the construction of priority section of the highway Smokovac-Uvač-Mateševo will be funded from the capital budget of the central government. Observed in nominal terms, consumption will range from €1,748.2 million in 2015 to €1,776.7 million in 2018, while the share of public spending in GDP will range from 48.8% in 2015 to 42.3% in 2018. In addition to expenditures for highway, residual expenditure recorded stagnation or slight increase in nominal spending, which is in line with the principles of rationalization at all levels of government. During the period, the reviewed capital budget will amount to an average of about 9% of GDP, in every single year, but excluding expenditure on the highway, it will remain at almost the same level as in 2014. Thus, the realization of the highway project will not diminish the level of funds earmarked for investment in other investment projects.

Chart 10

Public finances in period 2015-2018



Source: Ministry of Finance

The deficit of public finances in the period 2015-2018 will be relatively high, due to investments in fixed capital of the country. It is undisputed that the construction of the highway will temporarily increase the deficit and the effects of the project will increase the public debt.

1.5.2. Condition and dynamics of government debt⁵

State debt of Montenegro at the end of 2014 amounted to € 1,942.9 million i.e. 56.7% of GDP. Domestic debt amounted to € 381.2 million or 11.1% of GDP, while the external debt amounted to €1,561.7 million or 45.6% of GDP. Net public debt at 31 December 2014, taking into account deposits of the Ministry of Finance including 38,477 ounces of gold, is €2,022.21 million, or 59.0% of GDP.

The relatively high amount of government debt and its share in GDP is the result of, first of all, high budget deficit in the years of economic crisis, which is predominantly financed by borrowing. The state budget deficit is the result of a continuous growth of mandatory expenditures (expenditures for salaries and pensions) and reduction of budget revenues in the crisis years, of 2009 to 2012.

Thanks to the slight recovery of the economy and the introduction of measures for fiscal consolidation since 2013, revenue collection has significantly improved, which led to a reduction in the structural deficit. However, the payment of activated guarantees and costs arising from court enforcements in a significant amount increased the budget deficit.

State debt at the end of Q1 2015, including the amount of state deposits, amounted to € 1,938.0 million or 56.6% of GDP.

In the medium term, taking into account the implementation of the announced infrastructure projects, government debt will increase in nominal terms, and its share in GDP will increase. The increase in debt is the result of the financing of the construction of the highway Bar-Boljare, preference section Smokovac-Uvač-Mateševo. In this regard, in order to ensure the smooth functioning of public finances, it is necessary to provide funds for the purpose of debt repayment. To repay the debt, in 2015, we anticipated borrowing in the amount of approximately € 400.0 million, and for the year 2016 approximately € 380.0 million. As the

⁵ The Law on Budget and Fiscal Responsibility prescribes that the state budget, in addition to the Central Government debt, shall involve the debt of public companies. According to the Law, the data on public debt are publicized quarterly. The Ministry of Finance manages the public debt and keeps records of the public debt.

need for borrowing is continuously decreasing, in 2017 and 2018 it will be necessary to provide funding in the amount of €190.0 million, i.e. €90.0 million.

Table 6. Changes of government debt for the period 2014-2018 (In mil. €)

Year	2014	2015	2016	2017	2018
GDP	3,424.9	3,580.0	3,771.9	4,001.0	4,203.5
Total government debt / GDP ratio	56.7%	60.1%	63.5%	64.9%	65.7%
Total government debt	1,942.9	2,153.0	2,395.9	2,597.4	2,761.1
Domestic debt	381.2	308.0	233.7	172.8	183.4
Foreign debt	1,561.7	1,899.8	2,222.2	2,489.5	2,647.7
Foreign debt	49.5	54.9	59.9	64.9	69.9

Source: Ministry of Finance

State debt in 2014 was within the limits defined by the Law on Budget and Fiscal Responsibility, so that there was no legal obligation to take measures and prepare a plan for its rehabilitation. However, as in the future, public debt will be above the legal limit, by proactive approach, the Government of Montenegro will determine ex ante measures to reduce or eliminate the risk which can be produced by a high share of public debt in the economy of Montenegro.

BOX 3. Fiscal policy-tax system is competitive

Since the introduction of the euro in 2002, the only instrument of economic policy of Montenegro was fiscal policy, which is based on the principles of competitiveness, predictability, and consistency. In order to improve budgetary practice, based on principles of sound fiscal management, which is seen as a link between the budget and the policy of the Government, the implementation of the Law on Budget and Fiscal Responsibility has begun in May 2014, which provided the transparency of the budget, planning and control of the efficiency and consumption.

Reform of the tax system, in accordance with the arrangements set out in the strategic document "Analysis of Certain Aspects of Tax Policy - Prospects for Reform", focuses on changing the structure of taxation, which entails the transfer of the tax burden to tax forms that have a lower negative impact on economic growth.

Long-term fiscal objectives are:

- convergence towards a balanced budget;
- sustainable level of public debt, which will in the long term guarantee stability and
- competitiveness of the business environment;
- ensuring sustainable financing of major infrastructure projects and
- improvement of living standards.

The basic tax structure in Montenegro includes: excise, VAT, customs duties, income tax, personal income tax, real estate taxes, lower taxes (use of property, insurance, etc.), mandatory social security contributions (pension and disability insurance, health insurance and unemployment insurance), taxes (judicial, administrative, residence), as well as several types of benefits (for use of public roads, forest use, charges for water use, etc.).

The fiscal framework for the medium term is based on the macroeconomic scenario of growth and reforms in all areas of the system, first of all, the implemented and planned changes in the fiscal regulatory framework, which includes:

a) General measures relating to:

- continued intensive fight against the gray economy, with a focus on the labor market and the market of excise products;
- elimination of the practice of "retirement under more favorable conditions."

b) Measures related to the revenue side of the budget:

- general rate of value added tax in the future will be 19% and the tax rate (0% to 7%) for certain products remains at the same level;
- "crisis tax" on earnings in gross amount over 720 euros will remain in force in 2015, but the tax rate was reduced by 2 percentage points (from 15% to 13%);
- increased contribution rate for health insurance from the employer by 0.5 percentage points;

- gradual increase of excise duties on cigarettes, according to excise calendar;
- introduced tax on coffee and winnings from games of chance;
- introduced dedicated tax of 7 cents per liter of fuel (for the purpose of financing highway construction and professional sports).

General government spending is in line with the established medium-term macro-fiscal framework. A key component of the medium-term framework relates to the precise identification and assessment of the costs arising from the implementation of the medium-term strategic policies, which coincides with the macroeconomic framework for Montenegro. In this context, in order to provide control of public spending, the upper limits of consumption (spending limits) have been determined, which are mandatory for the first, and indicative for the next two years for the first-level spending units and consumer units which are subject to supervision.

c) Measures/actions that affect the expenditure side of the budget:

- measure on the non-adjustment of pensions terminates. Bearing in mind the movement of parameters for adjustment of pensions at the current indexation formula, the pensions should have been reduced. In order to preserve the standard of the elderly population, the amendments to the Law on Pension and Disability Insurance have built-in a protective mechanism, which, in the case of negative developments of the parameter for the indexation of pensions, would halt their adjustment.
- the realization of the most important infrastructure project in the country, the section of the highway Smokovac-Uvač-Mateševo. The contract value for the design and construction of priority section Smokovac-Uvač-Mateševo, of Bar-Boljare highway, is €809.6 million. The project is financed from the capital budget, borrowing from the Chinese Exim Bank in the amount of 85% of the investment, while the remaining 15% of the investment is provided by the country through contributions.

In the future, the state budget management will rest on responsible spending of budget funds. In this regard, the necessary activities will be taken to reduce current spending, primarily discretionary, which requires optimization of the number of employees in the public sector, reducing labor costs and better concentration of human, financial and material and technical resources. In order to increase the efficiency of the public sector, the process of reorganization of the same will continue, as one of the identified barriers to development. Bearing in mind the share of wages in total expenditures of the budget, as well as significant differences in the levels of salaries in the public sector, the question of their height and billing will be regulated in a unique way.

Public debt is the focus of fiscal policy, while respecting the needs of finance capital/infrastructure projects in the construction phase, which generate significant investment spending, with multiplier effects on the overall economy. In the long term, the realization of these investments will effect in the increase of overall economic growth and balanced development of the country.

The government's commitment to the implementation/construction of major infrastructure projects, primarily highway, caused an increase in public debt and deficit. However, this significant capital investment may, in the medium term, adversely impact on fiscal indicators, but in the long run, contribute to a more efficient valorization of local resources, strengthen the competitiveness of the economy, accelerate economic growth, increase employment, increase income, reduce the share of public debt in GDP and, in the final phase, increase the living standard of the population.

In order to fully assess the value of significant resources, and attract potential investors for new investment, as part of tax policy reforms fiscal incentives have been introduced related to investments in the following sectors: high tourism-hotels with 5 or more stars; production of food products, in addition to primary agricultural production and capital investment in the energy sector. The Law on the Bar-Boljare Highway defined exemptions for the general contractor for construction of highway in terms of exemption from: VAT, customs duties, income tax for a period of six years, taxes on personal income tax and contributions for compulsory social insurance for foreigners engaged in highway construction.

Reducing the deficit of public finances, through the mechanisms of rationalization of spending and increasing the budget revenues, will be the focus of economic i.e. fiscal policy in the future. The implementation of fiscal policy and fiscal rules, as defined by the Law on Budget and Fiscal Responsibility, will continue.

1.6. Demographic trends

The demographic image of Montenegro, with distinct changes in the age structure of the population indicates that, in the long run, it can lead to population decline. Demographic changes are primarily caused and encouraged by the movement in the birth rate, which has been falling for more than 20 years⁶. A small number of inhabitants and altered age structure will reflect on the individual segments of the social system (education system, labor market, households and families, the housing market, etc.). The number of elderly will increase, due to the growing groups of earlier (the baby boomer generation of five or six decades), and because of the increasing life expectancy of our time.

According to the censuses of 2003 and 2011, Montenegro had 620,145, i.e. 620,092 inhabitants. Thus, in the observed eight years, the population has stagnated. On the other hand, there was a change in the age structure in the direction of further aging of Montenegrin population.

Table 7: Population by size, age structure and dynamics: past, present and future

Years	Size			Dynamics		Age structure		
By groups	In thousands			Index 2003 = 100		in %		
	2003	2011	2021	2003/2011	2003/2021	2003	2011	2021
0-14	127.5	118.8	105.7	93.2	82.9	20.6	19.2	16.8
15-64	413.0	421.7	425.2	102.1	103.0	66.6	68.0	67.8
65+	74.2	79.6	96.3	107.3	129.8	12.0	12.8	15.3
unknown	5.5	0.2	0.2	3.6	3.6	0.9	0.0	0.0
Total	620.1	620.0	627.4	100.0	101.2	100.0	100.0	100.0

Source: Monstat

However, although recent data indicate somewhat positive trend, Montenegro, like most European countries, still has low birth rates. In this regard, the effects of previous policy measures regarding the birth rates⁷ will be followed in the future, as well as the overall measures of economic and development policies that, ultimately, have an impact on the increase in the birth rate, and natural population growth in the country, and these policies will accordingly be upgraded.

The share of the population aged 65 and over increased from 12% in 2003 to 12.8% in 2011, and is expected to increase to 15.4% by 2021. The share of the population aged 14 years or less, decreased from 22.6% in 2003 to 19.2% in 2011, and expectations are that by 2021 it will be reduced to 16.8%.

The aging population will increase the cost for pension and disability insurance⁸ and health services. In addition, it will reflect on the economic and social measures, through:

- improved access of young people to the labor market;
- migration and foreign labor policy;
- efficiency of the health system (prevention instead of treatment); and
- development of services for the elderly population (market niche, new jobs, etc.).

Due to the aging population, the public funds will comprise less funds for youth (e.g. in the education system), and more will be set aside for older people, due to the increase in demand for treatment and housing for elderly. Consumption will change in favor of satisfying the needs of the elderly. On the other hand, aging may adversely affect the contingent growth, because an aging society has a weaker demand.

⁶ The birth rate in 2013 increased to 12 per thousand. This, together with about the same mortality rate, led to moderate growth rates of population growth, from 2.2 promil in 2011 (which was the lowest birth rate in the period since 1993) to 2.5 promil in 2012 and 2013. Also, Montenegro has reduced the number of municipalities with a negative natural growth, from 10 in 2011, to 8 municipalities in 2012 and 2013. The biggest positive population growth rate was recorded municipalities of Podgorica and Rožaje.

⁷ Birth policy cannot be regarded as a separate segment. The same is part of a series of policies (social welfare and child protection, health policy), i.e. the overall economic and development policies.

⁸ Pension reform increased the retirement age (from 65 years for men and 60 years for women to 67 for men by 2025 and for women since 2041).

Demographic changes affect economic growth, inter alia, through their impact on the labor market. A smaller number of births will, over time, reduce the size of the workforce and cause aging in the active age group. Aging has already begun, while the reduction of the workforce is expected only after 2020. The economic policy is necessary to stabilize the contingent workforce, by strengthening their participation and increasing labor productivity through:

- qualified young staff who enter the labor market, which requires an efficient education system, adapted to the labor market;
- maintenance of skills in the workforce, through mandatory training and lifelong learning; and
- capital increase in order to compensate for the lack of manpower.

Migration movements in Montenegro, with a negative migration balance in the northern region, are in particular focus of Government policy.

When it comes to internal migration, in recent years, a slight downward trend of negative net migration in the northern region of Montenegro has been established. Thus, according to official data, the negative net migration, as the difference between the number of immigrants and emigrants, decreased from 1,407 persons in 2011 to 1,186 persons in 2014, or 15.7%.

At the same time, according to Eurostat data, in 2014, about 0.2% of the citizens of Montenegro submitted an application for asylum in EU countries, which is lower than in most neighboring countries.

In order to mitigate negative demographic trends, measures of economic and development policy are implemented, aimed at accelerating the development of the Northern region, and ensuring a more balanced socio-economic development of all local government units and regions. This shall in particular be affected by measures undertaken in the priority areas of regional development, such as transport and other public infrastructure; agriculture and rural development; energy; environmental protection; competitiveness and innovation; manufacturing industry; tourism and culture; education; employment and social policy.

Bearing in mind the complexity of the unfavorable demographic trend, characteristic of the Northern Region in the past few decades, significant reduction or complete elimination of the negative migration balance in the northern region cannot be achieved in the short or even the medium term.

2. DEVELOPMENT DIRECTIONS

2.1. SMART GROWTH

Smart growth means strengthening economic competitiveness by improving the business environment, increasing productivity by engaging qualified personnel, implementing the latest technologies, the wide use of ICT applications, attracting foreign direct investment (FDI), their connection with the privatization and restructuring projects, and the launch of new products and diversifying supply (tourism, culture).

Measures under the Smart Growth are focused on:

- the use of the potentials of the country in a more efficient manner, which will contribute to the reduction of import dependence;
- increasing exports and reducing the deficit of the balance of payments; and
- developing entrepreneurship, innovators and research infrastructure.

In a broader context, the placing of competitiveness at the heart of the European political agenda, the Strategy "Europe 2020" aims to make Europe more attractive destination for investment, provide a strong impetus to entrepreneurial initiatives and create a productive environment in which to develop innovative capacities.

Table 8: The main objectives of Montenegro in relation to smart growth

Business environment	<ul style="list-style-type: none"> • Improved position in the ranking of the World Bank
Small and medium-sized enterprises	<ul style="list-style-type: none"> • Increase in the number of SMEs • Increase in the number of employees in SMEs • Increase in the share of SMEs in exports • Increase in the share of SMEs in GDP, total investments, turnover, profit and gross added value
Manufacturing	<ul style="list-style-type: none"> • Increased employment • Increased competitiveness • Strengthening export possibilities
Competitiveness	<ul style="list-style-type: none"> • Increase in FDI inflows • A higher number of operational business zones and increase in the functionality of existing • Increase in the number of employees
Science and Higher Education	<ul style="list-style-type: none"> • Increased investment in science and research • Introduced new instruments to encourage innovation • Adjusted enrollment policy with the requirements • Labor market • Employer associations involved in the evaluation of the implementation of vocational education • Increased enrollment in scarce programs
ICT	<ul style="list-style-type: none"> • Better broadband access • Increased number of electronic services
Tourism and "Cultural Tourism"	<ul style="list-style-type: none"> • Increased income from tourism • Expansion of tourist facilities • Increased number of accommodations in high category hotels • Designed tourist programs focused on "cultural tourism"
The funds necessary for the financing of "smart" projects / development measures identified in DD	<ul style="list-style-type: none"> • Total: 1.088.87 mil.€ • Local budget: 33.80 mil.€ • Loans: 304.06 mil.€ • EU: 5.31 mil.€ • Private funds: 745.70 mil.€

Given the limited funds from the national budget, of great importance are: the use of EU funds (IPA, HORIZON, COSMO, FISCALIS etc.), and access to private and public assets (loans, subsidies, donations, etc.). It is therefore essential that, in addition to developing joint and integrated strategies, we particularly emphasize effective management and control, i.e. the development and project management, control and management of financial implementation, financial control of projects, and internal and external audits. In this connection, it is necessary to ensure adequate administrative capacities, through training of personnel for the implementation of the planned measures and activities in the different policy areas, which will, ultimately, contribute to economic development and job creation.

Box 4: Gross domestic expenditure on R & D (GERD) -% of GDP

GERD (Gross domestic expenditure on R & D) represents a percentage of GDP directed to R & D. This is one of the tasks of the Strategy "Europe 2020", according to which the activities within the smart growth will lead to improved ratio of GDP - R & D expenditure of 3%. "Research and experimental development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications" - (Frascati Manual, 2002 edition, § 63). R & D is an activity where there are significant transfers of resources between units, organizations and sectors and it is important to monitor the flow of R & D funds.

Gross domestic expenditure on R & D (GERD) -% of GDP

2.1.1 Business Environment

Reform of the administrative system and the regulatory framework is a key step to improve the investment climate, as a prerequisite for economic growth, especially in the years of economic and fiscal challenges. The reform process aimed at strengthening the entrepreneurial initiative and attractiveness for foreign investments, is particularly important for open economies and smaller countries, such as Montenegro.

Creating simpler procedures, modernization of the public administration, as well as efficient administration, are the objectives of the reform measures to improve the business environment. Promotion of the country, specifically its overall image related to the investment climate for foreign investment, will be improved with the commitment to better position the country on the world investment map, or a better position in international terms.

For the purpose of creating better conditions for investment it is very important to have an efficient administration with clear procedures and transparent and short deadlines for compliance with the requests. Also, a "one stop shop" or one-stop communication with clients, is especially suitable for overcoming the problems related to the inclusion of a large number of institutions within a single procedure. The introduction of modern technology, although expensive, is a necessary process, in terms of creating simpler procedures and monitoring global trends in terms of efficient administration.

The partnership of government institutions and employers' associations is the best example of coordinated policy of the private and public sectors, with the aim of improving conditions for doing business in Montenegro. Experiences of employers and the coverage of all practical problems faced by the private sector are essential for creating recommendations for reform in certain areas, performed by Government teams, with the participation of representatives of associations of undertakings. In this regard, the recommendations of the private sector, in addition to international reports that show how others see us, are the basis for creating a reform agenda of the Government in the field of investment policy.

Implementation of measures/actions identified in the Development Directions 2013-2016

The reforms of the business environment, which are initiated in the previous period and are currently being implemented were related to the following areas: business registration, construction permits, credit approval, tax collection, registration of immovable property, enforcement of contracts, employment of foreigners, licensing. In addition, in previous years the regulatory reform involved the introduction of the Analysis of Regulatory Impact Assessment (RIA) in the Montenegrin regulatory system, and the implementation of the recommendations of the "Guillotine of Regulations". As regards major reform steps,

public administration reform is particularly important, and is being implemented in accordance with the "Public Sector Reorganization Plan".

Efforts to create a favorable environment, and for our reforms to be observed at the international level, have resulted in the progress of Montenegro in the global rankings in Doing Business 2015 Report of the World Bank. Currently ranked 36th, Montenegro has a significant competitive position on the list of 189 countries in the world, in both regional and global terms. Montenegro's ranking is better for 6 positions compared to 2014DB, when Montenegro was ranked 42nd by the revised ranking.

OECD/SIGMA have prepared a report "Regulatory Impact Assessment in Montenegro" in cooperation with the Ministry of Finance. The purpose of this report is to present the findings of the analysis of existing procedures and practices in the process of public policy in the ministries, and to assess the implementation of the obligation to implement RIA, by giving recommendations on areas where improvement is possible. Also, the implementation of recommendations from the "Guillotine of Regulations" improved so that, as of Q4 2014, the degree of implementation amounts to 74.62%.

In order to solve the problem of insolvency, the Law on Voluntary Financial Restructuring of Debt to Financial Institutions has been adopted, which aims to promote the recovery of the debtor or users of mortgage loans in financial difficulties, by restructuring of their debts, to preserve the stability of the financial system and provide access to new means of financing to stimulate economic recovery and growth.

In order to increase the competitiveness of the economy through the process of enforcement of contracts, the Law on Enforcement Officers and the Law on Amendments to the Law on Enforcement and Security were enacted. The implementation of the proposed reforms will improve the existing solutions i.e. will make enforcement procedure faster, better and more efficient.

The feasibility study of implementation of the second phase of unifying the inspection services has also been prepared, providing a comprehensive overview of the current situation in this area, as well as proposed measures towards creating conditions for more efficient and better performance of inspection activities, particularly in the tax field.

Proposed measures

New trends in world markets, as well as the new aspirations of the Montenegrin society, in accordance with the practice of developed countries of the world, are the challenges which Montenegro will face in creating business environment to further strengthen the competitiveness of the economy and, ultimately, the growth of economic activity. In this respect, the institutions of the state administration will aim to finalize and initiate reforms. In this connection, it is planned to implement the following activities:

- public sector reform;
- adoption of the Public Administration Reform Strategy 2016-2020;
- implementation of the "Government to citizens and businesses" project, in order to improve the business environment at the local level;
- implementation of the recommendations of fiscal analyzes at the local level;
- implementation of one-stop-shop for construction permits in local government;
- solving the insolvency problem (realization of the third stage of the "Podgorica-model", through the implementation of the Law on Voluntary Financial Restructuring of Debts to Financial Institutions);
- improvements in the registration of businesses through the introduction of full electronic business registration, and enabling registration in all branches of the Tax Administration;
- simplification of procedures in the enforcement of the contracts, by increasing efficiency, reducing the cost and duration of procedures through the implementation of the institute of enforcement officers;

- simplification of procedures in the area of tax collection, through the creation of opportunities for a larger number of electronic payment of taxes;
- implementation of the recommendations contained in the Action Plan "Guillotine of Regulations";
- reduction of administrative barriers through the implementation of RIA - Regulatory Impact Assessment.

Structural reforms

Key challenges in implementing reforms in the business environment are:

- improving technical characteristics and IT solutions in state institutions, in order to simplify procedures and increase the efficiency of state services; and
- a high level of non-transparent procedures, with advance unclear steps necessary for the realization of a job, or obtaining some form of government approvals.

In addition to the above, Montenegro, as a candidate country for EU membership, has growing obligations arising from the EU regulations and the necessity of harmonization of Montenegrin legislation with the same. In this regard, it is necessary to introduce new procedures and increase the number of public administration bodies, with the additional financial resources, provision of which, due to the need to reduce government spending, will create a significant problem.

However, even in such an environment, we need regulatory reform, notably:

- changes to regulations, in accordance with the recommendations of the "Guillotine of Regulations";
- amendments to the regulations, in accordance with the recommendations of the private sector;
- simpler and cheaper procedures and processes at the local level;
- continuous carrying out of the regulatory impact assessment (RIA);
- preparation of a regulatory framework, in order to overcome the problem of illiquidity of the economy;
- strengthening human capacity.

2.1.2. Small and medium-sized enterprises

Small and medium sized enterprises make up 99% of the total number of companies in Montenegro and, to a large extent, contribute to economic growth and development and competitiveness of the economy, new employment, and are an important factor in the process of European integration.

The small and medium enterprises in the past two years show an upward trend, observed in the number of enterprises and number of employees. The number of small and medium-sized enterprises in Montenegro in 2014, according to the Tax Administration, amounted to 23,895, and compared to 2013 increased by 11.33%. At the same time, the number of employees in SMEs increased, which, compared to 2013, increased by 10.47% and amounted to 148,685.

Small and medium-sized enterprises policy is under the jurisdiction of a large number of ministries, government institutions, private sector and donors and is conducted in accordance with the measures of the Strategy for SME Development 2011-2015, and, at the same time, accompanied by the recommendations of The Small Business Act for Europe - SBA.

Implementation of measures/actions identified in the Development Directions 2013 - 2016

The effects of the support measures implemented for the SME sector, to a large extent, are in line with the plans. The greatest progress in the last two years is evident in the area of provision of financial resources, loans and factoring, for the operation of SMEs. Measures to strengthen the competitiveness of SMEs are taking place continuously, while the realization of support to start-ups is under the plan, with the exception of direct financial support for start-ups. Deviations from the full realization of the planned activities are the result of the limited availability of financial resources for infrastructure expansion. A significant part of the

activities in this regard has so far been realized with the support of international projects/donors, while a smaller part is funded by the Budget.

Implemented measures to support the SME sector can be viewed as:

1. *Strengthening financial support to SMEs* - Over the past two years Investment Development Fund approved to the SME sector more than € 137.0 million funding from loans and factoring arrangements. A total of 479 projects of existing and newly established SMEs, entrepreneurs, registered agricultural producers, women and young people in business, have been approved. The aid in 2014 amounted to € 71.2 million and compared to 2013, when it amounted to €65.91 million, increased by 8.03%. In providing funding to support the SME sector, in the past, the signing of the first contract with the European Investment Bank-EIB stands out in particular with the withdrawal of funds in the amount of € 50.0 million.

Montenegro in June 2014, signed a Memorandum of Understanding for participation in the EU Programme for the Competitiveness of SMEs - COSME with a total budget of € 2.3 billion in the period 2014-2020, opening the possibility for improving access to finance for SMEs, primarily through the instrument of loan guarantees.

2. *Strengthening competitiveness and promotion of SMEs in 2014* - Measures to strengthen the competitiveness of the SME sector are multidimensional and take place continuously. The model of providing business advisory services for SMEs at regional and local levels has been partly upgraded, through the establishment of regional business center and business incubator in Berane (activities are in the final stage). In addition, in order to provide information on the registration and operation of SMEs, online SME portal was created for the municipality of Bijelo Polje. Enterprise Europe Network-EEN continued its promotional activities through a series of events at international exhibitions, conferences, business meetings, where Montenegrin SMEs have been presented, secured business partners, provided information on conditions and criteria for applying for funding from EU funds, etc.

The process of developing awareness on the promotion of *entrepreneurial learning* started at all levels of education and the development of entrepreneurial spirit throughout society. Activities on the introduction of entrepreneurial education into the curriculum of all primary schools continued, as well as teacher training. Course "Entrepreneurship" was introduced in the general secondary education in Montenegro as an elective, while the "Entrepreneurship" in vocational schools is represented through all programs, as a regular or as an elective course. Besides, the number of education institutions (primary schools, high schools, universities, non-economic faculties) with entrepreneurial learning in the school curriculum is increasing. Work continued on the strengthening of the National Partnership for Entrepreneurial Learning.

The adoption of the Strategy for Lifelong Entrepreneurial Learning 2015-2019 created the conditions for further promotion of entrepreneurial education and the creation of skills that will help individuals obtain better jobs or set up new companies and thus make Montenegro a society of knowledge, innovation and competitiveness.

A new service delivery model was developed for SMEs through mentoring, which is reflected in the immediate work to solve problems and plan future operations. This model was implemented in 2014 in 13 SMEs.

There were enhancements to the financial support for women in business, as a total of 71 loans have been granted in the amount of €2.4 million, by IRFCG, which is significantly more than in 2013. The Draft Strategy for the Development of Women's Entrepreneurship 2015-2020 has also been designed.

Reporting on indicators for the implementation of the principles of The Small Business Act of Europe – SBA started in 2014 in cooperation with the European Commission, OECD, ETF, EBRD and SEECEL and will continue in 2015.

3. *Support for beginners in start-ups* - Providing consulting services and training, training to improve business skills for start-ups is provided in the framework of business incubator Business Start-up Center Bar. Improved service delivery for start-up beginners will be enabled within the incubator by the expansion of infrastructure, and the establishment of an incubator in Berane. Financial support under IRFCG credit line for start-ups totaled € 1.2 million for six approved projects, a significant increase compared to 2013 when it approved € 0,295 million.

Proposed measures

The measures of support to the development of the SME sector will be accompanied by activities defined by the Action Plan of the SME Strategy 2015, while the corresponding strategic development documents will define concrete measures for the future. Based on the assessment of the implementation of measures/activities and results achieved in the previous period, the following measures are proposed:

- further improvement of financial support and the introduction of new financial instruments (especially bearing in mind the Agreement on credit arrangement which IRFCG signed with EIB in the amount of € 70 million and the possibilities offered by COSME and other programs of the European Union), improving the availability of grants;
- further improvement of support to strengthen the competitiveness of SMEs and promotion, particularly in terms of providing services for business support and business counseling, mentoring, support to the improvement of entrepreneurial education, export promotion and women's entrepreneurship;
- continue to improve the delivery of comprehensive information for the establishment and operation of SMEs, training, and other forms of support to start-ups;
- strengthening administrative capacity for innovation and implementation of SME policies, COSME, the EU programs and other support programs.

Structural reforms

Structural reforms in the forthcoming period are reflected in:

- Creating the SME Development Strategy 2016-2020 and its implementation (Strategy will be adopted in 2016);
- Monitoring the recommendations of The Small Business Act of Europe in the implementation of measures supporting the SME sector.

2.1.3. Manufacturing industry

Notwithstanding the decrease in participation in overall economic activity in Montenegro, the manufacturing sector continues to be one of the important fields of the economy, especially because the largest companies in Montenegro are operating in this area (Aluminum Plant Podgorica, Nikšić-Toscelik former Željezara), whose multiplicative effect on the overall socio-economic situation is very big. In addition to the major contribution to the creation of added value, the sector is important for the overall economic development, both because of its importance for balanced regional development, and because of the potential to improve the overall competitiveness of the Montenegrin economy, increase employment of the workforce and attract foreign investment.

Based on the analysis of statistical indicators, it can be concluded that the manufacturing industry has great significance for the overall economy of Montenegro, from the aspect of employment, participation in the formation of GDP, i.e. share in total exports of goods. In addition, the field of manufacture of basic metals and fabricated metal products remains a significant area of manufacturing industry and the overall economy of Montenegro. Because of the dominant share of the manufacturing industry, this area determines the direction of movement at the level of the overall manufacturing industry, as well as the value of industrial production in the total amount. Accordingly, it is important to create in the sector of the aluminum industry in Montenegro opportunities for profitable startup of complete reproductive chain -

from bauxite ore to finished product. One of the challenges is to ensure adequate and sufficient sources of cheap electricity for aluminum casting, on the basis of sustainable and economically acceptable models. At the same time, the steel industry in Montenegro is undergoing the modernization of existing plants and installation of new ones. The goal is to create the conditions for the production of acceptably priced and more profitable products for foreign markets. In addition, activities were launched in the area of strengthening the wood industry - the revitalization of existing and construction of new generating capacities, in order to exploit comparative advantage in this area (quality and cheap wood resource, skilled labor force). Also, we are actively working on the implementation of activities in agricultural production, in order to increase added value through processing and development of the food industry.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

The Strategy for the development of manufacturing industry 2014-2018, the first strategic development document which analyzed the situation in this sector, established the objective of development and provided guidelines for its development, which will be based on the significant natural resources of the country.

Strategic development goals of the "manufacturing" sector are: increasing employment, increasing competitiveness, strengthening export capabilities, as well as GDP growth. We have defined the framework priorities to achieve the same, namely: improving the business and investment environment, the completion of the privatization and restructuring of enterprises, strengthening the supply and availability of financial resources, positioning towards higher value-added products, stimulating the implementation of new technologies and innovations in the production process, strengthening human resources and adapting to the requirements of the labor market, promotion of entrepreneurship infrastructure, as well as increasing concerns about environmental protection and sustainable development.

The implementation of measures and activities for the development of the manufacturing industry in 2014, except for unforeseen procedures in terms of legal solutions, has been affected by the problem of securing funds to finance certain activities. In order to meet the targets of the Strategy, which will contribute to increasing the value added in production, competitiveness of Montenegrin producers, and thus the value of sales in the domestic and international markets, we started the careful selection of the necessary activities that will be implemented within the framework of the Action Plan for 2015 (the plan was adopted in early 2015).

Proposed measures

Action Plan for the implementation of the Strategy consists of two parts: the first part defines activities for a four-year period, in terms of identified priorities, and the second part gives an overview of concrete actions/measures (including financial aspects) whose implementation is planned for 2015.

In accordance with the 2015 Action Plan, the activities implemented will involve more favorable lines of credit to encourage the development of processing industry, incentives for cluster development, harmonization with international standards, voucher schemes for innovative small and medium-sized enterprises in the industry, investment promotion and industrial competitiveness to increase the number of employees.

The realization of the above activities will contribute to achieving the objectives through: the creation of new enterprises, increasing capacity, the introduction of new products, higher productivity, innovation, modernization of operations, linking producers for the joint appearance, a higher degree of processing, higher production volume.

Activities relating to the period from 2016 to 2018 will be defined in separate annual action plans.

Structural reforms

A unified policy of the overall economy is being prepared - Industrial Policy of Montenegro 2016-2020, with a view to, through the implementation of numerous activities, enable all the strategic sectors realize their potential and seize the opportunities for sustainable development and improvement of the lives of citizens, paying extra attention to the disadvantaged in development. This policy will be of horizontal character and provide a framework of general conditions for industrial competitiveness.

The purpose of the development of the document is the use of integrative potential of the whole industry/economy (which includes in addition to standard sectors the tourism sector, construction, transport, ICT, etc.), as well as establishing strategic frameworks and development priorities based on realistic goals, having in mind the available natural, human and financial resources, which will result in overall economic growth, increased employment and rapid, innovative development of all regions.

2.1.4. Competitiveness/foreign direct investment

Foreign direct investment (FDI) represent one of the most important instruments by which a national economy can encourage production, employment growth, infrastructure development and poverty reduction. Montenegro, as a small and very open economic system, has the potential to be flexible in fitting into the global FDI trends, while investments, even in less absolute terms, can have a huge impact on economic growth in Montenegro, and the establishment of macroeconomic stability. It is evident that special attention must be paid to improving the overall investment environment, therefore the focus of competition policy are FDI, and improving the overall investment environment in order to attract primarily greenfield investments and implement projects through PPPs and concessions. Improving the competitiveness of the Montenegrin economy is being implemented, inter alia, through the establishment of business zones, clustering and implementation of system solutions-oriented to clients.

The aim of competitiveness policy is to increase the inflow of foreign direct investment, by creating favorable investment environment, and activities undertaken in the field of promotion and internationalization. It is important to note that, taking into account the investment policy and sustainable economic development, Montenegro must make extra effort to change the structure of foreign direct investments in favor of investments in banks and companies, rather than in real estate. At the same time, the increase in revenues from privatization is expected by the realization of failed projects from previous years and the projects for which public calls have been announced.

Potential risks that could have a negative effect on the inflow of foreign investments are:

- the situation in the world economy and, in this connection, the lack of interest of foreign investors;
- administrative procedures at the local level, which are necessary for the realization of major projects;
- possible outflow of foreign capital.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

Within the competitiveness policy /FDI, a series of activities has been implemented.

Eight business zones have been promulgated (in Kolašin, Berane, Nikšić, Bijelo Polje, Podgorica, Cetinje, Mojkovac and Ulcinj), and local self-governments should further develop and promote them. Also, according to the Strategy for Sustainable Economic Growth in Montenegro through the introduction of clusters 2012 - 2016, the work on developing them is in progress, for which a part of the necessary funds has been provided under the Instrument for Pre-Accession Assistance (IPA).

Within the Program of strengthening the capacity of local governments, local governments from Nikšić, Berane, Bijelo Polje, Mojkovac and Kolašin will be supported, in order to: strengthen the capacities of management of the staff responsible for managing business zones; the establishment of a standardized management of business zones; promotion of offers of approved business zones. Under this program, the

Regulation on direct stimulation of investment has been adopted, aimed at improving the investment environment and, ultimately, at increasing the competitiveness of the economy.

Funds for investment promotion are awarded on the basis of a public announcement, for investment projects whose minimum value is € 500,000 and that ensure the opening of at least 20 new jobs within three years from the date of conclusion of the agreement on the use of funds. Foreign investor can be the beneficiary of funds if it establishes a business entity in Montenegro. The criteria for allocation of funds to encourage investment are prescribed by the Regulation and on the basis of their assessment the investor is allocated financial resources in the amount of €3,000 to €10,000 per job created, in accordance with the scores. The funds will be paid in three installments following the investment cycle. Funds paid are covered by a bank guarantee on first demand, which means that funds can be freely withdrawn if there is evidence of irregularities in the implementation of the investment project. The rights and obligations regulate in detail the agreement between the Government and investors. The Regulation also introduces the possibility of reimbursement for the building of the infrastructure necessary for the realization of the investment project.

The Cluster Development Enhancement Program in the northern region and less developed municipalities in Montenegro has been running since 2012. The same was expanded in 2014 and renamed in the Program for Clusters Development Enhancement in Montenegro by the end of 2016. The objective of the Program is financial support for entrepreneurs, micro, small and medium-sized companies that are part of the cluster to overcome "bottlenecks" in business through the purchase of manufacturing equipment. The program is financed from state aid.

Another program of state aid began to be implemented in 2014: Program for Enhancing Regional and Local Competitiveness Through Harmonization with International Standards of Business for the period 2014-2016. The aim of the program is to provide support to entrepreneurs, small and medium-sized companies and clusters of small and medium businesses, especially from less developed municipalities and northern regions, to as much as possible increase their competitiveness, notably by complying with the requirements of international standards for products and support for obtaining accreditation for conformity assessment. The program has two components of the support: 1) to support SMEs in terms of reimbursement of costs of accreditation body for conformity assessment and 2) support to SMEs in terms of reimbursement of the costs of the implementation of standards/certification/recertification.

Amendments were made to the Law on Foreign Investment. The law has further clarified the term of foreign investor, the investment climate is improved by removing restrictions on investment in enterprises engaged in the production and trade of arms and military equipment, harmonization with the Company Law has been made in terms of foreign investors' record keeping, and priority has been given in resolving disputes by courts in Montenegro, unless the investment agreement otherwise provided.

Proposed measures

- In addition to working on the announcement of business zones and improving the investment environment, efforts should be made towards the development and promotion, but also the realization of their full functionality and improving their capacity;
- It is envisaged to establish at least one-stop-shop for the FDI, increase the number of bilateral and multilateral economic agreements (agreements on economic cooperation, the agreement on the promotion and protection of mutual investments, free trade agreements), as well as further improve the investment environment, by increasing the number of fairs, opening of trade missions of Montenegro abroad, etc.;
- The issue of expediency of the Agency for Foreign Investment Promotion has been raised and proposed that the existing Agency is incorporated into the Secretariat for Project Development in the new Investment Agency, so that the investors could get most information in one place;
- Improving the system of standardization and training of staff in accordance with recommendations and standards of European and international standardization organizations;
- Establish an *after-care* program of foreign investment in order to communicate directly with investors to eliminate eventual problems which investors are facing and thus promote investment environment in Montenegro.

Structural reforms

- implementation of the Strategy for Sustainable Economic Growth in Montenegro through introduction of clusters 2012 - 2016;
- amendments to the Law on Foreign Investment;
- adoption and implementation of the Law on public-private partnerships and concessions, which will, in institutional terms, clearly regulate the issue of PPPs and concessions;
- Implementation of the Strategy for South East Europe 2020 through the five pillars defined in the Strategy, which is one of the goals of increasing the level of FDI in the region, and thus in Montenegro.

2.1.5. Science

Highly qualified personnel in science and technology is a prerequisite for the overall development of the economy and society. Scientific research and innovation system of the country are an integral part of the international system and market knowledge.

Awareness of the importance and impact of science and technology on everyday life is all the more developed. Research and new technology have increasing importance in companies, which is directly related to their competitiveness. In this regard, the analysis revealed that knowledge is an essential driver of economic growth, employment and improvement of the quality of life. An important mechanism for increasing competitiveness involves improving the efficiency and quality of higher education and research activities in Montenegro, strengthening the links between research and industry, with a focus on innovation.

Investing in human resources is of great importance for the future of Europe. It is necessary that vocation and careers of researchers get more attractive to young people, by creating better opportunities for researchers and scientists, particularly in the private sector. Also, it is necessary to increase the number of researchers, the quality of their engagement, their international sectoral and intersectoral mobility.

In this regard, Montenegro is strategically oriented towards stimulating the development of new production capacities, based on added value, market-oriented research and innovation, increased investment in research and development and cooperation between the research sector and the economy. New instruments have been determined, which strengthen the scientific research activities and encourage cooperation between the private and public sectors. First of all, this will be achieved through two key elements, namely: the establishment of centers of excellence and funding of programs of major collaborative research grants aimed at strengthening the successful research teams, internationalization and networking of research and economy, as well as through the establishment of science and technology parks and innovation - entrepreneurial centers. The introduction of these instruments will contribute to an increase in research investment, particularly investment in business sector.

On the road to European integration, EU standards, regulations and goals for the knowledge-based society in the context of social and economic development, determine the policy of Montenegro for research and development, as provided for in the Strategy "Europe 2020", and special initiative "Innovation Union". Montenegro temporarily closed negotiation chapter "Science and Research" and thereby demonstrated full commitment to EU policies and acceptance of guidelines in this area. By temporary closure of negotiation on this chapter Montenegrin scientific research community positioned itself within the European Research Area, and was given the possibility for greater access in the use of: EU funds, the mobility of researchers and cooperation with research teams, research institutions and businesses from EU countries.

In this regard Montenegro on 1 July 2014 joined the Framework Program for research and innovation "Horizon 2020" (2014-2020), the largest and most important European program for the area of research and innovation. Montenegro's participation in this program allows: to use program funds on an equal

footing with the EU Member States; apply for funding through concrete research projects; increase the mobility of researchers and cooperation with scientists, research institutions and businesses from EU countries. In this way, a large number of opportunities opened for the development of the scientific research community in Montenegro, as well as the economic sector, bearing in mind that the activities under the "Horizon 2020" focused on the commercialization of research and the creation of innovation in order to strengthen the country's economy.

Implementation of measures/actions identified in the Development Directions 2013 to 2016

Within subordinated policy "Development of the scientific research community", all the measures proposed have been implemented in the allotted time and financial framework.

Specifically, through the "National Scientific Projects" (2012-2015), the first and second year of research at 104 research projects have been successfully implemented.

Within the project "Higher Education and Research for Innovation and Competitiveness (HERIC)", following activities have been undertaken:

- the establishment of the first Center of Excellence - the status is assigned to the University of Montenegro - Faculty of Electrical Engineering in Podgorica, for the implementation of research project "Centre of Excellence in BIO-ICT", which is interdisciplinary, and includes 8 local and international partners from science and industry, for period of three years (2014- 2017); and
- large grants for sub-projects of research and development (2014-2017) - Grants are awarded for 4 projects, while there is the ongoing negotiation process for awarding grants for another 4 highest ranked projects.

The main instruments for fostering and promoting science in society during 2013 and 2014 were as follows: Competition for awarding annual prizes for scientific achievements, Competition for co-financing of research activities, Open Science Days, the World Day of Science, as well as numerous promotional events.

Within the realization of subordinated policy "Linking science with economic sector" all planned activities were carried out, which relate to:

- the establishment of the first Innovative Enterprise Center "Technopolis", based in Niksic - paid a founding stake and made major project for the reconstruction of the Home of Army of Montenegro in Niksic for the accommodation of "Technopolis";
- implementation of the EUREKA program; and
- implementation of the measures foreseen under the Operational Programme Human Resources Development 2012-2013 (IPA Component IV).

Proposed measures

Measures under the subordinated policy "Development of the scientific research community" are:

- the implementation of the National Program (2015-2018);
- the implementation of the project "Higher Education and Research for Innovation and Competitiveness (HERIC)" Establishing the first Center of Excellence in Montenegro and award of major grants for subprojects Research and Development (2012-2017); and
- increasing the number of researchers and quality of research work, through appropriate incentive programs and promotion of science in society and support to young researchers with the National program of scholarships for excellence.

Measures under subordinated policy "Linking science with economic sector" are:

- Establishment of the Science and Technology Park and innovation-entrepreneurial centers;
- Participation in the market-oriented EUREKA projects; and
- The introduction of new instruments to encourage innovation.

Structural reforms

Research Activities Strategy (2012-2016) was amended, in order to identify new strategic directions for the development of scientific research activities in Montenegro, with the formulation of appropriate objectives and activities in this field. Revisions of the Strategy placed emphasis on the development of research, 10 research priorities have been developed in detail, through reprogramming it was foreseen to reach the target of 1.4% of GDP investment in research in 2016, and 3% by 2025, and new instruments of the research and development system were developed, which are for the first time established in Montenegro, namely: Centre of Excellence and the Science and Technology Park. The new Scientific Research Activities Strategy will be adopted in 2017 for the period 2017-2021.

After establishing a legal framework for the implementation of innovative activities in 2015, Strategy of Innovation with the Action Plan (2016-2020) will be adopted during 2016, which will establish strategic directions of development in this area, which has a strong potential impact on the economic development of Montenegro.

2.1.6. Higher education

Education plays an important role in fostering the economic and social development, so that the reform should be based on advanced knowledge and skills in various fields. The reform process in higher education should result in improved economic and social well-being of the country, because higher education system, among other things, has a key role to play in preparing young people for the labor market.

A significant component of education that has to respond to the demands of society, or modernity and actuality, is quality. This is especially true in the field of higher education, whose main objective is training and education of young people who are active in their own development and who will successfully respond to the needs of the labor market.

To stimulate the development of higher education it is important to promote the mobility of students and teaching staff. Mobility and internationalization in European higher education policy are increasingly gaining importance, not only as a principle of the Bologna process, but as a general goal.

A challenge in the coming period, with the aim of creating staff that possesses skills, knowledge and competencies that will contribute to the creation of a competitive economic environment, is a better harmony between the higher and secondary education, especially vocational education. In the field of vocational education activities are carried out that should contribute to the harmonization of the educational offer to the needs of the labor market. Strategic goals in the VET system are aimed at further development of quality and efficient professional education relevant to the labor market, creating equal opportunities for acquiring qualifications in vocational education for employment and social inclusion, as well as encouraging creativity and innovation, including entrepreneurship and the realization of the principle of lifelong learning and mobility.

Further development of national qualifications frameworks in accordance with international standards, is contributing to the compatibility and comparability of the national system of qualifications, or our education system and education level with the international system, thus improving the mobility of students and labor.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

In the past period the focus has been on the implementation of activities that should contribute to improving the quality of higher education, create better links between vocational and higher education, provide the comparability of our system to the European Qualifications Framework, and educate personnel to respond to the needs of society. Within the project "Higher Education and Research for Innovation and Competitiveness", in 2014, an external evaluation was conducted of ten higher education institutions in Montenegro and, in that respect, ten individual reports and an integrated report on the system of higher education in Montenegro have been developed, which identified problems and challenges, and provided recommendations for the improvement of quality in higher education. In the framework of this project audits and amendments to existing documents in the field of quality assurance will be carried out.

Based on the survey "Perceptions of Higher Education in Montenegro", which included 600 employers (public, private and non-governmental sector) and analysis Program for the Vocational Training of Persons who Acquired Higher Education, the **Study on labor market needs in the field of higher education** has been developed. The Study stressed the importance of establishing a permanent dialogue between higher education institutions and employers, as well as other relevant actors, to improve the quality of higher education in joint action, and thus adapt the outcomes of the educational process to the actual needs of the labor market. Particular emphasizes was placed on the importance of promoting the internship and the introduction of practical training as a mandatory part of the study program for professional development, and to allow students gain practical experience. The role of employers in this process is very important and part of the responsibility lies on them, in the provision of conditions for practical training.

Situation Analysis in the Field of Recognition of Foreign Educational Documents has been developed with recommendations for improvement in this area, bearing in mind that there a large number of holders of foreign educational documents at domestic labor, whose quality and manner of recognition should be considered.

On the basis of the **Feasibility Study for the implementation of the monitoring of careers of graduates** a sustainable system of monitoring the careers of graduates will be developed, with improvement of IT support and IT sector and administrative records of students and storing of data on the results of the research. The study will cover all graduates of higher education institutions in Montenegro, with the first generation of graduates in 2008.

Through the implementation of the **Program for training of persons with acquired higher education**, which is being implemented for the third year, we get the information about the real needs of the market for certain degrees, as well as recommendations of employers to relevant institutions on further improvement of the necessary skills to perform the jobs in real working environment, with view to amendments to the existing or creation of new study programs. These data are extremely important in further aligning enrollment policies with the labor market needs.

This year **the national scholarship for excellence in master's, doctoral and postdoctoral studies**, will be allocated to students who are enrolled (admitted) or plan to conduct their research at prominent universities abroad. For these purposes € 1.26 million has been allocated, of which € 630,000 will be spent on scholarships for master studies and € 630,000 on scholarships for doctoral and post-doctoral studies.

We are working on identifying the appropriate model of financing higher education. For these purposes, the **Analysis of the possible models of funding higher education in Montenegro** has been developed.

The election of a new financing model that supports the development needs of the higher education system, should consider the following two options or models:

Model 1-A contract that is based on the achievement of results, the universal sharing of costs and lending related to income.

Model 2-Vouchers and lending related to income.

The National Development Plan of Qualifications for Regulated Professions with the Action Plan for the period 2013-2018 has been adopted, which aims to harmonize the laws and regulations governing the conduct of regulated professions in Montenegro with amended Directive 2005/36 EC.

Within subordinated policy relating to the promotion of vocational education and further development of the National Qualifications Framework, activities were carried out relating to the adoption of the strategic documents in this field, the development of new qualifications and standards, whose creation involved employers, as well as comparability of our qualifications to the others.

In the previous period 18 occupational standards have been developed, as a basis for qualifying the levels

of education and professional qualifications. In accordance with the approved occupational standards of professions, 10 qualification standards have been developed, defining learning outcomes, learning units and their credit value. The application of four new educational programs, modularized and credit valued, began in the 2014/2015 school year. Six test catalogues have been developed to verify the non-formal and informal learning and the acquisition of national vocational qualifications.

For teachers of vocational schools, 19 trainings have been organized on topics related to the evaluation, project preparation, communication and others.

Encouraging lifelong acquisition of career management skills is one of the measures that should help overcome the mismatch between supply and demand, by providing information on employment opportunities, counseling and training for managing own learning and careers. For this purpose, the Action Plan implementing the Strategy of the Development of Lifelong Career Orientation for 2015 has been adopted.

The **Strategy of Vocational Education and Training (2015-2020), with the Action Plan** has been adopted. The Strategy has established the objective relating to the construction of a quality, labor market-relevant vocational education system that will follow the needs of the individuals and the economy.

The European Qualifications Framework Advisory Group of the European Commission (EQF Advisory Group) adopted a **Report on the referencing of the National Qualifications Framework with the European Qualifications Framework** for lifelong learning and Qualifications Framework for the European Higher Education Area and adopted a Decision on Compliance of the National Qualifications Framework with the European Qualifications Framework. Montenegro thus became one of the 23 countries of Europe and the first of the candidate countries for membership in the European Union which carried out the process of referencing. Montenegrin qualifications framework is connected to and comparable with the European Qualifications Framework, and indirectly with the national qualifications framework of other European countries. In this way the conditions were created for all documents issued in accordance with the Law on the National Qualifications Framework to contain the serial number EQF and EQF levels, which facilitates the mobility of the citizens of Montenegro in further education or employment outside the borders of Montenegro.

All the necessary methodological documents have been adopted: The methodology of developing qualifications for levels I-V, methodology for classifying qualifications in the framework and methodology for assigning qualification codes.

The activities related to the development of qualifications and their classification in the National Qualifications Framework are in progress. 9 occupational standards have been adopted, 13 initiatives for developing professional qualifications (levels II-V), 6 initiatives to develop the qualifications of the levels of education (levels VI-VIII), 11 qualification standards and test catalog.

In order to support students' enrollment in educational programs for occupations in secondary vocational education the Ministry of Education and Chamber of Commerce awarded 61 scholarships for first-grade students who are being educated at three-year programs, which are needed by the labor market (sectors of construction, agriculture, catering, electrical, automotive mechanics). Municipality of Bar has also awarded 10 scholarships for students who are being educated under hospitality programs.

The Draft Law on Vocational Training for persons who have completed vocational education and the Strategy proposal for development of general secondary education (2015-2020) have been prepared.

Proposed measures

In order to create competitive personnel and reduce unemployment, a series of measures and activities will be implemented:

- implementation of the National Qualifications Development Plan for regulated professions with the Action Plan for the period 2013-2018;
- realization of the project "Higher Education and Research for Competitiveness and Innovation (INGOs)" through the allocation of institutional grants for the implementation of structural reforms, on a competitive basis;
- Implementation of internationalization of higher education through the improvement of infrastructure, and renovation of dormitories and implementation of national scholarships for excellence for postgraduate studies;
- implementation of activities under the Operational Program Human Resources Development 2012-2013 (IPA Component IV), Measure 2.2. "Supporting improvement of innovative capacities in higher education, research and economy" where harmonization of study programs in science, technology, engineering, mathematics with labor market needs shall be carried out, as well as training of teaching staff in these areas to create programs tailored to the needs of the market, and Measure 2.1. which refers to the development of new educational programs, modularized and credit valued. Special attention will be paid to strengthening the capacity of sectoral committees, and working groups that develop occupational standards and qualifications standards. Career guidance in schools will also be further introduced;
- promoting social partnership, for the vocational education to become responsive to the demands of employers and the labor market, and the social partners to be actively involved in the planning, organization and implementation of vocational education;
- developing mechanisms to monitor labor market needs and skills missing, and accordingly develop qualifications;
- continuation of activities on the development of a comprehensive database relevant to education, so that the competent institutions may timely access data and information necessary for decision-making, as well as track students after completing education;
- timely informing students about the conditions and trends in the labor market and career guidance;
- improving initial and continuing education of teachers.

Structural reforms

Activities aimed at further strengthening the institutional framework and improving administrative capacity will continue. The plan is, through the adoption of new laws and regulations, to strengthen the legal framework, particularly in the area of quality assurance and recognition of foreign educational certificates through the harmonization of legislation with the EU acquis.

In accordance with the Law on Higher Education, institutions are required to provide students practical training which will undoubtedly contribute to the further improvement of practical skills of students and their easier adaptation to a real working environment.

The adoption of appropriate legislation will improve and facilitate the process of evaluating non-formal and informal education, as well as regulate the issue of recognition of foreign educational certificates and equalizing qualifications.

The Strategy for Development of Higher Education, which will determine the strategic directions of development in this field, will be adopted.

Amendments to the Law on recognition of foreign qualifications for regulated professions will be made, in accordance with the amended Directive 2005/36/EC.

Harmonization of enrollment policies with the labor market requirements will continue, in order to reduce the structural mismatch between supply and demand and to meet the requirements of long-term development policy of Montenegro.

Work will also be carried out on improving the system of professional development for teachers and the

establishment of a quality assurance system in vocational education at the national level and the school level, in accordance with the EQAVET.

The country will work to strengthen the capacity of sectoral committees to properly be able to articulate the needs of the labor market and society, identify missing qualifications and skills and propose development of qualifications of different types and levels.

The country will continue to work on building a comprehensive quality assurance system, including development of indicators for determining the quality of institutions, encouraging self-evaluation.

There are plans to strengthen the existing register of qualifications, to make information available to various target groups.

Procedures will be improved for evaluating non-formal and informal learning.

2.1.7. Information and communication technologies

The European Commission in late 2010 adopted the Digital Agenda for Europe as one of the seven most important initiatives of the Strategy "Europe 2020", which was established to define the key role of ICT in socio-economic development of a country.

The Digital Agenda for Europe includes the following objectives:

- establishment of a single market based on fast/ultra fast internet and interoperable applications;
- by 2013: broadband access for all;
- by 2020: access to much higher Internet speeds (30 Mbps or more) for all; and
- by 2020: 50% or more of European households with Internet connections above 100 Mbps.

Implementation of projects in the field of information society, electronic communications and broadband infrastructure directly contributes to socio-economic development, given the focus of projects on various social groups - pupils, students, civil servants, business people and, ultimately, the citizens. Using ICT, impact is made on:

- improving IT literacy;
- simplification of administrative procedures;
- elimination of obstacles, through greater use of e-business.

In the Information Society Development Strategy 2012-2016, the high-quality Internet access and ICT infrastructure according to the needs of end users have been identified as the main objectives of the program "ICT Infrastructure". So far, the results achieved through the implementation of tasks set in the Action Plan, go in favor of the objectives set out in the Strategy, fixed broadband penetration in Montenegro is above the average for the countries of Southeastern Europe, while the penetration of mobile broadband is higher than average. Information Society Development Strategy is based on understanding the importance of ICT for economic development, because it actively contributes to GDP growth, to the development of other sectors, increases safety, security, stability and provides equal opportunities for all, and, of course, it contributes to the improvement of skills and knowledge of citizens. Innovation makes competition in the field of electronic communications stronger, which affects the increase in the quality of services, facilitates communication, reduces costs and has positive effects on standardization.

Results of OECD study show that increased investment in the electronic communications sector by about 8% generate growth of around 1% of GDP. World Bank research shows that maximization of broadband penetration and connection for 10% provide GDP growth of 1.38% in developing countries and 1.21% in developed countries. These positive effects of the use of ICT justify the investment.

Currently, there is a significant unevenness in the number and density of broadband connections per areas/regions, caused by unfavorable demographic structure, and the lack of availability of broadband access infrastructure in all regions. Analysis of the current technological representation shows the dominance of one type of access associated with existing communication network of copper wires, which meets current options, but does not provide a significant qualitative step forward in the availability of broadband access.

According to the Institute of Statistics 63.9% of the population has used the Internet in 2014. Most households use fixed broadband connection (DSL, ADSL, VDSL, cable, optical cable, satellite, WiFi), 79.0%. Mobile broadband connection (via mobile phone networks, at least 3G network) is used by 29.6% of households, while 6.3% use narrowband connection (dial-up, modem or ISDN, less than 3G). In 2014, the number of fixed broadband connections increased by 19.4%, compared to 2013. According to the index of development of e-government Montenegro is in first place in the region and on the high 45th place out of 194 member states of the United Nations and positioned in first place in the region, with the eGovernment development index of 0.6346. These data show that Montenegro is on the right track when it comes to building an inclusive and open information society, a society with a high level of citizen participation.

The Law on E-Government regulated the way in which the state bodies, state authorities, local authorities, local government, public services and legal entities with public powers should proceed when carrying out their responsibilities of communication with citizens, companies, other legal entities and entrepreneurs electronically and when processing, exchanging and publishing data and information in electronic form. This Law provides that there is one place, eGovernment portal, which contains serviced of the bodies, and at a centralized location provides for the authentication and authorization of users. eGovernment portal is managed by the state authority responsible for the information society. For law enforcement it is necessary to provide funds in the amount of € 950,000 in 2015 and 2016, for the implementation of the Unified Information System for data exchange, information system for document management in public administration authorities, as well as electronic registers hosting in Montenegro.

Implementation of measures/actions identified in the Development Directions 2013 - 2016

Providing reliable and continuous Internet connection is a regular obligation whose holders are, according to the Strategy for Information Society Development, the Ministry for Information Society and Telecommunications and the Agency for Electronic Communications and Postal Services. Establishing Internet exchange points, the completed digitalization process, lowering of the prices of telecommunication services in roaming, ensuring the availability of broadband Internet access, are activities aimed at attaining the target, i.e. greater broadband access.

Improving access to broadband can be implemented through regulatory mechanisms whose full implementation can contribute to increasing investment in infrastructure and evaluation of telecommunications infrastructure, which is state-owned. Increasing investment in infrastructure for access to the network is being continuously implemented in order to provide conditions for high speed internet. Potential risks relate to the slow implementation of the available regulatory mechanisms, lack of funds or a strategic partner for the valorization of the telecommunications infrastructure in state ownership.

The process of digitization has been completed and on 17 July 2015, analogue has been replaced with digital broadcasting. Moving from analogue to digital TV broadcasting freed up one very significant radio-broadcasting frequency spectrum between 790-862MHz - so called digital dividend. This range is important because it has excellent performance for the development of mobile Internet and, therefore, the further development of electronic communications. Implementation of the measures through the valorization (sale) of "liberated" radio-frequency spectrum will have a direct impact on economic growth, through increased budget revenues on the one hand and investment in the field of electronic communications, on the other hand, which will have a direct impact on GDP growth.

The Ministry of Information Society and Telecommunications and the company Wireless Montenegro started the project "WiFi Wireless Internet". For the implementation of the project, 41 "Wireless Mesh" technology is used, which is characterized by device's ability not only to spread the wireless signal to the end users, but also to communicate with other devices of the same type, which are located in close proximity and thus create their own network, which is used for propagation of information within the network. In support of increasing the quality of the network, in parallel with this technology, point to point links will be installed at a number of sites, which will guarantee the quality of the internet. The project "WiFi Wireless Internet" is planned to provide citizens free internet access up to a certain speed. In this way, citizens will be allowed an additional form of communication, and the service of connectedness to the Internet will be improved. The citizens of Podgorica, Budva, Nikšić, Bar, Kotor, Tivat, Pljevlja, Bijelo Polje, Žabljak and Rožaje have the opportunity to use the free WiFi Internet in several locations.

An agreement on the sale price of roaming services in public mobile communication networks, between the ministries responsible for electronic communications in Montenegro, Bosnia and Herzegovina, Macedonia and Serbia, has been signed.

Activities aimed at establishing a national Internet exchange point (IXP) are close to an end.

Proposed measures

- further and rapid growth of broadband Internet access and the sector of information and communication technologies;
- establishing a national Internet exchange point (IXP);
- lowering the price of telecommunication services in roaming;
- ensuring the availability of broadband Internet access;
- encouraging end-users, citizens and businesses to use the available equipment and services of information and communication technologies in everyday life and business.

Structural reforms

Active use of information and communication technology, for a state the size of Montenegro, is of crucial importance and to a large extent contributes to the competitiveness, improves the investment climate and strengthens innovative potential of the state. Investments in infrastructure, information and communication technologies and their related personnel profiles, have great potential in terms of boosting economic growth and creating high quality jobs. Special attention in this regard is given to the improvement of the business environment and infrastructural preconditions for the use of information and communication technologies in business.

Information Society Development Strategy covers the period until 2016. The revision or the adoption of new one will identify the objectives of improving electronic services, broadband access, etc., in order to increase the number of users of electronic services, or participants in electronic commerce.

2.1.8. Tourism

Tourism is a growing sector that includes a number of economic and social activities, and represents a priority sector for investments worldwide. There are many reasons why investment in tourism is considered investing in economic recovery at the global level - tourism creates new jobs with less investment than other sectors, and is one of the most labor-intensive sectors, reduces poverty and supports the development, and is considered to be one of the most important contributors to "green economy".

The number of tourists in Montenegro, which is continuously increasing every year, testifies of the growing importance of tourism in Montenegro, as well as its importance in attracting new investment, creating new businesses and jobs, stimulating private sector development, as well as an increasing the inflow of money to Montenegro as a result of the consumption realized by tourists.

Through the adoption of the Tourism Development Strategy until 2020 (2008) Montenegro committed to become the high-yield destination. In support of that objective is the report of the World Travel and Tourism Council /WTTC/, which ranked Montenegro in first place by rate of tourism industry growth, which amounted to 8.8%. This projection included an increase in the share of investment in tourism in total investments, at a rate of 8.7% and the growth of employees in this sector in the total number of employees at the rate of 6.2%.

Regardless of the fluctuations in the source markets, Montenegro achieved a slight growth in tourist traffic in the years following the crisis. This is confirmed by the growth of the tourism sector in GDP formation, with a multiplier effect on other tourism-related sectors, the share of investment in tourism in total investments, as well as participation of tourism industry staff in the total employment.

What appears as a challenge is to use the potential for investment in tourism, which, once realized, would have a multiplier effect on the rest of the economy.

Tourist accommodation in Montenegro is not sufficient to achieve the objectives of high-quality tourism destination, as well as possible economic growth rates, regardless of the competitive tax system in Montenegro (low tax rates and a series of measures to support the tourism industry) as well as the fact that tax rates in Montenegro, according to the World Bank study (2013), are only at fourth place as an obstacle to economic growth.

Implementation of measures/actions identified in the Development Directions 2013 -2016

During 2014, Montenegro was visited by 1,517,376 tourists with 9,553,783 overnights, which is 1.70% more tourists or 1.51% more overnight stays compared to 2013. Tourists in Montenegro stayed an average of 6.3 days. When it comes to financial effects, and quantitative performance indicators of the season, it was estimated that tourism revenues generated in 2014 amounted to € 728.8 million or 1.08% more than in the previous year.

Quantitative research on attitudes and expenditures of tourists in Montenegro was conducted on a sample of 2,502 respondents in six coastal municipalities, in the period June-September 2014. Results of the survey show that 24.3% tourists came to Montenegro from the markets of Russia and 24.5% from the market of Serbia; motive for coming to Montenegro for 72.4% of the respondents is passive rest and relaxation, for 41% entertainment, for 31.9% the search for new experiences and events, and for 26.2% natural beauties. Even 33.4% arrived by car on the destination, 47.5% by plane, and 17% by bus. 54.7% of tourists have reserved accommodation directly in communication with the owner, 31.5% through tour operators, and others otherwise. The total average cost of travel per person amounted to € 539.73, and the average per day costing stood at € 61.92.

The name and the image of a destination are influenced by high-quality offer, which primarily depends on the supply of high-quality hotel facilities. Therefore, we should emphasize the importance of large investment projects, which are in various stages of implementation, such as Porto Montenegro /Tivat/ first Regent hotel in the same, Lustica bay /Tivat/ Portonovi and /Herceg Novi/, and the construction of the first "Hilton" hotel in Podgorica, the hotel "Riviera Crystal" in Petrovac, as well as reconstruction of the Center for vacation, treatment and recreation "Igalo" in Igalo. The construction of luxury tourist complex in the Gulf of Pržno near Tivat, on the site of the former Hotel "Blue Horizon" is also important (there are ongoing activities to create conditions for its implementation).

In order to provide better access to destinations a Cooperation Agreement with the low-cost airline Ryanair for the period 2013-2016 has been signed, through this airline 35,679 passengers arrived in Montenegro from June 2013 to 1 April 2015, through flights from Brussels and London.

In order to enrich the tourist offer the country is continuously implementing a series of projects: "Hiking and Biking", "Peaks of the Balkans", "Panoramic Roads of Montenegro", "Snowshoeing" and others.

Proposed measures

The realization of a series of investments in the tourism sector, primarily by building high-quality hotel capacities, will improve the image of Montenegro as a tourist destination. In this sense, a number of investments have been realized:

"Portonovi" (Herceg Novi-Kumbor) - During 2015, the implementation of major construction and earthworks on the Phase I of mixed-use is planned, soil improvement for foundations in the grip zone MN1, the hotel (T2), the marina and the western villas, piling - deep foundations of the hotel and base plate. It is also planned to develop transport and technical infrastructure of Phase I, leveling land in the grip of the marina and the deepening of the seabed.

"Cristal Riviera" (Petrovac) - Completion of the first phase /172 accommodation units/ is planned by the end of 2015. Completion of the second phase of the hotel /97 units and medical & wellness center/ is planned until June 2016, when it was planned to open the hotel.

"Hilton" (Podgorica) - By the end of 2015, it is expected to complete the facility in general and to implement Phases I and II with a capacity of 180 units with all other supporting facilities, as well as the opening of the hotel at the end of the year.

"Porto Montenegro" (Tivat) - The works on residential and commercial building Ksenija are in progress, as well as works on the expansion of the marina for a further 52 berths, by which marina will have 455 berths by the end of 2015.

"Lustica Bay Resort" (Tivat) - In 2015, the planned activities include preparation of the necessary documentation for obtaining a building permit for construction of facilities of phase F and the beginning of their construction, followed by the issuance of a building permit and the construction of villas in Marina Village circuit, the start of construction of Marina Promenade Hotel, as well as the continuation of works on the construction of marinas and other infrastructure works.

Activities aimed at improving the airline availability of destinations will continue. Continuous efforts are made in order to create a diversified and high-quality supply, development of tourism products for target groups of tourists, creating and promoting authentic tourist attractions, cultural revitalization and revitalization of other facilities. Montenegrin tourist product is continuously upgraded and diversified, through the implementation of projects relating to the development of tourism based on nature, by linking tourism and agriculture, through the improvement of event and congress segment of tourism, the development of the offers of national parks of Montenegro, the development of the high-end tourism and the development of marinas and the exclusive/luxury restaurants.

We will continue with the tourism product differentiation through new product development of the tourist offer, but at the moment it is not possible to specify the amount of funds to be allocated in the budget for that purpose.

Various activities undertaken are aimed at attracting tourists from as many countries around the world, in order to reduce the dependency of a number of source markets. Following the latest trends in tourism, demands and needs of all the more demanding tourists, in cooperation with the tourism industry, we seek to establish a quality tourism offer that will be of interest to a wider range of visitors. Also, to attract more tourists, and new markets, NTO Montenegro implemented activities to promote our products, independently and in cooperation with tourism workers from the region, by participating in the markets of China, Japan and India, as well as other remote source markets.

Structural reforms

In order to create conditions to place Montenegro among high-spending destinations, by offering suitable accommodation, while generating economic growth and job creation, an Analysis of the fiscal impact assessment, incentive measures and tax incentives in the tourism industry has been conducted.

The Analysis identified the following obstacles to the rapid growth of tourism in Montenegro:

- insufficient high-quality accommodation;
- overemphasized seasonality;
- unbalanced regional tourism products;
- 20 hotels outside the tourism function, for which there is no model to value them;
- high opportunity cost;
- a slow return on investment in the tourism industry in Montenegro;
- discouraged domestic investors;
- trend in residential construction at tourist sites, due to a faster return on investment;
- spatial planning documentation contributes to the growth trend of construction of housing units at the expense of high quality hotels.

The main issue to address effectively the problem of seasonality, is a lack of high-quality hotel facilities. On the other hand, the seasonality of Montenegrin tourism is an obstacle to investments in high class hotels. Rise of the causal interdependence is only possible through:

1. shortening the return on investment in high-end hotels by the introduction of measures to improve the economic rationale of investing;
2. richer off-season offer;
3. increase the accessibility of Montenegro;
4. the introduction of the Individual Investment Program.

At the same time, the Analysis proposed a model with a series of measures relating to incentives and tax breaks in tourism⁹. On the basis of it, a calculation was made of long-term effect for 20 years, of all the measures together, and their impact on budget revenues (expected total revenue of the budget is over €1.3 billion¹⁰). The draft of the legal and financial framework for the implementation of the planned measures will be prepared.

2.1.8.1. Promotion of culture as a driver for growth (cultural tourism)

Cooperation between culture and tourism is essential for creating a unique tourist offer of Montenegro. Defining and developing sustainable cultural tourism product has to be a shared priority and the subject of cooperation between institutions at local and national levels. Cultural tourism must be recognized as a generator of development and promotion of both areas, which will contribute to the socio - economic development. Culture must therefore be considered in the context of sustainable development, and its resources should be promoted as an area suitable for investment. Although the economy and culture tend to a common goal, to win a greater number of consumers, in practice they are often obstacles to each other. In order to improve the economic status of the culture, it cannot be treated as an activity that depends exclusively on the budget. For the production of cultural products and projects we must find other sources of financing. Cultural policy must be geared to dialogue, as progress in this area can only be achieved through cooperation between culture and education, science, tourism, construction and architecture. It is necessary to promote the cultural landscape, and the whole cultural assets and natural

⁹ The proposed incentives and tax breaks in tourism:

- deduct VAT on other services to the level of VAT rate applicable to accommodation
- exemption from paying property tax for a period of 10 years
- exemption from payment of income tax and surtax on personal income over a period of 10 years;
- reduction of contributions on personal income to 50%, for a period of 10 years
- subsidizing interest rates on the level of 3 - 4 percentage points (target interest rate of 3%) (for investments in classic hotels) with a repayment period of 15 to 25 years;
- grace period for loans of two years, and the capitalization of interest for 4 years (for investments in classic hotels).
- exemption from the obligation to pay taxes for the regional water supply (for classical hotels and hotel component of a hybrid hotel).

¹⁰ These revenues are calculated at the planned 76 hotels (5 hotels with 5 *, 5 hotels with 4 *, 1 * hotel with 4*and 700 rooms, 65 hotels with 5 * from 1,000m2 to 10,000 m2)

resources and ethno gastronomic heritage. The attention of the tourist market should focus on immovable cultural property (cultural and historical buildings, cultural and historical units, sites or areas), museums and galleries, intangible cultural heritage (language, speech, oral tradition, customs, traditional crafts), then the religious, educational and festival tourism.

Implementation of measures/actions identified in the Development Directions 2013 -2016

In accordance with its capabilities, a number of activities are continuously implemented, thus creating conditions for adequate definition and better valorization of cultural and tourism potentials of Montenegro. In this regard, a series of activities have been implemented:

- personnel training in the field of cultural heritage;
- presentation and popularization of cultural heritage;
- Culture Support Program in Nikšić;
- protection and preservation of cultural heritage;
- restoration of fortification Besac;
- implementation of a management plan of Kotor;
- implementation of a management plan for the Historic Core of Cetinje and program of Cetinje - City of Culture; and
- activities related to the inscription on UNESCO's World Heritage List of Necropolis Greek cemetery, Bare Žugića and Novakovići, Žabljak Municipality and Greek cemetery, Šćepan Polje, Plužine municipality, as well as the historic core of Cetinje.

Proposed measures

Measures under the policy of "cultural tourism" are:

- implementation of the annual programs for the protection and preservation of cultural goods;
- realization of the program "Support to the development of culture in Nikšić";
- implementation of management plans for: The historical core of Cetinje, Kotor, tombstones - medieval grave monuments, Besac;
- Preparation of nomination dossier for inscription on UNESCO World Heritage List for places in the Tentative List of Montenegro (Duklja, a Venetian fortress in Kotor, Herceg Novi and Ulcinj);
- education and additional training of personnel in the field of cultural heritage;
- creation of tourist programs aimed at cultural tourism; and
- linking cultural institutions and local tourist organizations in order to create a cultural tourism offer.

Structural reforms

An analysis of the implementation of the National Program for the Development of Culture (2010-2105) will be conducted, on the basis of which the need to develop a new national program will be assessed.

In accordance with the Master Plan of Investment in Cultural Goods for a period of 20 years, rehabilitation of endangered cultural assets will be carried out. Implemented conservation measures will significantly contribute to strengthening the tourist offer and developing cultural tourism. Master Plan applies to all municipalities in Montenegro, so that less developed municipalities will have an opportunity to create a better tourist offer, after the repair of specific cultural goods which are on their territories.

There is ongoing progress in strengthen the institutional framework and enhancing the administrative capacity of public institutions in the field of cultural heritage.

2.2. SUSTAINABLE GROWTH

Sustainable growth means building a competitive low carbon economy that will ensure the efficient, sustainable use of resources, environmental protection, emissions reduction and biodiversity conservation, the development of new technologies and production methods, including the development of agriculture,

the introduction of smart grids and improving the business environment, particularly for SMEs. As defined in the Strategy "Europe 2020" sustainable growth is achieved by establishing resource efficient, sustainable and competitive economy, which aims to strengthen economic, social and territorial cohesion, preventing environmental degradation, biodiversity loss and unsustainable use of resources.

In this context, and based on the national platform for Rio + 20 conference, Montenegro has recognized the following areas as key to securing the future sustainable growth of the Montenegrin economy:

1. The availability of affordable energy, on the one hand, has a decisive importance for the Montenegrin economy, trade balance and standard of living, while on the other hand, production and use of energy puts pressure on the environment, requires space, consumes limited natural resources and contributes to strengthening challenges related to climate change. Therefore, the development of the energy sector on the principles of sustainability in all sectors of society and economy is the basic condition for achieving sustainable growth of the Montenegrin society and the economy. The sustainable use of renewable energy sources (water, biomass, solar energy) and the implementation of energy efficiency measures have the potential to satisfy the energy needs of the national market and to position Montenegro in the future as an energy center and exporter of green energy;
2. A healthy environment is a prerequisite for sustainable tourism, agriculture and forestry, rural development, transport and energy, particularly in the context of the constitutional commitment of Montenegro to develop as an ecological state. A special focus of this aspect of sustainable growth is to reduce emissions of pollutants, particularly the reduction of emissions of greenhouse gases, using low-carbon technologies in the energy and transport. At the same time, it is necessary to create a strategic framework in the field of climate change, improve waste management through its reduction, recycling, and the construction of appropriate infrastructure for waste treatment, sustainable management of natural resources and the construction and improvement of the system for waste water treatment;
3. Transport and development of an efficient transport system is one of the main conditions for successful socio-economic development of the country and its economy, particularly the tourism sector, agriculture and forestry, and other sectors that influence the GDP growth. Reconstruction and construction of a network of public transport in the area of road, rail, maritime transport and civil aviation, as well as the maintenance of existing infrastructure, is offering a range of economic opportunities for the Montenegrin economy, especially in construction and other related industries. Clean and modern transportation infrastructure will ultimately have a positive impact on the environment and improve traffic safety. In particular, the efficient functioning of public passenger transport will contribute to better conditions for the economic development of the country;
4. Sectors of construction and housing and the efficiency of construction and housing infrastructure affect a large number of other economic areas. The improvement of infrastructure directly affects the results of the overall economy. The development of the sectors of construction and housing has a significant impact on employment. The construction sector, with a share of 10% in GDP, is dynamic and is of special importance for Montenegro. In the context of sustainable growth, the emphasis is on energy efficiency in buildings and the promotion of insulation, long-lasting, natural/ecological and renewable construction materials, which guarantee the effective and efficient fulfillment of the demand of housing, and at the same time, reduce pollution and other environmental impacts and minimize the consumption of energy and resources. Sustainable housing policies have targeted at addressing issues related to informal structures, access to an affordable energy and efficient meeting of the demand for energy. It plays an important role in promoting environmental protection and provides a national response to climate change. Activities in the field of social housing are closely linked with issues of poverty, thereby contributing to social cohesion and stimulating economic activity;
5. Agriculture and Rural Development play a key role in the economic and sustainable development of Montenegro and represent an important basis for employment and income, especially for the population of northern and mountain regions, whose employment opportunities are limited. The importance of agriculture and rural development for economic growth and development of Montenegro is not only evident from its participation in the GDP (8%), but also the fact that in this sector, 48,824 rural family farms are employing 98,341 persons (results of Census Agriculture, 2010);

6. Agriculture is closely linked to other economic sectors, particularly tourism, where consumption trends indicate growth, and the potential for production and placement of specific Montenegrin food products in catering and tourism. Linking agriculture and tourism, and renewable energy could create the conditions for new jobs and improvement of living conditions in rural areas. In addition, agriculture produces external effects, which have no direct impact on GDP, but have a huge impact on the quality of life of the population;
7. Thus, the importance of agriculture is never viewed only from an economic point of view, but must take into account its other important functions;
8. In rural areas, agriculture is the main or additional income for the majority of the population. Therefore, the importance of agriculture is manifested in its role of an important social buffer of the negative changes in other sectors, and in contributing to poverty reduction. In addition, agriculture offers high-quality food from the preserved environment, maintaining the rural areas and their specificity, preserving biodiversity and desirable appearance of the environment;
9. Forestry is also one of the potentials for development in Montenegro. Forests cover 59.9% of the territory of Montenegro. Efficient use and management of forests will have a positive socio-economic and environmental impacts, as well as an important role in adapting to climate change.

Table 9: Main objectives related to sustainable growth

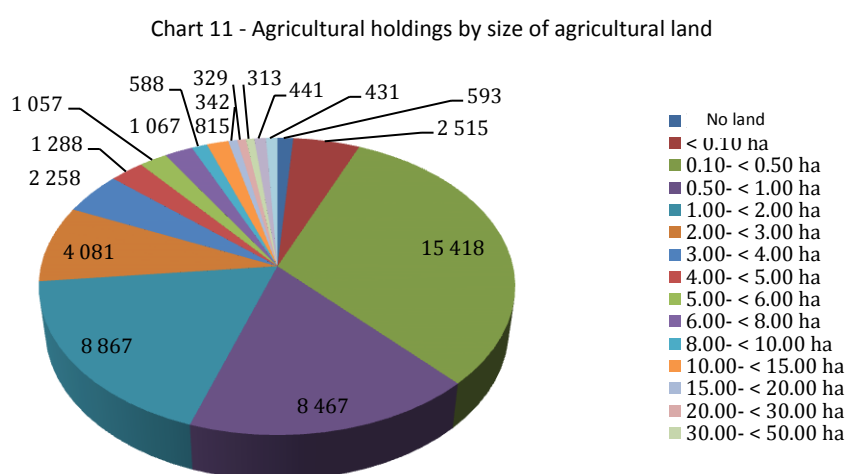
Agriculture and Rural Development	<ul style="list-style-type: none"> • Strengthening the competitiveness and sustainability of the agricultural sector through investments in primary agricultural production, processing and marketing of agricultural products • Sustainable rural development through the improvement and development of rural infrastructure and diversification of economic activities in rural areas • The restoration, preservation and strengthening of ecosystems through the implementation of agri-environmental measures • Transfer of knowledge and innovation in agriculture through investments in education, research and analytical work
Forestry	<ul style="list-style-type: none"> • Providing and improving long-term resistance and productivity of forests and other ecosystems • The increase in income from forestry, based on the sustainable use of all forest functions
Energy	<ul style="list-style-type: none"> • Meeting the energy needs through minimal economic costs in the systems of production, supply and minimal environmental impact • Reduced final energy consumption • Increased use of renewable energy sources
Environment	<ul style="list-style-type: none"> • More on- and offshore / coastal areas under natural protection • The constructed / reconstructed sewerage network in the municipalities • New plants for wastewater treatment in municipalities • Construction of infrastructure for waste management • Created strategic framework on climate change
Transport	<ul style="list-style-type: none"> • Increased contribution of the transport sector to GDP growth
Construction and housing	<ul style="list-style-type: none"> • Integration of illegally constructed buildings in the formal housing sector • Defining standards of humane housing and ensuring non-discriminatory access to affordable and safe housing • Encouragement of housing construction • Promotion, organized and effective sector management, allocation and maintenance of existing housing stock • Establishing a legal and institutional framework towards harmonization with EU regulations • Increasing safety in the sector of leasing apartments • Development of modalities of public-private partnership in housing sector
The funds necessary for financing the "sustainable" projects / development measures identified in DD	<ul style="list-style-type: none"> • Total: 1,745.50 mil. € • State budget: 297,48 mil. € • Loans: 1,053.61 mil. € • EU: 82.39 mil. € • Private funds: 312.01 mil. €

2.2.1. Agriculture and Rural Development

Agriculture and rural development are one of the priority sectors of the Montenegrin economy. The role of agriculture is defined through its influence on the creation of new jobs, new investments, balanced regional development, other functions that agriculture has. Without clearly defined roles of agriculture and rural development in the development policy of Montenegro, the set goals may not be achieved.

With a significant share of gross domestic product (8% in 2013, including forestry and fisheries) sector of agriculture and rural development play an important role in the economy of Montenegro. While agriculture, together with the tourism sector and economic development, is a priority of the national economy, based on official statistics (data from administrative sources), agriculture permanently employs only 1.6% of total employment in Montenegro. However, according to the Agriculture Census of 2010, of a total of 620,029 inhabitants of Montenegro, 48,870 agricultural holdings deal with agriculture, with 98,341 working force. When this figure is expressed in the number of annual work units, there are 46,473 annual units of labor, whereby one annual unit of labor is equivalent to one full time employee. This means that almost 30% of total employment in the country is really engaged in agriculture.

The structure of agricultural land is unfavorable in terms of the size of farms. According to data from the Agriculture Census (2010) the average area of utilized agricultural land per farm in Montenegro is 4.6ha. It should be noted that 72% of farms own up to 2ha of land. In addition, the used agricultural land is divided, which further negatively affects the full utilization. The following chart shows the number of farms by size of agricultural land.



Source: MONSTAT - Agricultural Census, 2010

However, unused agricultural land, both private and state-owned, represents a significant potential to increase agricultural production. In 2013, there was an increase in the total area of utilized agricultural land by 1,833.4ha (total used agricultural land in 2010-Census) which amounted to 221,297.6 ha, while in 2013 it amounted to 223,131 ha (Statistical Yearbook 2014).

Agriculture and rural development are closely connected with other areas of the national economy. In rural areas, agriculture is the primary activity or an additional source of income for the majority of the population. Therefore, the importance of agriculture is manifested through its important role of social shock absorber of negative changes in other sectors and its contribution to poverty reduction. In addition, agriculture offers high-quality food from the preserved environment, thus maintaining the rural areas and their specificity, preserving biodiversity and desirable appearance of the environment.

The rich natural and cultural heritage of Montenegro is a significant potential for tourism development in rural areas. Linking agriculture and tourism as the interaction of agricultural production and tradition, can have a positive impact on the overall development of Montenegrin economy. Rural tourism and increased production of high quality products will be the drivers of economic activity and job creation in rural areas.

Implementation of measures/actions identified in the Development Directions 2013 -2016

Activities in 2014 were focused on further capacity building and preparation for the use of EU funds earmarked for agriculture. In this sense, implemented measures aimed at strengthening the administrative capacity of the Managing Authority and the Directorate for IPARD Payments. The work has continued on

drafting the IPARD Program. In order to achieve the development goals defined in the Montenegro Development Directions 2013-2016 (sustainable resource management; a stable and acceptable supply of safe food; provision of adequate living standard for the rural population and improving competitiveness of food producers), implemented measures include:

1. Investment in primary agricultural production, processing and marketing of agricultural products

Within the "*Montenegro Institutional Development and Agriculture Strengthening*" (MIDAS), which aims to prepare Montenegrin agriculture and its institutions for EU membership, on the fifth call for grants 63 applicants appeared, of which 46 (73%) signed contracts on non-refundable grant support. The value of contracted investment is €499,396, of which, upon completion of the investment, the producers receive grant support of up to €249,698 (or 50% of contracted investments). So far 11 investments were successfully completed. The total amount of investment is €102,993, and the amount of paid support €51,496.

Within the measure of agriculture budget, a public call for processing on family farms has been announced. The main objective of the measure is that family farms raise the level of processing on their farms. 34 applicants are supported through this public invitation with a total of € 117,696.79, which represents 50% of total investment, which amounted to €235,393.58.

2. Investments to implement the policy of agricultural land (development, use and improvement of the quality of agricultural land, increasing the size of family farms and preventing fragmentation of property)

One of the problems faced by farmers is the fragmentation of land, which prevents efficient use of machinery, and affects the increase in the cost of processing agricultural land. In order to support agricultural producers to work together the model of their organization was defined. Law on Cooperatives is pending parliamentary procedure. The drafting of the new Law on Agricultural Land is in progress. Bearing in mind that large areas of land owned by the state are not cultivated, in order to cultivate them, agreements were signed on the lease of agricultural land owned by the state at locations Krnovo, Grahovsko and Šasko Polje and Tuzi (Dušići).

3. Improvement and development of rural infrastructure and diversification of economic activities in rural areas

Development of rural infrastructure contributes to the preservation of the village and the prevention of population displacement. Through measure agriculture budget, over 50 projects were supported relating to penetration and filling of the roads, electrification of villages, construction of watering and so on. For these purposes €511,500 was allocated from the budget. Through a program of water management, 17 water supplies and 4 surface accumulations have been made. Over 900 households received water. For this purpose, €400,000 was allocated from the budget.

As regards the diversification of economic activities, and the establishment of closer ties between agriculture and other activities, especially tourism in rural areas, through Public call for diversification, 4 applicants were supported with the amount of €6,046.31 (35-50% of total investment, which amounted to 21,149.97 €). The aim of these measures is to engage households in agriculture, and have the ability within their farms to provide tourist and catering services, adapt existing facilities and thus create conditions for the realization of new sources of revenue.

4. Implementation of agri-environmental measures

Code of Good Agricultural Practice was published, which is intended for farmers, advisors, suppliers of agricultural inputs and the persons involved in the design of agricultural buildings. The Code contains:

- Requirements that farmers must meet, in addition to compliance with legal regulations in Montenegro;
- Recommendations that farmers should take into account, to make sure that they meet the future requirements of the EU;
- Recommendations that farmers have to respect, to protect agricultural and natural environment.

Through measures "*preservation of indigenous genetic resources in agriculture*", "*organic production*" and "*sustainable use of mountain pastures*" farmers were paid €378,500.

With relevant benefits, despite still significant lack, Montenegrin agriculture has the opportunity for further development. This is primarily related to the increased demand, due to economic growth, and increased income, as well as sales through growing tourism sector. Local residents prefer domestic products. The growth in the standard of living increases the demand for labeled, quality and organic products. The uniqueness of the Montenegrin tradition is offering plenty of opportunities for product labeling by designation of origin (e.g. Lamb, "Njeguska prsuta ham", "cheese from Pljevlja", "Kolasin cheese", etc.).

Some of the challenges to be overcome in the coming period are:

- Unfavorable structure of agricultural production;
- Inadequate technical equipment of agricultural producers;
- Better implementation of all standards of food safety at all stages of production;
- Focusing on high-quality products (organic, PDO/PGI) and their standardization;
- Underdeveloped physical and social rural infrastructure;
- Depopulation is present in rural areas.

Based on the analysis of the structure and trends in the agricultural sector, and taking into account the available natural resources and political framework, the main challenges were identified for the further development of this sector. In order to improve the multifunctional role of agriculture, by increasing the competitiveness and the sustainable use of resources and improving the quality of life in rural areas in the coming period, Montenegro will work on harmonizing national policies with the Common Agricultural Policy of the European Union.

Increasing productivity, increase in cultivated areas and the introduction of EU standards of food safety in the primary and processing sector are long-term goals of the Montenegrin agriculture. For this purpose IPA funds will be used, intended for agriculture and rural development. For the purposes of using these funds MARD has prepared IPARD program, implementation of which is expected by 2016. The amount of funds allocated for the period 2015-2020 is €39 million.

The realization of development goals and implementation of agricultural policies impose the need to continue reforms in legislation, i.e. further harmonization of national legislation with the EU legal framework, which will be implemented through amendments to existing laws and regulations. To implement agricultural policy efficiently and in accordance with the principles of the EU, and in particular rural development policy as its most demanding component, a harmonized system of implementation will gradually be established, as well as control and monitoring. In addition, agriculture and rural development are faced with constraints, both in terms of access to financial support for investment and in terms of institutional/human resources, in order to transfer and implement EU legislation relating to this sector.

Proposed measures

Accordingly, development goals can be achieved through:

- strengthening the competitiveness and sustainability of the agricultural sector through investments in primary agricultural production, processing and marketing of agricultural products;
- sustainable development of rural areas through the improvement and development of rural infrastructure and diversification of economic activities in rural areas;
- restoration, preservation and strengthening of the ecosystem, through the implementation of agri-environment measures; and
- knowledge transfer and innovation in agriculture, through investments in education, research and analytical work.

Structural reforms

In order to ensure further development of agriculture and rural areas, the priority will be placed on reforms aimed at adapting agricultural policy to the Common Agricultural Policy of the European Union. The Agricultural Development Strategy 2015-2020 and the Rural Development Program 2014-2020 have been prepared so that the Montenegrin agriculture could prepare for EU accession. In this part, we shall take due account of the awareness of farmers, capacity building, further strengthening of the institutions in order to ensure that the adjustment process will be completed for the benefit of agriculture in Montenegro.

2.2.2. Forestry

According to the National Forest Inventory, forests cover 60% of the territory of Montenegro, and forest soil additional 9.7%. In recent decades the area under forests increased due to the abandonment of traditional agriculture and reforestation. Thus, the objectives related to an increase in forest area have been achieved, although there are negative trends in deforestation and devastation of forests. 51% of the forests in Montenegro are state owned and 49% privately owned. The share of private ownership in the past decade increases due to denationalization and healing of private agricultural land forests. On the basis of statistical indicators, 48,847¹¹ households in Montenegro are linked to village and areas that are covered with forests. This means that about 30% of the population is dependent on products and services that forests provide, or directly acquire their revenues through the use of forest resources or employment in the forestry and timber industry. The population in rural areas is among the poorest in Montenegro and is directly dependent on the revenue that is gained by using forest resources.

In the timber industry, in recent years, about 170 enterprises have been active (including enterprises and entrepreneurs who are engaged in joinery and the production of furniture). Most important companies, viewed by their number, are sawmill wood processing, and only a small number of companies are engaged in the semi-final or final production of wood products.

Forests of Montenegro will offer a range of ecosystem services, both at local level and at the regional and global levels. Approximately 5.8% of the forests have already been included in the national parks and the establishment of the planned regional parks will include a large part of the forest area. In all forests, about 12% of forests and 8% of forest land (about 110,000 ha) is inaccessible due to natural obstacles, which means that these areas are "de facto" left to natural processes.

Climate change, with increased risks of droughts, fires and biotic pests, currently threaten forests, which will continue in the future. Fires, in the period from 2005 to 2010, affected an average of about 1% of the forest area in the country, and in 2012 they invaded a record 7% of forest area. In the case of anticipated extreme drought, fire risk may be increased to a level that can cause serious damage to individuals and the overall economy.

¹¹ Agriculture Census 2010

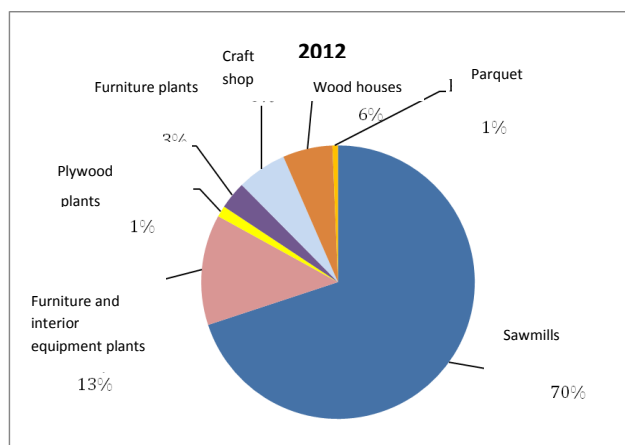
Given that they cover significant areas of our state forests are of great importance for the economy of Montenegro and the overall social and economic development. This applies particularly to the northern part of Montenegro, where there are very valuable forest resources and where forestry and wood processing are traditional activities. The share of forestry and wood industry in GDP in Montenegro last decade has varied and ranged from 12% at the end of the 80s of the last century, to an average of 2% in recent years, which indicates serious problems and crises suffered by these activities during disintegration of Yugoslavia and the transition period of the economy that followed.

Significant efforts have been made to valorize this extremely valuable natural potential in a better way, which will bring benefit both to local population and national economy. By the reform of forest management, private sector is allowed to take participation in conducting work of public interest, especially in the use of forests, thereby creating conditions for investment in the fields of forestry and wood industry. Significant results in this field are expected in the coming period.

Through the process of integration of Montenegro into the EU substantial investment in rural development is expected. The fact is that most of the farms in Montenegro have a forest or forest land as part of their properties. Integrated development measures will lead to more intensive management of these forests, which in the future will fix their condition, meaning a greater degree of cultivation of both agricultural and forest land.

Wood processing. The wood industry has in the past been an important industry in Montenegro. Now at a rough estimate, the share of forestry and wood industry in GDP is about 2%, which is low when compared with 3% in the whole of the European Union or nearly 6% in Finland. This means that the sectors which are based on forest resources have great potential for growth. Increasing economic contribution is possible by including all trade in wood in the formal economy, increasing the volume of logging (with the necessary investment and developing new generation plans), but mostly through an increase in the value added chain in the timber industry.

Chart 12-Representation of certain wood products (%) (Forestry and Timber Industry Development Strategy, 2014)



Existing and future harvest volumes provide a basis for the development of value added chains of timber and other industries. Quantities of wood cannot substantially increase, and there is great potential for growth in GDP over the decrease in the level of finished timber. The state will encourage the development of value added chains by the principle "from the market to the forest," by generation of demand for biomass, firewood and by incorporating wood products in public buildings, green public procurements and more competitive exports of finished wood products across the cluster producers. Sale of wood mass will be carried out in ways that ensure the stability of the market and follow the market price.

Implementation of measures/actions identified in the Development Directions 2013 - 2016

The main strategic objectives for the future development of forestry focus on securing and improving the

long-term resistance and productivity of forests. In this respect, after several years of development, in 2014, the Forests and Forestry Strategy with the Development Plan has been adopted, and the corresponding three-year action plan. The Strategy sets objectives and guidelines for the development of forests and forestry in accordance with the national forest policy. The Strategy also sets objectives in wood industry development. Significant efforts have been made in the implementation of the Plan of rehabilitation of forests degraded by fires in 2012. Of the total burnt timber mass that was possible to access, approximately 80,000 m³ were cut down and removed, while the realized public procurement of the required planting materials amounted to about 1.2 million seedlings and services have been provided in the field of afforestation at an area of 230 hectares. In 2014 most work has been done in the first phase of rehabilitation, while the second phase of implementation will continue throughout 2015 and probably 2016.

Proposed measures

Accordingly, development goals, which will result in increasing the share of forestry, timber industry and other industries that depend on the forest in GDP, can be achieved, inter alia, through the strengthening of resilience and productivity of forests and sustainable forest management by increasing timber supplies in forests.

Montenegro has enough forests that are natural and healthy, but many of these forests, particularly coppice have reduced productivity. Planned stewardship, care and breeding should aim to increase quality and productivity, and to preserve the stability and resilience of forests, thereby providing the basis for long-term sustainable use of all forest functions. Particular attention should be paid to the protection of forests from forest fires, and measures to remove the damage caused by forest fires, as well as other forms of forest degradation.

The sectors of forestry and timber industry fail to reach those economic effects that would be in accordance with their potential. With the investments in forests and rural infrastructure, the development of activities associated with the forests and wood industry, and the development of timber market, the number of jobs will increase, social status of the population in rural areas improved, as well as the scope of business operations, and also government revenues from forestry and wood industry as a result.

Other measures that need to be implemented in order to achieve the main objectives during the period 2015-2018 are: the implementation of forest certification, which would create conditions for better access of Montenegrin wood products to the EU market, as well as increased traffic legality of wood products; strengthening advisory services for forest management, which would specifically contribute to improving the condition of the forests privately owned; the establishment of support and subsidies for work in forestry and wood industry, which would encourage greater investment in these sectors and the diversification of products and services in forestry; information and technical training and the establishment of an information system in forestry, in order to improve administrative operations in forestry and wood industry and improve the monitoring system of forest management and forest land.

2.2.3. Energy

Energy of Montenegro and its development should be seen in the context of the overall economic policy of the country. It is necessary to pay special attention to issues of exploration and exploitation of energy resources, energy conversion, transmission/transport and supply of consumers with energy, within specific techno-economic, legal and regulatory, and institutional and organizational conditions of the country, with the objective of providing energy services of adequate quality and security of supply, in the context of socially acceptable socio-economic conditions and the demands of environmental protection.

The energy sector is characterized by great natural resources (coal, hydropower potential, the potential of

biomass, wind and solar potential), which are under-utilized, of low energy efficiency, as well as dependent on imported electricity and fossil fuels. Most of the natural resources are located in the northern, underdeveloped region of Montenegro. Their valorization will provide not only energy security and independence, but also contribute to a more balanced economic development of the country.

The energy sector development is carried out in accordance with the directions and objectives laid down in the Energy Policy and the Energy Development Strategy of Montenegro by 2030. With intensive use of domestic energy resources, particularly hydropower, Montenegro could become an important energy partner at the regional level, and, after 2020, a net exporter of electricity.

Energy policy of Montenegro until 2030, identifies three main priorities:

1. the security of energy supply, implying permanent, secure, well diversified energy supply, in order to balance supply with customers' requirements;
2. development of a competitive energy market, implying the provision of a liberalized, non-discriminatory, competitive and open energy market based on transparent conditions; and
3. sustainable energy development, implying the provision of sustainable energy development, which is based on accelerated, but the rational use of own energy resources while respecting the principles of environmental protection, improving energy efficiency (EE) and greater use of renewable energy sources (RES), as well as the need for socio-economic development of Montenegro.

In order to achieve the defined priorities, the Energy Policy identified the following strategic orientations:

- maintenance, rehabilitation and modernization of existing and construction of new infrastructure for generation, transmission and distribution of energy;
- gradually reducing dependence on energy imports; (i) reducing the specific consumption of final energy, (ii) increasing the production of energy (primary and secondary) by using own resources; and (iii) a reduction of energy losses from production to final consumption;
- reviewing existing barriers to activate all of the options of long-term energy development;
- increasing energy efficiency;
- increasing the share of renewable energy sources;
- improvement of heating and/or cooling systems in buildings;
- realization of strategic 90-day reserves of petroleum products, in accordance with the schedule and Montenegro's obligations to the Energy Community and the European Union;
- oil and gas exploration in the Montenegrin coast and in the hinterland, as well as coal in Pljevlja and Berane basins;
- proactive role of the policy of the State in its efforts to provide access to the natural gas system through international projects (Ionian-Adriatic gas pipeline, Trans Adriatic Pipeline, etc.), the development of the natural gas system (including the construction of regional gas pipelines and plants for the use of natural gas);
- increasing efficiency of energy enterprises by reducing operating costs, technical and commercial losses of energy, with a reasonable return on investment;
- continuation of the restructuring of energy companies, according to the principles of the relevant EU energy legislation, and timely adoption of plans for further development;
- sustainable energy development in relation to environmental protection and international cooperation in this field, in particular the reduction of emissions of greenhouse gases;
- based on the ratification of the Kyoto Protocol, as a country outside the annex of developed countries, to support investors and provide conditions for the realization of projects, so-called Clean Development Mechanism (CDM);
- promote research, development, transfer and application of environmentally sustainable new technologies in the energy sector;
- harmonization of legislative and regulatory framework to the EU requirements;
- creation of an appropriate legislative, regulatory, and institutional and financial framework to encourage private sector participation and investment in the energy sector;
- provision of social protection to the vulnerable electricity consumers;

- an agreement with neighboring countries in the optimal utilization of the joint hydro potential and water management, as well as the planning and construction of new electric interconnection lines for connection with these countries;
- improve the regulatory process and professional independence of the Energy Regulatory Agency; and
- active international cooperation in the energy field.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

As part of activities aimed to update the strategic development documents, Energy Development Strategy of Montenegro by 2030 was adopted. The strategy comprises major recommendations concerning the coal sector, the sector of oil and gas production, transmission and distribution of electricity, district heating sector, the sector of energy efficiency, renewable energy sector, energy market and the improvement of the energy-related regulatory framework in Montenegro.

In order to fulfill obligations to the Energy Community, the National Action Plan for the Use of Energy from Renewable Sources by 2020 was adopted, which aims to determine the dynamics of valorization of renewable energy sources in Montenegro until 2020.

Montenegro, through its legislation, recognized facilities for the production of electricity as objects of general interest, and electricity generation as an activity of public interest. In order to encourage this kind of production, a series of measures to encourage this type of production were adopted.

In order to meet the objectives of the Energy Policy and the main recommendations of the Energy Development Strategy, the activities on the realization of the projects of construction of new production infrastructure facilities are implemented (HPP on Morača, HPP on Komarnica, TPP Pljevlja II and Maoče, small hydropower, wind power, solar farms, etc.). Special attention was paid to connections with neighboring systems. Support has been provided to the construction of an undersea cable Montenegro - Italy, which will make Montenegro a regional energy hub.

For the purpose of evaluation of the available hydro potential, the Government of Montenegro in the previous period concluded 21 concession contracts for the construction of SHPP, in accordance with the Law on Concessions. Of these, 14 contracts were concluded on the basis of four conducted tender procedures, and 7 contracts for the construction of SHPPs of installed capacity up to 1 MW were concluded on the basis of authorizations issued by the Ministry of Economy, in accordance with the Energy Law. The agreements envisage the construction of 41 small hydropower plants, an overall installed capacity of approximately 72 MW and planned annual production of about 244 GWh. Approximate value of investments for all SHPPs is € 109 million.

First SHPP was put into operation in March 2013, additional 6 SHPPs were completed in 2014. Use permits were issued for 6 SHPPs. Total installed capacity of new SHPs, which will enter into operation in 2015 is about 9,317 MW, and expected annual production is 35,401 GWh.

Based on the signed contracts, the construction of two wind power plants (WPP Krnovo, Niksic and WPP Možura, Ulcinj), with an annual production of about 300 GWh has been planned.

The project of connecting power systems of Montenegro and Italy by submarine cable DC power is implemented as planned. The project is worth about € 900.0 million. This project is significant in terms of the infrastructure connecting the Western Balkan countries with the European Union, and creating conditions for faster development of the region as a whole, which is in line with EU directives. The Italian partner on the project, the company Terna, is working on laying undersea cable. On the section of the project for which power company CGES is in charge, preparatory works are in progress for the construction of the substation in Lastva Grbaljska and project documentation for the transmission line Lastva - Pljevlja. It is expected that the cable will be operational in late 2018 or early 2019.

Significant work has been realized in terms of increasing energy efficiency. In this sense, the project "Energy Efficiency in Montenegro" has been implemented, which aims to improve the energy performance in the health and education facilities, as well as to increase public awareness of energy efficiency measures. In the first phase of the project, for the implementation of which funds were provided amounting to 6.5 million euros based on loans taken by the Government of Montenegro from the International Bank for Reconstruction and Development (IBRD), works have been completed on 15 facilities (6 hospitals, 8 schools and 1 dormitory).

A number of other projects were implemented under the Energy Efficiency program:

- EEPPB - Energy Efficiency Program in Public Buildings;
- MONTESOL - interest-free loans for households to install solar systems for hot water;
- SOLARNI KATUNI - Installation of photovoltaic solar systems in summer pastures;
- ENERGY WOOD – interest-free loans for the installation of heating systems on modern forms of biomass;
- ENERGY WOOD II – interest-free loans for the installation of heating systems on modern forms of biomass.

Regarding the area of mandatory reserves of petroleum products, the Government of Montenegro adopted in April 2015 the action plan to implement the Directive on compulsory stocks of petroleum products.

Proposed measures

In defining the proposed measures the priority was given to further support the construction of new capacities for the production, transmission and distribution of electricity in order to reduce dependence on imports and to ensure the safe and efficient supply of energy to all consumers in Montenegro. The focus of energy policy is to improve energy efficiency throughout the supply chain and use of energy.

The main measures include the following:

- construction of additional capacity for production based on renewable energy sources, which will utilize local renewable sources, create jobs for local industries, reduce dependence on imported (partly fossil-based) energy sources and improve security of energy supply for the Montenegrin economy;
- provide support to investments related to renewable energy sources with a financially sustainable criteria;
- to promote the introduction of biofuels in transport;
- the modernization and rehabilitation of the distribution system, which will, together with measures to reduce non-technical losses, reduce distribution costs of electricity;
- complete the reconstruction and rehabilitation of existing power facilities with a view to provide environmental stabilization and increase production capacities;
- finalize institutionalization of electricity market (electricity distribution system operator);
- improvement of the transmission network, with the priority of building infrastructure facilities that are an integral part of the project of building an undersea cable Montenegro - Italy;
- improve the regulatory and institutional framework in the field of energy efficiency, including improvement of building regulations, the introduction of energy efficiency labels, introducing the principle of eco-design for electrical appliances in households and the introduction of energy efficiency components in the documentation of spatial planning;
- continue with the project of energy efficiency in public buildings, primarily schools and health care, which will ensure reduction in energy consumption of at least 20%;
- continue to promote projects of renewable energy sources in consumption (a continuation of interest-free loans for solar systems, biomass heating, installation of photovoltaic systems on the summer pastures, etc.);
- realization of the project of introduction of energy management systems in the public sector; and
- raising public awareness and application of good practice in the field of energy efficiency, especially in public sector institutions, local authorities, big consumers, professional organizations and other stakeholders.

Structural reforms

Energy policy must be focused on developing the energy sector of Montenegro as an open system for private domestic and foreign investment, in line with the energy system of the EU and the Energy Community of South East Europe.

2.2.4. Environment

A healthy environment is a prerequisite for sustainable tourism, agriculture and forestry, rural development, transport and energy, particularly in the context of the constitutional commitment of Montenegro to develop as an ecological state. A special focus of this aspect of sustainable growth is to reduce emissions of pollutants, particularly the reduction of emissions of greenhouse gases, using low-carbon technologies in the energy and transport. At the same time, it is necessary to create a strategic framework in the field of climate change, improve waste management through its reduction, recycling and construction of appropriate infrastructure for waste treatment, sustainable management of natural resources and the construction and improvement of systems for wastewater treatment.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

Nature and biodiversity

1. Protected areas to be increased to 10% of land and marine area to 10%

In 2014, the percentage of continental territory of Montenegro under national protection amounted to 9.045%. If we take into account the protection arising from obligations under international agreements 17.2% is under the protection, including areas which are protected on both grounds (e.g. Skadar Lake – Ramsar area and National Park, Durmitor – UNESCO area and National Park).¹² The Study of Regional Park Dragišnica-Komarnica has been finalized, and the Study on Protection of Cijevna River Canyon is in progress. We performed the feasibility study for the establishment of Marine Protected Areas "Platamuni".

2. The establishment of the NATURA 2000 network

In accordance with EU requirements, it is planned that the project "Strengthening the environmental protection system in Montenegro", which will be financed from IPA funds, creates the preconditions for the establishment of the ecological network NATURA 2000 program.

Sectoral planning document¹³ for the sector Environment and climate actions for IPA 2014-2020, proposed the continuation of the said project, whose implementation will enable the creation of preconditions for the establishment of the ecological network NATURA.

Noise

Development of strategic noise maps for particularly sensitive areas - In accordance with the Law on Protection against Environmental Noise, strategic noise maps are prepared for agglomerations (part of the territory or urban area with over 100,000 inhabitants - one area), main roads (one-way average annual traffic flow of more than three million vehicles - 2 such roads, according to data from 2014), the main railway line and the main airport. Montenegro does not have a major railway line (over which run more than 30,000 trains per year), no major airport, in accordance with the traffic frequency standards stipulated by the Law. The Ministry of Sustainable Development and Tourism adopted the Ordinance on the method

¹² Regional park "Piva" was proclaimed on April 22, 2015 thereby increasing the percentage of territory under national protection on approximately 12%. In addition, the regional park "Komovi" has been proclaimed in the territory of the capital, Podgorica, and is soon expected to designate parks in the municipalities of Kolasin and Andrijevica. The national network of protected areas now covers 1,763.62 km² or 12.768% of the territory of Montenegro, of which the largest share (1,012 km² hectares or 7,327%) consists of five national parks: National Park "Durmitor", "Skadar Lake", "Lovcen" "Biogradska gora" and the newly formed "Prokletije". The remaining part of more than 40 protected areas are under the following categories: natural monument, regional park, an area of special natural characteristics (general and specific) reserves.

¹³ Sectoral planning documents for IPA 2014-2020 represent a framework for budgeting EU support for specific sectors, which are not adopted by the European Commission. The documents are under development. Therefore, this project can only be considered indicatively planned.

of preparation and the detailed content of strategic noise maps, which define the way of creation and content of strategic noise maps, which will enable the competent authorities to develop appropriate strategic noise maps.

In 2014, there was no activity on the implementation of the measure, since the measure is not yet due for implementation. The deadline for implementation of this measure is 2017. Also, apart from the newly established municipalities Petnjica and Gusinje, all local governments implemented acoustic zoning of their territories.

Register of Chemicals

The establishment of the Register of Chemicals. A project proposal for the establishment of the Register of Chemicals has been prepared. Establishing a Register of Chemicals will provide for the effective control of the chemicals. Register of Chemicals is essential to prepare for the entry of the Montenegrin economy into the EU market, when the conditions are met for full membership in the EU. Also, the Register of Chemicals is essential to control the mapping of chemicals that are placed on the market, the establishment of risk reduction measures, statistics and quick reactions in the case of accident. The deadline for implementation of this measure is 2018.

The strategic framework on climate change

1. Preparation and adoption of the National Strategy on Climate Change

This strategic document will define the objectives and measures of national policy in the field of climate change, as well as future national contribution to reducing emissions of greenhouse gases. As a party to the UN Framework Convention on Climate Change, Montenegro is obliged to inform the Secretariat of the Convention on the implementation of measures to mitigate adverse effects of climate change and adaptation measures to climate change. Under the Work Program of the Government of Montenegro, the adoption of the Strategy is planned for 3Q 2015.

2. Second National Communication on Climate Change

The measure is implemented. Second National Report of Montenegro on climate change under the UN Framework Convention on Climate Change (UNFCCC) was adopted by the Government of Montenegro, at its session held on 5 March 2015 and was sent to the Secretariat of the UNFCCC.

Pollution from industrial plants

According to the program of harmonization of certain industries with the Law on Integrated Prevention and Control of Environmental Pollution, plant "Deponija" d.o.o., Podgorica, "Fab-live" Podgorica and "Pro Gas", Podgorica were able to successfully harmonize the work of their plants with the Law on Integrated Prevention and Control of Environmental Pollution and get a decision on issuing an integrated permit from the competent institutions. The plant "Alu-Line" Mojkovac is under the jurisdiction of local governments.¹⁴

Plant KAP aluminum factory in Podgorica and thermal power plant "Pljevlja" submitted an application within the deadline provided by the Program.

For plant KAP request was returned due to incomplete documentation. Due to the fact that the process of privatization of the company is in progress, the deadline has been extended for submission of complete documentation, so that the process of issuing integrated permit could continue.

¹⁴ Plant "Polieks", Berane and Foundry "Gati," Niksic by decision of the Government on 5 December 2013 were removed from the list of the Compliance Program

The application of Thermal Power Plant "Pljevlja", has also been returned due to incomplete documentation. However, in this case the TPP Pljevlja calls for a decision of the Ministerial Council of the Energy Community in terms of emissions into the air, seeking approval for the operation from 1 January 2018 with limited hours of 20.000h by 2023 with existing air emissions.

Given these facts, and to improve existing solutions which have, through their implementation, proved insufficiently practical or unenforceable, changes were initiated to Article 31 of the Law on Integrated Prevention and Control of Environmental Pollution, so that instead of the period January 1, 2015 the deadline for obtaining the integrated permit is 1 January 2020. Also, in accordance with the amendments to the Law, the program will be amended in terms of the list of plants and the time limit for obtaining the integrated permits.

Prevention of industrial accidents and reducing the impact of those incidents that cannot be prevented

In the field of industrial pollution, the activities on implementation of the project within which environmental black spots need to be rehabilitated (landfill grit on the location of the Adriatic Shipyard Bijela, flotation tailings Gradac Pljevlja, ash and slag "Maljevac," solid waste landfill in KAP and red mud pools on KAP site), are in the initial stage of implementation. The total amount of funds required for the realization of the project was provided from a World Bank loan, € 50 million.

The loan became effective on 17 November 2014. At this stage of project, additional research is going on. For each investment activity the Environment Social Impact Assessments (ESIA) will be further updated to obtain the appropriate environmental and construction permits, environmental management plan (EMP), and additional hedging instruments will be implemented. Work on rehabilitation on the location of the Adriatic Shipyard Bijela has begun, the environmental impact assessment has been updated, and the development of the detailed design of the remediation is currently in progress. The activities progress as planned.

Reducing emissions of pollutants in the air

The goal of establishing a National network for air quality monitoring and air quality reporting system is to provide adequate air quality management at national and local levels, especially in the areas of air quality, where stipulated limit or target values for the concentration of pollutants in the air are exceeded. Regulation on the establishment of network of measuring stations for monitoring air quality was adopted in 2010, when the basic framework of the network was established.¹⁵

By 2016, a further improvement of the National network for air quality monitoring and air quality reporting system is expected in line with EU standards, which will be supported by the Instrument for Pre-Accession Assistance (IPA).

When it comes to air quality plans for affected areas, the Ministry of Sustainable Development and Tourism in February 2013 adopted the Air Quality Plan for the Municipality of Pljevlja, while in March 2014, Air Quality Plan for the Municipality of Nikšić has been approved.

Water supply and sewerage networks and facilities for waste water

1. The rehabilitation and expansion of water supply systems in all municipalities where such renewal is necessary

The average water supply of the population in Montenegro from public water systems is 62%, meaning that approximately 390,000 inhabitants are supplied this way. In urban areas, the percentage is over 98%.

¹⁵ In March 2015, the National Network for air quality monitoring completed 5 stations to monitor pollen.

Beside the insufficient development of water supply systems, special difficulties create huge losses in water systems that for longer period on average account for more than 60%.

The reasons for this are the age of the water supply system that does not meet the technical requirements, inadequate maintenance, lack of measuring devices in the system, frequent physical damage to the network, the illegal use of water from the distribution network and others. A particular problem is the small water supply system in rural settlements built by the citizens for their own needs, which is not managed and cared for, and in the construction of which, regulations are often not respected.

In most municipalities, the project of improvement of water supply system (expansion and rehabilitation of networks, the construction of reservoirs and other facilities in water supply systems) is implemented in parallel with projects in the field of wastewater management. According to data obtained from the municipalities in 2013 and 2014 over 120 km of sewerage and water supply network were built in the municipalities of the Montenegrin coast - worth about € 50 million (amount comprised procurement of equipment for the pumping station, installation of the flow meters, water meters and other equipment).

2. Construction/rehabilitation of sewerage network in all municipalities and construction of wastewater treatment plants in 18 municipalities

The concept of development of waste water in Montenegro is based on two documents:

- Master plan for wastewaters drainage and water treatment for the Montenegrin Coast and the Municipality of Cetinje, which was adopted in 2005, and whose implementation is planned in stages and covers the period until 2029:

2005-2009	€27.7 million
2009-2019	€82.4 million
2019-2029	€170.7 million
total:	€280.8 million

- Strategic Master Plan for the sewage and waste water in central and northern region of Montenegro, which was adopted in 2005, and whose implementation is planned in stages and covers the period to 2029:

2005-2009	€ 81,243,028
2010-2019/2020	€ 197,489,867
total:	€ 278,732,896

The above documents define investment plans for all municipalities in Montenegro, based on which to build sewerage networks, waste water facilities and other segments of the sewage system, which will by the end of the study period (end of 2029) ensure full implementation of the Directive 91/271/EEC concerning urban waste water. As a result of these activities, today of approximately € 560.0 million planned investments in the field of waste water by 2029 on the territory of Montenegro, so far a number of projects were realized, so it can be concluded that the projects defined by strategic documents of wastewater are implemented in accordance with the planned schedule.

Due to the fact that these were infrastructural projects whose implementation takes several years, projects that are listed in the tables of the document are in various stages of implementation and progress as planned.

By 2013, Montenegro had in operation two plants for wastewater treatment - in Podgorica and Mojkovac. The plant in Žabljak is put into operation in late 2013 and the plant in Budva in mid-2014.

Ionizing and non-ionizing radiation

During 2014, in the field of protection against ionizing radiation, the implementation of the project **"Management of sealed radioactive sources, including radioactive lightning rods and strengthening the**

effectiveness of the regulatory infrastructure in the field of radiation protection in Montenegro, Macedonia and Kosovo" was completed, of the total value of 1,350,000 euros, which was approved by the European Commission under the IPA 2009 multi-beneficiary program (MB IPA).¹⁶ The project was completed in April 2014 with the final report sent to the European Commission. The funds were used for the purchase of necessary equipment, the preparatory work and activities of safe removal and transport of lightning rods and all the listed sealed sources of radiation in Montenegro to the warehouse.

In the period from 18 June 2014 to 27 June 2014, at the request of the Ministry of Sustainable Development and Tourism, in coordination with the Agency for Environmental Protection and DOO "Center for Ecotoxicological Tests" a ten-day expert mission has been conducted, and support to relevant institutions provided by the International Atomic Energy Agency IAEA. These activities were carried out in the framework of interregional INT9176 project **"Strengthening Crade-to-grave control of radioactive sources in the Mediterranean Region"**, funded by the IAEA, the EU, the US and Spain. The project started with the implementation in 2012 and will end on 31 December 2015. In 2014, the Ministry of Sustainable Development and Tourism provided the IAEA grant of special container (12,000 euros), to store conditioned sources.

The project **"Radon Mapping in Montenegro and Improvement of the National System of Protection Against Radon"**,¹⁷ drafted by the Ministry of Sustainable Development and Tourism (MORT) and the Agency for Environmental Protection (EPA) and the Montenegrin Academy of Sciences and Arts (CANU) was officially approved by the International Atomic Energy Agency (IAEA). Project is financed by the International Atomic Energy Agency and the Government of Montenegro, with the support of the OSCE Office and UNDP in Montenegro.

Waste management

In Montenegro, depositing is still the most common method for finally resolving the issue of waste. From infrastructure, there are two regional landfills for non-hazardous waste, which are situated in Podgorica and Bar.

Apart from the Centers for primary recycling in Podgorica and Herceg Novi (in which the selection is made of certain types of waste and their preparation for transport to further processing) and smaller lines in Kotor, our country does not have facilities for recycling. Likewise, there is no facility for composting and incineration of waste.

In 2014, in the area of waste, a recycling yard was built in Podgorica. The IPA 2009 in the framework of the project "Development and Implementation of the State and Local Waste Management Plans" the following were prepared: the proposal Waste Management Strategy, the draft National Waste Management Plan and a number of local waste management plans. The aim of adopting the Strategy and National Plan is the establishing of the waste management policy in the future.

Proposed measures

Environmental and Climate Change Policy of Montenegro is based on the promotion of sustainable management of resources, vision of waste treatment as a resource in terms of re-use, processing through the recycling in the raw material for new production, and processing to generate energy from waste. Improving the system of management of protected areas, the construction of a wastewater treatment plant, reconstruction of existing water supply facilities, construction of infrastructure for the management of the municipal waste and hazardous waste management, proper functioning and maintenance of these facilities, as well as rehabilitation of black spots, are one of the key priorities.

¹⁶ The aim of the project is to reduce the radiological risks arising from unsafe and unsecure management of sealed radiation sources and radioactive lightning rods in Montenegro, Macedonia and Kosovo.

¹⁷ The main objectives of the completion of the radon mapping in Montenegro, is the objective assessment of medium effective dose to the population due to inhalation of radon, educating the population about the effects of radon on health, strengthening human and institutional capacities for measurement and mitigation of radon, and innovation of radon national legislation for the purpose of its harmonization with the directives EU and IAEA standards, as well as preparation of national strategies for the protection against radon.

From the perspective of the EU accession process, environmental issues and climate change are among the most complex and most demanding negotiating areas. It is estimated that Chapter 27 comprises about 1/3 of the *acquis* that the candidate country has to adopt prior to membership. The EU accession process in the field of environment and climate change involves intense legislative activity of a candidate country, harmonization with the standards and requirements of EU legislation and ensuring sustainable framework for the implementation of laws in this area. The process of European integration in this area imposes the need for long-term planning at the national level, which involves strategic linking of different institutions in order to define a clear policy in the environmental field.

Environmental policy is faced with growing responsibilities not only in the context of EU integration, but also in terms of meeting the objectives and priorities of national policies. Full and effective implementation of environmental policy carries with it significant challenges that are put before society as a whole. Particularly important is the financial challenge that relates to the construction of new/maintenance of existing environmental infrastructure, repair of the consequences of pollution and degradation of natural resources.

In this regard, in the coming period it is necessary to implement the following measures:

- In order to maintain high quality **biodiversity** in the coming period, the activities should focus on the establishment and completion of a functional ecological network of protected areas Natura 2000, which will contribute to the conservation of priority habitats and species. In addition, activities will be focused on the further proclamation of protected areas at the national level, in order to achieve the appropriate objectives according to the Strategy of Biodiversity. Activities will focus on the establishment and finding appropriate mechanisms for efficient management of protected areas through the appointment of controllers, strengthening of human and technical control capacity, as well as the activities of providing mechanisms for financing protected areas on a sustainable basis;
- In order to take care of animals it is necessary to find a way to create and establish a center for the disposal of confiscated animals that were the subject of keeping in inadequate conditions or the subject of illegal trade activities;
- In order to reduce exposure to **noise in the environment** it is planned to produce strategic noise maps for especially sensitive areas and to take steps to measure sound volume. The deadline for the preparation of strategic noise maps is 2017;
- Sustainable **management of chemicals** requires for the implementation of the Strategy for Chemicals Management with the Action Plan for 2015-2018. Chemicals Management Strategy defines, among other things, the measures aimed at implementing strategic goals of Montenegro, which are recommended for implementation in the period 2015-2018. Some of the measures are: strengthening administrative capacity, strengthening the system of import and export of dangerous chemicals, the establishment of a National Help Desk, the establishment of the Register of Chemicals, establishing a poison control center.
- Implement the obligations under the Stockholm Convention. The objectives and priorities for the execution of obligations under the Stockholm Convention are defined in the action plans in accordance with the recommendations of the Stockholm Convention. The action plans include a total of 56 measures, with precisely defined deadlines, holders of activities, indicators and verification of estimated resources;
- Developing a strategic framework on **climate change** involves the preparation and adoption of the National Strategy on Climate Change, which will be adopted in 2015 and which will define the objectives and measures of the national policy in the field of climate change, as well as identify future national contribution to reducing emissions of greenhouse effect;
- To improve the strategic framework for climate change it is necessary to prepare Low-Carbon Development Strategy and National Plan for Adaptation to Climate Change, as well as to prepare two-year Supplementary Report that will contain inventory of greenhouse gases for 2013 according to the latest methodology (IPCC 2006);
- It is necessary to implement integrated pollution control, in accordance with the requirements of the IPPC Directive (eng. IPPC - integrated pollution prevention and control). It is necessary to continue with

the process of issuing IPPC permits for installations required to have it. In addition, new plants required to have the IPPC permit should be given the same on commissioning;¹⁸

- To repair and reclaim sites contaminated by hazardous industrial waste through the implementation of the project with the World Bank "Industrial Waste Management and Cleaning"¹⁹;
- In the area of **air quality** it is necessary to improve the national network for monitoring air quality with new stations, equip the station to monitor cross-border transmission of air pollutants (EMEP) and perform regular repositioning of network sites in accordance with the requirements of Directive 2008/50/EC. Also, the National Strategy for Air Quality Management and Air Quality Plans in the affected areas provided adequate measures to reduce emissions of air pollutants;²⁰
- To preserve **water** as a resource, water infrastructure will be renewed/extended. During the year 2015 plants in Nikšić and Herceg Novi are expected to be put into operation, and a sewage network in Tivat. The end of the project in relation to the improvement of water supply in Cetinje is near to end and construction of water supply for the city municipalities of Golubovci and Tuzi;
- By the end of 2016, it is planned to complete the following infrastructure projects: sewerage and water supply network in Herceg Novi, a common wastewater treatment plant for municipalities Kotor and Tivat, sewerage network and wastewater treatment plant in the Municipality of Budva (Petrovac and Buljarica - 2015), an installation for wastewater treatment in the municipality of Šavnik (2016), a plant for wastewater treatment in the Municipality of Pljevlja (2016), improvement of water supply in the municipality of Andrijevica;
- In the period 2015-2018, the following projects are expected to be initiated: (a part of them is finished) construction of a wastewater treatment plant and segments of water and sewage network in Bar, Bijelo Polje, Berane, Cetinje, Danilovgrad, Plav, Rožaje and Ulcinj. It is also planned to build a new wastewater treatment plant in Podgorica, work is underway on securing the necessary resources;²¹
- In order to limit exposure to **radiation** it is necessary to implement measures involving the transposition of the EU acquis in the field of ionizing and non-ionizing radiation in national legislation, its implementation, as well as a campaign to raise awareness about the risks associated with the negative impact of radiation on human life and health and the environment.
- strengthening human resources in the field of protection against ionizing and non-ionizing radiation in accordance with the adopted program of Montenegro's accession to the European Union 2015-2020 (Chapter 15 and Chapter 19). The measures include the strengthening of existing capacity and upgrading skills and new employment in accordance with the aforementioned Accession Programme for protection against ionizing radiation and radiation and nuclear safety and security and for the protection against non-ionizing radiation;
- In the area of **waste management** in the coming period activities to create conditions for construction of the landfill in the municipality of Herceg Novi²² will continue and the preparation of technical documentation for the remediation of uncontrolled landfills "Ćafe" in Bar and "Vrtijeljka" in Cetinje;²³
- within the new National Waste Management Plan (the adoption of this document is expected during 2015), the Action Plan will define the exact number and type of infrastructure facilities for waste management in Montenegro;
- In order to further harmonize Montenegrin legislation with EU legislation and effective implementation of the Waste Management Law ("Official Gazette of Montenegro", 64/11), the work on a new Waste

¹⁸ IPPC permit for a plant regulates environmental protection in terms of prescribing the limit values of emitting pollutants into the air and water, measures the operator has to take in order to ensure the protection of nature, soil, sustainable waste management and noise protection, as well as mandatory monitoring of the impact of activities on the environment.

¹⁹ The result of this process will be the disposal of hazardous wastes in an environmentally safe way, which will create conditions for improving the quality of life of citizens who live near industrial hot spots, as well as the preconditions for the continuation of technological processes in these plants.

²⁰ The strategy was adopted for the period 2013-2016 while local air quality plans have a limited period – they are in effect until the prescribed air quality standards are reached. Strategy planned € 187,000 of budget funds and the required investments of pollutants are considerably higher, and estimated at over €100 million.

²¹ The preparatory activities for the project in Plužine and Kolašin are in progress. In parallel with the construction of facilities for waste water, the work on the building and extension of sewer and water supply networks in most of the municipalities in Montenegro is in progress.

²² The procedure for obtaining a building permit is in progress

²³ Preparatory work on the establishment of a system for the treatment of leachate at the landfill "Livade" in Podgorica is in progress (2.431 million euros). The construction of a transfer station and recycling yard in Žabljak is ongoing (2.2 million euros, completion of construction is planned for the end of 2015), and conducted initial activities on preparation of technical documentation for the construction of transfer stations in the municipalities of Plužine, Šavnik, Andrijevica and Mojkovac.

Management Law is in progress, whose adoption is planned during 2015 after which by-laws will be drafted;

- A report on screening for Chapter 27-Environment and Climate Change was adopted by the European Council in December 2013 and contained, among other things, a review of compatibility of Montenegrin legislation with European, and recommendations in which direction we should go in order to meet EU requirements. The report also contained a measure for the opening of Chapter 27, which includes the obligation of Montenegro to develop a comprehensive national strategy and action plan that will serve as a basis for the transposition, implementation and enforcement of the *acquis* in the field of environment and climate change, including development plans of relevant administrative capacities and assessment of financial resources with defined goals and deadlines. The document will define short-, medium- and long-term plans in the environmental field and the same, after obtaining the green light from the European Commission, will be submitted to the Government for the adoption, by which the Government and the public will become aware of the needs and activities to be undertaken.

Structural reforms

Work is continuing to strengthen the institutional framework and improve the administrative capacity of institutions dealing with environmental issues. Also, in accordance with the requirements of the Montenegro's accession to the European Union, there are plans to strengthen the legal framework through changes and harmonization of existing laws and regulations with the *acquis communautaire*.

2.2.5. Transport

Transport policy is one of the main components that contributes to social and territorial cohesion and seeks to provide an efficient transport system with a high degree of sustainable mobility, while protecting the environment and reducing greenhouse gas emissions. Investments in transport infrastructure have long-term implications, not only on the development of the transport system, but also the development of the overall economy. Correlation and causality in the development of other activities, single transport out as a branch of strategic importance. Transport as a service industry contributes to the growth of trade, international services, tourism and industry. It also affects the degree of integration of the country, both regionally and in the wider international environment.

The Ministry of Transport and Maritime Affairs is responsible for the development, improvement, operation and maintenance of transportation system in Montenegro and continuously conducts and seeks the realization of necessary measures and compliance with the objectives of the EU transport policy: sustainable transport; efficient integrated transport system; reduction of transport costs; environmentally-friendly forms of transport; promotion of multi-modal transport; application of new solutions in the transport system, reducing the number of traffic accidents, etc.

Implementation of measures/actions identified in the Development Directions 2013 – 2016

1. Activities on the realization of the project of construction of two highways Bar-Boljare and the Adriatic-Ionian highway

After negotiating process that was conducted from July 2013, when the Government of Montenegro accepted the offer of Chinese companies China Communications Construction Company Ltd. (CCCC) / China Road and Bridge Corporation (CRBC), for the design and construction of priority section of Smokovac-Uvač - Mateševo of highway Bar-Boljare as first ranked, the Government with the aforementioned companies on February 26, 2014 signed an Agreement on the design and construction of highway Bar-Boljare, section Smokovac -Uvač-Mateševo, 41 km long. Agreement on preferential loan between the Government of Montenegro and China EXIM Bank in connection with the financing of realization of priority section Smokovac –Uvač-Mateševo of highway Bar-Boljare was signed on 30 October 2014. These loan funds will finance 85% of the total contracted value of the realization of priority section Smokovac –Uvač-Mateševo of highway Bar-Boljare, while the remaining 15% will be provided from the Budget of Montenegro. After in December 2014 the Parliament adopted the Law on the Bar-Boljare, which fulfills the basic legal

prerequisite for the start of the construction of the preference section Smokovac–Uvač-Mateševo of highway Bar-Boljare, intensive activities have been implemented in accordance with the Agreement on the design and construction, and the relevant regulations for the commencement of work.

Work began on 11 May 2015. The Agreement defines the deadline of 48 months for the design and construction of priority section of the highway Bar-Boljare. Law on Budget 2015, planned investment of €206.0 million in 2015 for the implementation of priority section of the highway Bar-Boljare and the funds will be disbursed in accordance with the schedule of the project.

In the future, along with the implementation of priority section of the highway Bar-Boljare, activities will be carried out on the completion of the project documentation for the other sections of the highway, in the first row for section Mateševo-Andrijevica, which is according to the detailed spatial plan of the highway planned to be implemented second.

Within the development plans of Montenegro, Adriatic-Ionian Highway is of strategic importance, both from an economic and social point of view, and from the aspect of a high-standard road connection of Montenegro with the neighboring countries. The route of the Adriatic-Ionian Highway from Trieste to Kalamata, a length of 1,550 km, is passing through Italy, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania and Greece, linking all seven countries of the Adriatic-Ionian Initiative.

As support to the European perspective of the countries of Western Balkans, which showed significant progress on the path of stability, good neighborly relations and the modernization of society and the economy, cooperation with the EU was intensified as regards effort to create certain preconditions for the improvement of networks among countries of the region with each other and with the EU.

Due to intensive cooperation with the EC in connection with the so-called Western Balkans 6 Agenda, both at the level of heads of government, and at the level of Foreign Ministers, transport, economy, etc., Montenegro made the following proposals for the establishment of the main transport network in the Western Balkans, which will in the future pose a framework for prioritization of projects, planned in time horizon to 2030:

- SEETO roadway 4 Bar-Boljare highway (border with Serbia);
- SEETO roadway 1: the Adriatic-Ionian corridor (coastal variant or fast traffic route), as connection to the Republic of Croatia and the Republic of Albania;
- SEETO railway line 4: Bar-Vrbnica railway (border with the Republic of Serbia);
- SEETO railway line 2: Podgorica-Tirana railway (border with the Republic of Albania);
- The Port of Bar; and
- Podgorica Airport (which is included by automatism as the airport in the capital city).

The finish of this process is planned for August 2015, when at the summit in Vienna heads of governments and senior representatives of the European Commission will meet again, to confirm the commitment and progress made with finalizing the unique list of priority projects, which should result in implementation by 2030, for which concrete support through EU instruments is expected, such as the Western Balkans Investment Framework (WBIF), IPA II and others.

2. Fast traffic route along Montenegrin coast-coastal variant of the Adriatic-Ionian corridor

The Spatial Plan of Montenegro until 2020, the Transport Development Strategy of Montenegro (2008-2018) and the Strategy for the development and maintenance of state roads provide for the construction of fast traffic route along the coastline from the Croatian border to the border with Albania, a length of about 110 km. Building fast traffic route along the coastline, would enable modern, continuous and cost-effective road traffic of gravitating regions for passengers and goods, would service the needs of tourism, relocate existing flows from the coastal towns, by bypassing them, and would have important positive effects on environmental protection. The country has performed a pre-feasibility study, and taken the high value of the project, of about € 1.0 billion, the project should be realized through several phases, primarily by

construction of bypasses around the coastal towns. Currently, there is a strong need to overcome traffic congestion around the coastal towns, which is multiplied during the summer tourist season, when the lanes during peak hours have more than 30,000 vehicles/day. We should also take into account the volume of investments that are realized on the Montenegrin coast, and the need to create high-quality transport accessibility, to valorize the built potential, and thereby affect the country's economic recovery. Bypasses that would have a very quick return on investment due to the volume of traffic are those around Budva and Herceg Novi.

On 12 December 2014, the finance contract was signed (donation) between KfW and the Government of Montenegro for a feasibility study of construction of priority bypass on the Montenegrin coast (SEETO line 1). For the purposes of this project, KfW has approved funding (donation) in the amount of 435,000.00 euros to be used exclusively to finance the development of two-phase Feasibility Study for priority highway on the Montenegrin coast. Completion of the same is expected in 2016. Feasibility Study will prepare the building of the first priority bypass for the Montenegrin coastal towns of Herceg Novi, Budva, and Bar. Bypasses are on SEETO direction 1 and are part of the fast road along the Montenegrin coast that runs from the Croatian border (Debeli Brijeg) to Bar.

3. Rehabilitation of 250 km of national roads

The road network in Montenegro consists of state roads (main and regional) and municipal roads (local roads and streets in residential areas). Length of main and regional roads in Montenegro amounts to 1,782.8 km, of which 931.9 km are motorways, 850.9 km regional roads. Length of municipal roads is 4,570 km. The Ministry of Transport and Maritime Affairs and Transport Directorate rehabilitated and modernized a whole range of roads, which created conditions for faster and safer flow of people and goods, and the overall impression of the condition of the transport infrastructure has significantly improved. Over a hundred projects were implemented (construction of new roads, repair of bridges and tunnels, rehabilitation of asphalt, renovation of slopes, construction of lanes for slow vehicles, reconstruction of intersections, construction of protective galleries, installation of traffic safety, etc.). All the above mentioned had an impact on higher quality, more comfortable, more economical and safer traffic and hence better accessibility of Montenegro as a tourist destination. Confirmation of increasing road traffic safety is the reduction in traffic accidents, especially road accidents with killed persons.

Plan of regular and investment maintenance, reconstruction and construction of state roads in 2014 predicted works to be funded through the program and capital budget of the Transport Directorate. Of the total amount of planned funds for the execution of works in the budget for 2014, 76.53% was spent, since part of the program was not implemented due to unrealized tender procedures envisaged for 2014.

In 2015, under the Plan of regular and investment maintenance, reconstruction and construction of state roads 44,200,000.00 euros will be invested.

Transport Directorate has prepared a Program of reconstruction of highways in Montenegro for the period from 2015 to 2018. In the fall 2014, activities have started on the preparation of project documentation for a total of 24 roads. The first projects for certain roads have been completed and the final deadline for the completion of all projects is mid-2016. This program includes 24 projects, whose implementation would provide for the reconstruction of 216.30 km of highways. The total estimated value of all projects is €120 million. As part of this program in the period 2016-2018 other sections of highways have been identified for which to complete the project documentation, and the works would be realized in the period from 2019 onwards.

4. Continuation of work on reconstruction and modernization of the railway Bar-Vrbnica

According to the strategic plan, in 2014, the work continued on projects of overhaul the Vrbnica-Bar railway, which is financed from loan funds from the EBRD, EIB, the Instrument for Pre-Accession Assistance and the Budget of Montenegro. Result of investment is about 40% of repaired Vrbnica-Bar railway, which

contributed to an increase in security, traffic flow in projected speeds, and reducing travel times and train delays. In 2014, a number of projects were realized which include the drafting and revision of the main projects for the rehabilitation of steel bridges, preparation of technical documentation for design and construction works to dismantle the existing and installation of new electrical traction plant Trebješica, and works have started to: prepare project documentation for rehabilitation of 12 pitches, making the main project for the modernization of electronic signal in the station Podgorica and examination of 91 concrete bridges. According to dynamic plan, the development of the above-mentioned project documentation should be completed by the end of 2015.

In the period ahead to 2018: realization of the project of rehabilitation of the bridge Trebaljevo, overhaul of the railway Kolašin-Kos, overhaul of the railway Kos-Trebješica, rehabilitation of 3 tunnels and 4 steel bridges, installation of the heater switches and detailed design for the rehabilitation of 10 slopes.

5. Modernization of the Port of Bar and revitalization/expansion of the merchant fleet

Upon completion of the privatization process "Container Terminal and General Cargo" Bar, the conditions were created for its modernization. Company Global Ports from Turkey, the only bidder, signed the agreement on concession and the sale of shares and the company in January 2014 overtook the control of the company. The purchase price amounts to € 8,071,700.00. An investment of €13.5 million is predicted for the port equipment, infrastructure and superstructure, in the first three years, while for the other five years projected investment amounts to € 7.5 million if increase in the volume of work progresses as planned. In the period January 2014 - June 2015, € 1,658,317.25 is invested in the port infrastructure, and the remaining amount of € 13.5 million is planned to be invested by January 2017.

To solve social program for redundant, in accordance with the collective agreement "Container Terminal and General Cargo" Bar envisaged €6.5 million, of which € 4,168,600.14 was realized in 2014. AD Luka Bar has raised a loan of € 3.2 million with repayment period up to 2021 and it is in general used for the acquisition of equipment (mobile harbor cranes and terminal devices).

In the framework of the revitalization/expansion of the merchant fleet in 2014, the construction of two ships "Bar" and "Budva" was completed for the needs of JSC "Barska plovidba". Ships are the type bulkcarrier "Seahorse" 36,000 GRT (eco type), whose technical characteristics and capacities fully meet the needs of today's maritime market. Funds for their purchase were provided from the credit of EXIM Bank, in the amount of 46.4 million US dollars,²⁴ for which the guarantee was given by the Government of Montenegro. Prioritizing the maritime economy in the Montenegro development concept is a logical continuation of activities, from the standpoint of the rich historical maritime tradition and the fact that Montenegro now has more than 4,500 sailors.

6. Modernization of airports in Podgorica and Tivat

Montenegrin airports in 2014 recorded an increase in passenger number by 3% compared to 2013. The Tivat Airport in the aforementioned period recorded an increase in passengers flow by 5%. Bearing in mind that the volume of traffic, when it comes to the number of passengers and aircraft operations at the airport Tivat in recent years exceeds optimistic expectations defined by the Master Plan of Development of the Airport until 2030, there was a need to redefine the sequence of the objectives set in this strategic document. In this regard, it was decided to immediately start with the construction of a new terminal building at the Tivat airport, as well as the reconstruction and expansion of maneuvering areas, which should be completed by April 2018.

²⁴ (€ 35.1 million according to the current exchange rate of the Central Bank of Montenegro as of 24 December 2012)

In order to realize these infrastructure projects, the management of airports in Montenegro went into negotiations with the European Bank for Reconstruction and Development, with the aim of providing possible loan funds. The Government of Montenegro at its meeting of 29 January 2015, adopted the Information on the negotiations in order to harmonize the Mandate letters between the Airport of Montenegro and the EBRD, which created the conditions to embark on negotiations on this issue. Estimated value of the project for expansion and reconstruction of the maneuvering area and apron at the Tivat Airport is € 12,299,827.00, while the estimated value of the investment to build a new terminal building at the Tivat Airport with infrastructure is € 17,228,000.00.

It must be noted that another project is in announcement when it comes to Tivat Airport, the reconstruction of the air traffic control tower, which should be completed by the end of April 2016, and which will improve conditions for the safe and efficient operations at the Airport. Estimated value of the investment is € 4.5 million.

Proposed measures

In the future, it is planned to implement the following measures:

- activities for the realization of projects for the construction of two highways Bar-Boljare and the Adriatic-Ionian highway;
- fast roads along the coastline, coastal variant of the Adriatic-Ionian corridor;
- rehabilitation of state roads;
- continuing the reconstruction and modernization of the railway Bar-Vrbnica;
- modernization and revitalization of the Port of Bar/expansion of the merchant fleet;
- modernization of airports in Podgorica and Tivat.

Structural reforms

The development of the transport sector should be seen as part of overall economic growth and development and, in this respect, in the future, we should focus on: improving spatial planning with maximum consideration of the requirements to protect the environment; achieving greater coordination in planning and investment choices in order to achieve compact transport system appropriate for the requirements of modern customers; and increase the respect for the principle of "just in time" in order to raise the level of competitiveness; the development of intermodality, and on removing bottlenecks. Also, it is necessary to continuously carry out activities aimed at strengthening and improving the staffing capacity, supervision over the implementation of legislation, and evaluating the impact of regulations in terms of accession to the European Union.

Indicative strategic document of Montenegro for IPA 2014-2020, which was adopted in August 2014, for the transport sector envisaged indicative allocation of financial resources for national programs in the amount of € 32.1 million for the period 2014-2020. In line with national IPA 2014 two action documents have been proposed and adopted for the transport sector (Development of a road network database and assessing safety programs; Rehabilitation of the railway section of Kos-Trebješica, the total value of both projects is € 5,818,000), of which € 5,175,300 will be provided under the Instrument for Pre-accession support. In the forthcoming period, the Operational Program 2016-2020 will be prepared, which, in addition to the transport sector, includes sectors: 1) environment and climate action, and 2) the competitiveness and innovation, which will more closely define the concrete measures for that period.

2.2.6. Construction and housing

Construction

Construction is a key sector for the economy as a whole and has a big impact on employment. The importance of construction in a broader sense, its multiplicity in terms of other ancillary and related activities, its significant share in the country's GDP, which can significantly increase during the period of significant financial investment in capital projects, fully justify the need to treat it as one of the strategic sectors of economy development.

The vision of the construction development is the integration of Montenegro into the European construction market, by getting among four leading countries in the region.

In the previous period, significant legislative reforms have been made in the field of building construction, which greatly contributed to improving the business environment and better positioning Montenegro in the World Bank's Doing Business Report.

The reforms were related to the streamlining of procedures, shortening the deadlines, as well as reducing costs in the process of issuing building permits.

Implementation of measures/actions identified in the Development Directions 2013-2016

The information system to support spatial planning, urban planning and construction supports a set of processes directly related to the space and facilities in the territory of Montenegro and the reliance on a single GIS database, operated by different GIS client tools and application programs aligned with the individual needs of the Ministry of Information Society and Telecommunications. GIS database subsystem contains all the information about the elements of space, including geometric, topological and descriptive data. Within a single base there are all the necessary connections between the elements of space, the documents relating to them, as well as data that define their characteristics, status and events over time. The unique database is organized to ensure the performance of processes within the information or business systems of the Ministry.

Space Information System is implemented using standard software platform solutions of manufacturer Autodesk (Autodesk Administrator and AutoCAD Map 3D).

On the basis of Arts. 29 and 74 of the Law on Spatial Planning and Construction, the Ministry of Spatial Planning and Environmental Protection adopted the "Rulebook on the form and content of the planning document, the criteria for land use, urban regulation elements and unique graphic symbols" (data model MonPlanGML was made). Spatial database was defined based on the model MonPlanGML, which is a prerequisite for the full implementation of the said Rulebook.

In 2014 geoportal GISPLAN was put into operation which published state planning documents, and the GIS database of the Ministry of Sustainable Development and Tourism was formed (for graphics data, facility data are defined).

Within the IS realization, the next global business processes are semi- automated:

- issuing urban-technical requirements for facilities under the jurisdiction of the Ministry;
- issuance of building permits for facilities under the jurisdiction of the Ministry;
- issuance of use permits for facilities under the jurisdiction of the Ministry.

Information system allows to monitor and report on the degree of realization of individual business processes, and statistical reports on business processes and their activities, space objects and documents.

In early 2015, the letter preparation procedure was automated for a letter to be sent to the competent institutions in order to obtain opinions, requirements, approvals. The integration of the documentation basis with the space subsystem was also completed (forming graphic attachments which are an integral part of the process of issuing Urban and Technical Requirements). A web service was established for data exchange with the Chamber of Engineers, which is realized through the authentication and verification of authorizations for planning, design and construction.

The Ministry of Sustainable Development and Tourism adopted the Rulebook on the content and manner of keeping the Central register of planning documents and the Rulebook on the content and manner of keeping the Register of technical documentation and audit reports. The technical implementation of the said Rulebook/web application is in progress, through which planning documents will be published and technical documentation described, with attributes (detailed content of the planning document-entry number, date of registration; the name of the planning document (national or local) and the decision on the adoption of the planning document, name and headquarters of the processor of the planning document; area of the project planning document; planning document in digital form; remarks/i.e. the number of building permit or any other administrative act; the name of the investor, the location information (planning document, urban land, cadaster land); data on the type and purpose of the facility; details of the technical documentation based on which a building permit is issued (preliminary or main project); data on the company, legal person or entrepreneur that has developed technical documentation, information on the leading designer and responsible designer; information on the audit of technical documentation, information on the auditor of technical documentation. Commissioning of these registers is planned for September.

The drafting of the Law on Spatial Planning and Construction is in progress. This Law is planned to introduce electronic commerce in the area of planning and construction.

The existing legal framework and implementation were not effective enough to improve the business environment and create favorable conditions for investment, and to eliminate restrictions, while the procedure for obtaining building permits was inefficient and expensive, so during 2014 changes were made to the legislation in the field of construction of facilities, and the *activities to improve the implementation of the system of "one stop shop" implemented.*

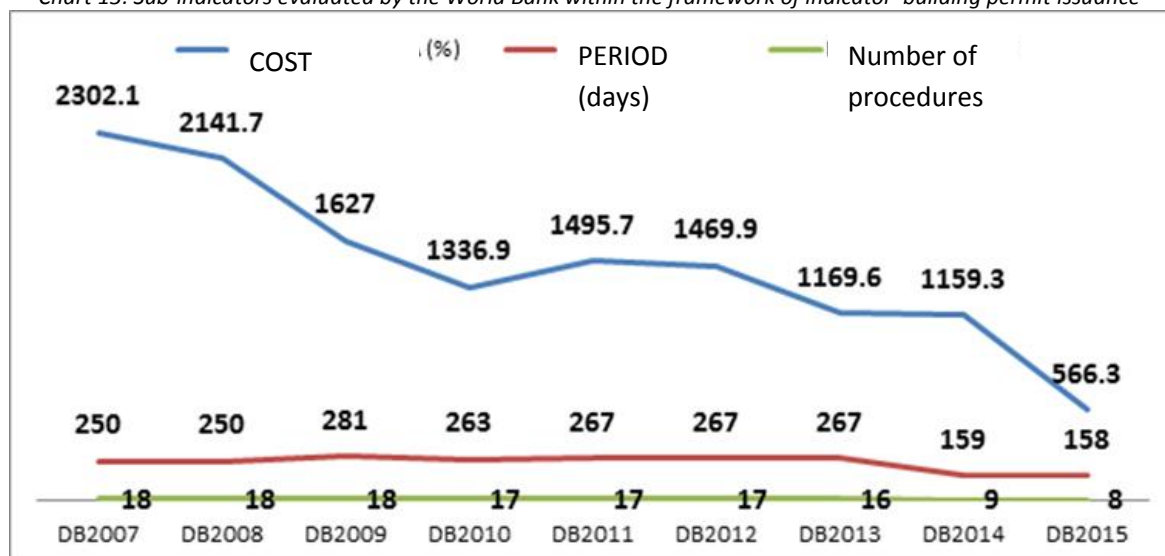
In legislative terms, progress has been made in this area, but the application of the mentioned system in practice was inadequate. That the practice has not followed legal provisions was recorded by the World Bank in its Doing Business Report for 2012, which is why the work of local governments responsible for issuing urban-technical requirements and building permits was monitored. In parallel with the monitoring, the training of employees was done at the local level, in order to eliminate negative phenomena in practice.

The reforms in the legislative part related to the finances, so that one part of facilities being built was exempt from the fees for communal equipping of buildable land.

By the latest amendments to the Law on Spatial Planning and Construction of 2014, reforms have continued, so that in the Doing Business 2015 Report, the number of procedures reduced from 9 to 8, and costs of € 60,869 have been reduced to € 29,736, i.e. from 1.159,3 % to 566.3% of income per capita. Within the indicator 'building permit issuance' Montenegro has advanced 27 places from last year's revised 165th place to 138th.

Reform efforts of Montenegro in these aspects have been identified, among others, by the World Bank, in particular through the Doing Business Report. Thus Montenegro in the last report (Doing Business 2015) in the overall business environment was ranked 36th out of 189th countries, which makes the progress of 6 places in comparison to the report of the previous year. These efforts are continuing and progress is constant, which is indicated by the present position in comparison with 90th place of 2008.

Chart 13: Sub-indicators evaluated by the World Bank within the framework of indicator 'building permit issuance'



Bearing in mind that during the monitoring of the operations of the local administration - application of the "one stop shop" it was concluded that there are problems in the implementation of these legal solutions in 2014, a number of workshops were held for the local authorities, as well as the institutions involved in the process of issuing construction permits, in order to identify problems and propose solutions to overcome them.

Eurocodes are European standards for the calculation of building structures and represent a unified design rules which differ only in part of the National Annex, providing specific national parameters.

The Government of Montenegro in 2014 adopted an Action Plan for the Adoption of the Eurocodes, as well as the Action Plan for Implementation of Eurocodes, which is the result of the project "Achieving the highest degree of safety and technical quality of construction" funded by the Instrument for Pre-Accession Assistance.

Action Plan for the Adoption of the Eurocodes in Montenegrin language earmarked funds amounting to € 1,042,796 for the drafting and adoption of National Annex for certain parts of the Eurocodes, to be performed in 5 years (2014 - 2019).

In 2014, in accordance with the Resolution of the Government, the Ministry of Sustainable Development and Tourism has concluded an agreement with the Institute for Standardization of Montenegro. The subject of the contract is the adoption of Eurocode 8, part 1 in the Montenegrin language, as well as development and adoption of the National Annex to Eurocode 8, part 1.

By the end of 2014, the Institute for Standardization of Montenegro has adopted the Eurocode 0 with National Annex in the Montenegrin language, as well as Eurocode 1 and Eurocode 8 in the English language. It adopted Eurocode 8, part 1 in the Montenegrin language, as well as the National Annex to Eurocode 8, part 1.

The Draft Eurocode 1 Parts 1, 3 and 5 has been prepared with National Annexes in the Montenegrin language.

The development of building materials industry in Montenegro should be aimed at providing product placement not only in domestic but also in the European market. This inevitably imposes a need for the construction industry products to meet the requirements of Regulation No. 305/2011 of the European Council and Parliament **laying down harmonized conditions for the marketing of construction products**

and repealing Council Directive 89/106/EEC, which requires the creation of a completely new building and technical legislation.

The Law on Construction Products, which partially transposed the regulation, was adopted in 2014, with delayed effect of January 2017, in order to prepare the infrastructure to implement the law.

In accordance with this Law, three bylaws have been adopted:

- Regulation on the format and content of the statement about the properties of building products;
- Regulation on the marking of construction products; and
- Regulation on the content of construction products evaluation system.

Proposed measures

The aim of the construction sector of Montenegro is to become a dynamic, productive and creative sector, which has the ability and flexibility to create a cohesive building community in its environment, which will represent a support for generating wealth and creating benefits in the society, on whose foundations to build growth, together with the other parts of the society.

Proposed measures in the implementation of these goals include:

- The development of information systems that integrate all the information on spatial planning and construction of structures;
- The continuation of activities on the implementation and development of "one stop shop" in construction – the introduction of electronic commerce in the process of issuing building permits;
- The continuation of activities on the adoption of Eurocodes, as a national standard for the design of structures;
- The continuation of activities on the adoption of national rules for construction products, in accordance with EU legislation.

Structural reforms

Respecting all the divergence and the number of sectors influencing the development of construction, we must inevitably emphasize that if investments represent a skeleton of the construction development, then it is certain that rules and regulations represent the foundation.

Inseparability of the planning/ design process, from the cadastre based on the technology that provides the functions necessary for GIS jobs, is one more basic principle to be followed.

The development of construction industry materials based on principles of sustainable development is a very important segment in the construction sector. Considering the fact that Montenegro has a large number of mineral resources that represent main raw material for the production of building materials, that the reserves of the same are in impressive amounts, that quality is also satisfactory, it is a logical conclusion that we should seriously address this issue in the future. This is especially true of marl, architectural - building stone, clay and technical - construction stone. It's hard to explain why Montenegro has no cement production, manufacture of brick products, distinctive production of ornamental stone and products made of it, although it has reserves that deserve it. A similar view is also with wood, aluminum and iron, for the manufacture of certain products and components used in construction. Forcing the production of building materials based on natural resources, which are presently being imported in their entirety, is from every aspect a legitimate government move. When it comes to technogenic mineral raw materials (red sludge, flotation tailings of lead-zinc ores, slag and ash, etc.) the same deserve attention, especially from the point of removing this waste, but it is first necessary to determine their usability in a detailed investigations.

The limiting factor for the development of Montenegrin construction are human resources - domestic labor force. In number and quality, we are lacking the labor force. Another problem is the age and qualification

structure of the workforce. We have not managed to persuade young people to prepare for construction through the secondary education. Enhancing the competitiveness of construction operations and creating an adequate structure of the workforce in the construction sector are clear lines of action and a good guideline how and where to start in the coming period in the construction sector of Montenegro.

Housing

Housing is one of the basic needs of people, which in different ways, directly or indirectly, affects all levels of existence, from individuals to different state levels. A home has a distinct economic nature as an immovable property of great value and durability, which in the construction phase encourages the production and employment, and in the exploitation phase contributes to increased labor productivity by creating better living conditions. Housing is, by its nature, very complex and cannot be left to the free formation of prices, based on economic principles.

In the previous period of transition of Montenegro into a market-oriented society the new guidelines in the field of housing and urban development are defined, including measures and actions to improve living and working conditions of the population in human settlements, preserving the value of assets and encouraging development in the construction and other activities.

Housing shortage caused the phenomenon of informal construction. This situation is largely the result of insufficient and inadequate planning documentation, demographic processes, economic status of the country and population, planning "under-coverage," inadequate supervision (state and local), inadequate administrative capacity, lack of accountability of informal builders for state property, etc.

Informal construction in the long term permanently changes and destroys the space and directly reduces, both current and future development opportunities. A significant problem in Montenegro is informal construction on the most attractive areas along the coast, in protected natural areas, where it happens that informal construction is not to solve existential issues, but to provide tangible benefits, mainly at the expense of public interest and by endangering public properties.

One of the key objectives of urban development is to preserve the space as a national treasure, and in this regard the halting of illegal construction and legalization of buildings by observing the principles and objectives of adopted international documents, which is an important part of sustainable development policies of each country. Space and environment, with all their resources and elements, are limited and often non-renewable and are the natural basis of life and development.

Sustainable housing sector plays a significant role in promoting environmental protection, addressing climate change and accelerating economic growth. Its social component is notable, in terms of combating poverty and achieving social cohesion.

Implementation of measures/actions identified in the Development Directions 2013-2016

In the area of housing the following objectives are identified:

1. Integration of illegally constructed buildings in the formal housing sector. A large part of the sector of residential and non-residential buildings is currently lead through informal structures. This contributes to reduced quality and safety of housing due to insufficient labor skills, royalty-free building materials and uncontrolled building. A significant part of public revenues go missing. For the purpose of regularization and valorizing Montenegro's space, as the most important resource of the country, we have carried out a series of activities aimed at preventing its further devastation in the past.

Since the Law on legalization of informal buildings has not been adopted, no conditions for the implementation of the planned measures have been created. However, work has been done to create the preconditions for the beginning of the process of regularization: the pilot project DUP Bjelila Rutke Gorelac

is in the course of the implementation in the municipality of Bar, azimuth recording of the territory of Podgorica was completed and territories of the mentioned DUP in Bar municipality, funds have been allocated for the implementation of communication campaigns, in support of the legalization process. Also, there is a continuous cooperation with representatives of relevant government bodies, the Union of Municipalities of Montenegro, judicial authorities and representatives of the parliamentary groups in order to improve the legal text. Given the importance of this legal act and the consequences that its application will have on a large number of citizens of Montenegro, we need to reach a consensus on the largest number of issues with all relevant institutions and thoroughly consider all suggestions and comments on the proposed text, whether they concern the procedure or the scope of application. In order to find workable solutions, after a series of consultations with representatives of these institutions, it has been started with the amendments to the Draft Law.

Following the adoption of the Law, the process of legalization of informal structures will begin, which must be efficient, and which will significantly increase the revenues of the budget, through the collection of fees for communal equipping of buildable land and fees for legalization, but also through the collection of revenues from taxes on real estate;

2. Ensuring non-discriminatory access to affordable and safe housing. Households with no income or very low income and households from disadvantaged communities are faced with the problem of access to affordable, safe and healthy housing. The current offer of apartments (about 740) for social categories of the population cannot meet the demand;

3. Improving the quality of facilities for collective housing. Facilities that house more families often have no management bodies, which influences the behavior of the owners of dwellings, in terms of avoiding the necessary investment, which leads to a deterioration in the quality of housing. There is no sufficient competition in the provision of maintenance services for residential buildings.

Lack of funding is one of the major challenges for sustainable social housing system. The concept, policy and criteria of social housing are defined at the state level through the social housing program, whose implementation period is three years. Elaboration and implementation of these policies shall be governed at the local level and concretized through the adoption of local programs of social housing of local government units.

Social housing program was adopted in 2014. One of the most important issues this document recommends is jurisdiction over the management and maintenance of housing stock, that is, objects of social housing and facilities which will be build in the future for these purposes, and the obligation of local governments to provide maintenance and management of housing stock. Also, it is essential that all local government units audit and analyze the existing housing stock, because only by establishing ownership over existing stock of municipalities the number of housing units available to each local government can be determined, and on the basis of that information risk assessment and analysis of housing needs can be conducted.

It is necessary to introduce the principle of sustainability of the housing stock, which presupposes the introduction of cost approach in determining the amount of the rent. Sustainability is the ability of a system to work in the long run. In this sense, we must provide the material basis for resolving housing issues for the next generations, and in the social housing programs, whether implemented by the country or local government units, it is necessary to show all the actual costs of acquiring and using an apartment, and on that basis determine ways of adjusting prices of housing, or rent to end users.

The recommendation of the state program is that the planning and implementation of the program, taking into account balanced regional and overall economic and social development, must necessarily focus on development projects in the north of Montenegro, in order to reduce migration from the northern municipalities in the southern and central region of Montenegro.

Achieving social cohesion and social solidarity, assistance of the state and local governments in the provision of housing for people who do not have a flat, and who cannot provide themselves housing facilities, improving the quality of life of citizens, especially members of vulnerable social groups that cannot solve the housing needs on the market, reduction of poverty and exclusion, are basic objectives of the housing policy.

Planned measures are implemented continuously through the implementation of the projects meeting the housing needs of the target groups defined by the Law on social housing and social housing programs.

4. Competition in the provision of professional services for the maintenance of residential buildings. It is necessary to ensure competition in the field of maintenance of residential buildings, to create lower prices and better quality of maintenance.

5. Higher standards in terms of energy efficiency and greater use of renewable energy sources in residential buildings. Existing housing facilities generate low standards that stimulate the energy efficiency. The use of renewable energies in housing is rare, contrary to the EU standards.

Promotional program for start-ups that offer professional services for improving energy efficiency and use of renewable energies in housing was proposed in the Development Directions in order to meet energy efficiency measures and energy savings. A new measure is a promotional activity for the development of businesses in housing - providing professional services for maintenance of residential buildings, which would contribute to lower prices and better quality of maintenance in residential buildings.

During 2014, workshops were held for officials of local governments, representatives of companies engaged in the provision of maintenance services, representatives of the management in residential buildings and inhabitants thereof. With the support of LAMP project, which is being implemented in cooperation with the World Bank, the distribution of promotional materials was made to all the organs of management of residential buildings in the territory of Montenegro and companies which provide professional services in this area.

The drafting of the new Law on Housing and Maintenance of Residential Buildings has started, as well as providing the necessary preconditions for the implementation of media campaigns in order to raise awareness of tenants of buildings on the formation of management bodies and preservation of housing stock, and to support the establishment of companies which will deal with the provision of professional services in this field.

Proposed measures

- integration of illegally constructed buildings in the formal housing sector;
- defining standards of human living and ensuring non-discriminatory access to affordable and safe housing;
- encouraging housing construction;
- promoted, organized and effective sector management, allocation and maintenance of existing housing stock;
- establishing a legal and institutional framework towards harmonization with EU regulations;
- increasing safety in the sector of leasing of apartments;
- development of modalities of public-private partnerships in the housing sector.

Structural reforms

Priority objectives are:

- regularize (legalize) and improve informal settlements in a sustainable way and prevent future informal settlements;

- enable greater availability of housing and the provision of quality housing stock for the citizens of Montenegro, through the establishment of the housing market and the definition and implementation of procedures for the citizens who belong to vulnerable groups.

Problems of solving informal settlements require an integrated, comprehensive strategic approach and the activation of the community as a whole. The regularization of informal structures will make of their users individuals with equal rights. As such, residents of a city should enjoy the same opportunities to exercise their right to an adequate standard of living and access to services, as well as anyone else in the city and meet the same obligation to respect the laws, pay taxes and user fees.

Sustainable urban management requires that informal settlements are integrated into the social, economic, spatial and legal framework, particularly at the local level. Efforts to a successful regularization contribute to long-term economic growth and social equity, cohesion and stability.

The state should actively engage in the implementation of housing policies. Through the lending policy the state should encourage the construction and purchase of apartments, in order to reduce the share of housing costs in household income. In the housing policy the financial system has two key elements, namely: the sources of funds and institutions. These two elements form a whole, because without adequate resources, there is no formation of various financial institutions. At the same time, the system of housing finance forms part of the overall financial system and cannot be considered independent.

Housing market presupposes an appropriate financing system, i.e. the existence of various banking and non-banking institutions, sources and ways to raise funds. However, due to discontinuities occurring in this area, by abolishing the compulsory allocation of funds for housing construction in late 1991, and the poverty of the economy and part of the population, which are potentially major sources of savings, the directions of further activities should be:

- developing financial mechanisms (dedicated savings, mortgages, securities and shareholding);
- developing financial institutions, savings, etc;
- developing national incentive mechanisms.

2.3. INCLUSIVE GROWTH

Inclusive growth means increasing the rate of employment (more jobs and better jobs especially for women, young people and older workers), with the inclusion of people of all ages to participate and manage changes by investing in skills and training, modernization of the labor market and social protection system, taking into account EU standards. The EU's goal for an inclusive growth is:

- The employment rate of women and men, between 20 and 64 years, until 2020 should amount to 75%, which can be achieved by greater involvement in the work, particularly women, youth, the elderly and highly qualified workers and legal migrants;
- Better education, through:
 - Reducing drop-out rates to below 10%;
 - At least 40% of the people between 30 and 34 years, which end tertiary education (or its equivalent); and
 - 20 million fewer poor people, and those socially excluded or those at risk of poverty.

To achieve these goals, the EU has started with two initiatives:

1. Agenda for new skills and jobs, which includes:
 - For individuals - assistance for the acquisition of new skills, adaptation to changing labor market and the implementation of successful career changes; and
 - Collectively - the modernization of the labor market with the aim of raising the level of employment, reducing unemployment, raising labor productivity and ensuring the sustainability of social models.
2. The European Platform Against Poverty provides:

- Economic, social and territorial cohesion;
- Respect for the fundamental rights of the poor and socially excluded, enabling them to live with dignity and be active participants in society; and
- Assistance for the integration in the communities where they live, providing training and assistance to find work and access social benefits.

In the context of inclusive growth, Montenegro needs further strengthen employment, education and training, as well as social welfare system, increase working population and reduce structural unemployment. Also, of great importance is the implementation of the flexicurity principles and enabling people acquire new skills to adapt to new conditions and potential career changes. Also, additional efforts should be made to combat poverty and social exclusion and further improve health, to ensure that all people benefit from economic growth. An equally important challenge is to promote healthy and active aging in order to achieve social cohesion and higher productivity.

Table 10. Main objectives related to inclusive growth

The labor market	<ul style="list-style-type: none"> • Increase employment and reduce unemployment
Education	<ul style="list-style-type: none"> • Increased number of children in pre-school education • Improved student achievement on PISA • Increased number of students of RE population and other vulnerable groups • Increased participation of adults in lifelong learning programs
Sport	<ul style="list-style-type: none"> • Improving the quality of sport
Social protection	<ul style="list-style-type: none"> • A greater degree of social inclusion and improved social and child protection • Stable pension system
Health	<ul style="list-style-type: none"> • Provided comprehensive, accessible, safe, high-quality and timely health care
The funds necessary for financing the "inclusive" projects / development measures identified in DD	<ul style="list-style-type: none"> • Total: 54.74 mil. € • Domestic budget: 46.20 mil. € • Loans: 5.03 mil. € • EU: 3,50 mil. € • Private funds: 0.01 mil. €

2.3.1 Labor market policy

Employment policy covers all aspects of economic policy that have direct or indirect impact on the labor force and employment (fiscal policy, education policy, regional development policy, entrepreneurship development policies, social policies, etc.).

Strategic development framework of labor market policy of Montenegro is harmonized with the obligations in the EU accession process. In this respect, the structural reforms implemented in the labor market are directed towards aims defined by the Strategy "Europe 2020". In doing so, we have taken into account the negative effects caused by the economic and financial crisis, as well as the expected benefits of the participation of Montenegro in programs financed by the Instrument for Pre-Accession Assistance (IPA).

Implementation of measures/actions identified in the Development Directions 2013-2016

The measures and activities in the previous period were made in accordance with the National Strategy for Employment and Human Resources 2012-2015. The overall objective is to create better conditions for job

creation and, in parallel, raise employment levels and improve economic competitiveness of Montenegro, through investment in human capital.

Priority objectives for the labor market policy within the Strategy and other established policies, put in the context of inclusive growth (increasing employment and reducing unemployment, improving skills and competencies in order to increase employment opportunities and promote social inclusion and poverty reduction) have been implemented, among alia by:

- stimulating employment growth by improving the business environment and labor market management, in order to achieve an appropriate balance between flexibility and security within the labor market;
- increasing the effectiveness of active employment policy measures, with particular attention to the integration of long-term unemployed, young people and women;
- encouraging self-employment and entrepreneurship; and
- improving the integration of persons with disabilities and other vulnerable groups in the labor sphere.

As part of the measure to improve the business environment and labor market management in 2014, **Labor Law** has been revised, by specifying the exercise of rights for unpaid contributions for pension and disability insurance for persons who are eligible for retirement in terms of age and years of service, which right cannot be realized because the employer at the time of the employment relationship has not been paying contributions for pension and disability insurance, through the Labor Fund, an institution whose scope of work includes the obligation to make payment of outstanding claims of employees based on the employment relationship with the employer due to bankruptcy if claims are not paid or are partially paid, and the conduct of proceedings and deciding on the exercise of the rights of employees.

General Collective Agreement, which was signed on 20 March 2014, in the tripartite social dialogue elaborated in detail certain provisions of the Labor Law (annual leaves and absences, wages, disciplinary responsibility, working conditions for trade unions). Easier letting down of employees has been enabled, through the introduction of provisions relating to termination of employment. By signing the General Collective Contract, employees can realize the full scope of rights from labor.

The main reason why the Law on Volunteerism was reviewed (in 2014) was the improvement of the provisions relating to the provision of the rights of international volunteers at the cost of housing, training and return to their country of origin. Penalties for violation by the organizer of voluntary work have been stipulated, if failing to respect the obligations stipulated by the Law.

Revision of the **Law on peaceful settlement of labor disputes** in 2014 related to compliance with the amendments to the Labor Law and the Law on trade union representativeness. Changes in the law have revised provisions relating to: the scope of the Agency's work, management bodies and the scope of their activities; defining what is considered a collective labor dispute and who is considered a party to the dispute; precisely defining the scope of an individual labor dispute; improving the provisions relating to the definition of the role of mediators and arbitrators in collective and individual labor dispute; prescribing the possibility of creating temporary and permanent working bodies, as need be; conciliation procedure in individual disputes and collective disputes, costs and record keeping in the Agency.

Measures of active employment policies are implemented through the Employment Office as follows: through programs of education and training in cooperation with the organizers of education, which included 1,551 unemployed persons; through public works programs which employed 879 persons; programs of professional orientation and through a program of seasonal employment, through which 8,944 persons were employed.

In terms of measures relating to **stimulating entrepreneurship through the loans for hiring unemployed persons** during 2014, 44 loans were approved, which provided the opening of 52 new jobs, of which over

35 (79.55%) were loans for the unemployed, 8 (18,18%) are loans intended for legal entities, and 1 loan (2.27%) for entrepreneurial activity.

An integral part of the Innovative self-employment program is education in entrepreneurship. The training program consists of two segments: Encouraging self-employment and the provision of basic knowledge of entrepreneurship. In 2014, a program "Virtual Enterprises" was attended by 45 unemployed persons.

The Regulation on subsidies for the employment of certain categories of unemployed persons has also been applied. When it comes to improving the integration of persons with disabilities, the allocation of subsidies for the employment of persons with disabilities is continuously implemented, and at the end of 2014, 71 employers qualified for wage subsidies for 89 employees with disabilities. 81 persons with disabilities were included in programs of vocational rehabilitation.

The measures and activities carried out in the past have had a positive effect on the labor market, which is reflected in the improvement of the business environment and labor market management. Measured by labor market indicators, the population activity rate (15-64) in 2014 was 61.6%, the employment rate 50.4%, and the unemployment rate 18.2%. Compared with the data for 2013, the activity rate increased by 2,7pp (from 58.9% to 61.6%), the employment rate increased by 3 percentage points (from 47.4% to 50.4%), while the unemployment rate decreased by 1.4 percentage points (from 19.6% to 18.2%).

Thus, the implementation of structural reforms in the preceding two-year period improved the area of labor market policy. However, it is necessary to further promote this area, so as to achieve higher employment.

Proposed measures

In order to create conditions for increasing employment and reducing the unemployment rate, with particular emphasis on the regional aspect, the following actions will be implemented:²⁵

- stimulating the creation of employment and boosting competitiveness by improving the business environment in order to increase the demand for labor;
- increasing the efficiency of active employment policies;
- further integration in employment of persons with disabilities;
- involvement and activation of socially vulnerable groups in the labor market;
- increase the formalization of informal employment (gray economy).

Structural reforms

Although the **legislative framework** related to the labor market and employment, was in general, significantly improved and reformed in line with the recommendations of the EU, we still need to work on harmonization with the EU acquis, conventions and recommendations of the International Labor Organization that Montenegro verified.

In this sense, it is planned:

- to adopt the new Labor Law (by the fourth quarter of 2017, and it shall apply from the fourth quarter of 2018);
- adopt the new Law on Employment and Rights of Unemployment Insurance (up to the fourth quarter of 2017, it shall apply from the third quarter of 2018).

When it comes to the **strategic framework**, it is planned to adopt the new National Strategy of Employment and Human Resources Development 2016-2020 (until the end of 2015).

²⁵ The measures and activities are in line with the Guidelines of employment policies of the Member States Part II the Integrated Guidelines

2.3.2 Education

The measures and activities in pre-university education aim at establishing a high-quality, flexible education system, allowing every individual equal opportunity for personal and professional development and social inclusion.

The education system in Montenegro is made of preschool, primary, general secondary education (high school), vocational education and higher education. The system consists of: 21 public and 13 private preschools; 163 public elementary schools; 47 public secondary schools (high schools, vocational and mixed schools) and one private high school; 3 resource centers, 80 licensed adult education organizations. Children with special educational needs are educated in classes of regular schools (first choice), special classes in regular schools (through joint teaching of certain courses with their peers in regular classes), the resource centers (as a last resort when it is the best and only child's interests); inclusive education follows the principles: a child in primary family; individual development and education program, and others.

Strategic documents in the field of education, which define priorities, measures and appropriate activities include: the development of vocational education in Montenegro (2015-2020), adopted in December 2014; Adult Education Strategy (2015-2025), adopted in September 2014, the Adult Education Plan (2015-2019), adopted in December 2014, as well as the strategy for lifelong entrepreneurial learning (2015-2019).

Implementation of measures/actions identified in the Development Directions 2013-2016

Public preschool education is organized in all towns in Montenegro and it takes place in independent public institutions or in educational centers and in primary schools. In public preschools in 2014 there were 15,755 children enrolled, aged 0 to 6 years.

In 2014, a new facility PPI "Dušo Basekić" was built in Bijelo Polje at the site of the former kindergarten, which has expanded significantly. In Bijelo Polje, in the last two years two modern buildings for preschool education have been built, which enhanced the physical capacity for the new 3,000 m². System of preschool education includes fifteen private preschools that have received a license to operate from the Ministry of Education. At the initiative of the UNICEF Office in Montenegro, a study on investment in early education for children in Montenegro has been conducted. The aim of this study is to examine the ways in which services of preschool education may expand to as many children, especially those from marginalized groups. For this purpose, they analyzed the current costs and financing of preschool institutions and prepared models to expand the coverage of children in preschool education.

Activity of preparatory kindergarten for children of Roma and Egyptian population has been implemented. The program is being implemented for the third year, reaching 8 public pre-schools and 119 children. Activities included contact with families, RE community, local authorities, the local Red Cross branches, centers for social work, schools which children will attend. Agency of Education has provided training and supported engagement of RE mediators.

The Government of Montenegro adopted the Strategy for the development and support of gifted students (2015-2019) with Action Plan (2015-2016). This Strategy is a contribution to the further development of the system of values of our society, as a way to clearly point to the importance of highly capable, gifted and talented students, the value of learning, dedication and work, which is to contribute to the development of society as a whole.

Measures and activities have been established on strengthening the entrepreneurial competence in pupils. The Ministry of Education in cooperation with the Agency of Education implemented the training by accredited program "career orientation in primary schools." For the first time elective course "Professional orientation" was found on the list of elective courses in primary schools in Montenegro. The project

"School without violence - safe school environment" continued in cooperation with the UNICEF Office in Montenegro.

The activities are aimed at improving student achievement in PISA (results analysis, development of a plan to improve student achievement).

As part of activities to improve student achievement in basic education, the Agency of Education organized courses for teachers of the Montenegrin-Serbian, Bosnian, Croatian language and literature, mathematics, chemistry, biology and physics in primary schools, whose theme is the uniqueness of the PISA project, its realization and results in Montenegro and how to fix them. During the first semester of school year 2014/2015, 10 one-day seminars were realized (three seminars on mathematical literacy, four seminars dedicated to science literacy and three seminars dedicated to the reading literacy). Seminars continued in the second half, in schools in all regions of Montenegro.

RE children at risk of dropping out are regularly monitored, proposed measures to overcome the problems, families visited and established a direct contact with them (teachers, professional associates of city schools). For the school year 2014/2015, 1,003 free sets of textbooks were provided for 1st, 2nd and 3rd grade and 46 children who attend classes in the fourth grade of the Regional Institution in Konik and 53 students who attend 5th grade in the city schools. Department of textbooks edited textbooks for Montenegrin language as non-mother tongue for the first, second, fourth, sixth and seventh grades. The textbooks are being developed for the third, fifth, eighth and ninth grades. Schools where desegregated education takes place received these textbooks. The implementation of the project "Scholarships and mentoring support for RE students and high school pupils in Montenegro" is in progress.

Proposed measures

In the area of preschool education the most important goal is to increase the coverage of children in preschool education. This will be achieved through:

- expansion, renovation and construction of the necessary facilities and the improvement of working conditions in the existing;
- preparation of short preschool curriculum that determines the content of continuous and occasional activities that can be organized once or twice a week;
- preparation for children aged five years that are not included in core preschool program - a program of preparation for primary school;
- introduced more flexible service models: the library of toys and books, interactive services for remote, rural areas.

In the forthcoming period, the construction of new preschool institutions in Podgorica will begin (in Block VI, Old Airport, Zagorič and Tuzi), as well as in Bar, Pljevlja and Ulcinj. Public campaigns about the importance of early childhood development and coverage of children in preschool education, especially in the north of Montenegro, will be conducted. The country will work on increasing the preschool education and upbringing of children from the most vulnerable groups, with emphasis on RE population children.

In the coming period, in the field of improving the quality of basic education, activities aimed at improved student achievement will continue, which will be reflected in better results on international tests (PISA). Planned measures, in accordance with the Action Plan to improve student achievement in PISA, are as follows:

- improving the methodology for determining the quality of work of educational institutions;
- improving the professional competence of teachers through training programs aimed at acquiring knowledge and skills for development: reading, mathematical and scientific literacy of students, as well as the successful implementation
- revising educational programs;
- improving teaching and extracurricular activities in the field of natural sciences;
- improving the assessment and evaluation of students' knowledge;

- improvement of textbook sets for primary school;
- improving the application of ICT in teaching;
- promoting the PISA tests aimed to increase awareness of students, professional and general public about the importance and benefits of PISA education policy.

2.3.3 Sport

In Montenegro, the sport is a constitutional category, and the law has recognized it as an activity of public interest. Sport system involves not only the development of professional sports (which is in EU documents recognized as an economic activity), but also the development of mass sports (sports for all), with special attention to students' sport. In this regard, strategic document of the Government of Montenegro (the National Program for development of sport) emphasized the social, educational and health values that sport represents. The competent authority, pursuant to the Regulation on the Organization and Functioning of Public Administration, is the Directorate of Youth and Sport, which performs duties aimed at implementing and improving the National Program for the development of sport. Directorate of Youth and Sport keeps the Register of sport organizations, by creating the necessary conditions for the establishment and operation of sports organizations. In this process, the Board cooperates with sports entities, especially encouraging the work of the Montenegrin Olympic Committee. In short, the commitment of the state is to create the necessary legal framework for the development of the system, taking into account the position of sport as an area of public interest. National program for the development of sport recognized the importance of the system of financing, bearing in mind the importance of sport for the nation's health, social integration and other values of general interest. The document recognized 'combined model' of sport financing including public funds (state and local budgets), companies and households. Of the total Budget of Montenegro between 0.2% and 0.3% is allocated for the development of sport. Combined model in practice has shown that the Directorate of Youth and Sport, local authorities and the Montenegrin Olympic Committee are funding sports entities (national sports associations, municipal sports associations, clubs and individuals).

Implementation of measures/actions identified in the Development Directions 2013-2016

Continuous carrying out of activities aimed at creating conditions for the implementation of programs of public interest, as defined by the National Program for the development of sport, including normative extension of the sports system in Montenegro.

1. Legislation

- Adopted the Ordinance on the conditions, manner and procedure and criteria for allocation of funds to sports entities and control over the implementation of the program ("Official Gazette of Montenegro" No. 16/14), in accordance with the measures provided for in Article 150 of the Action Plan for Combating Corruption

2. Improving the quality of sport

- Realized Competition for co-financing of sports entities. For this purpose, funds in the amount of € 3,824,287.66 have been allocated Fees to elite athletes and disability fees duly paid (€ 534,647.00)

3. Creating conditions for systematic planning of construction and renovation of sports facilities

- Challenges/problems for the implementation of measures/projects: No
- Future Challenges: None
- The pace of realization of the project: 2013-2016
 - ✓ Sports Hall of UCG

4. Development of sports for all

- Challenges/problems for the implementation of measures/projects: No
- Future Challenges: None
- The pace of realization of the project: 2014-
 - ✓ Work on improving conditions for administration of sport for all

5. Grassroots sport (basic sport)

- Challenges/problems for the implementation of measures/projects: A low level of staff expertise in sport
- Future Challenges: Providing conditions for professional qualification/training of personnel in sports
- The pace of realization of the project: 2014-2016
 - ✓ The massification of the number of activities of national sports organizations (continuous activity)

6. Vocational training/development of staff in sport

- Professional training and development of coaches and sports administrators (national framework of occupations in the field of sport. The development of occupational standards and training programs).

7. Health care for athletes

- Establishment of the Institute for Sport and Medicine (in the process of drafting the Ordinance on health care for athletes).

8. The organization of international sporting events

- The organization of the Games of the Small States in 2019

There has been a high level of rationalization of budgetary spending in the field of sports, particularly through the introduction of conditions and criteria for awarding them. In this regard, the country has continued with the program of funding sports entities. In the area of sports for all what is noticeable is the involvement of a higher percentage of citizens, especially young people in sports and recreational activities in a system of appropriate competitions of sport recreation, school and student sports.

Proposed measures

Taking into account the social, educational and health values that sport represents, the overall conclusion is that the legal framework in Montenegro in this area is balanced. However, in the coming period it is necessary to set priorities, both in the types of sports, and in the field of mass sports. National program for development of sport has not set priorities in the field of sports - in favor of a superior or school sports (for example). Work on the strategy document would imply making analysis on the basis of which to set goals. Organizational chart of the sport system is a vital requirement for making a long-term document that would take into account the existing pyramidal structure. Most of the proposed activities of the National program for development of sport have not been implemented due to the lack of jurisdiction of the factors in the system of sport, as well as legally ambiguous positioning of the competent authority in the field of sport. In this sense, it is necessary to:

- do an analysis of legal regulations in the field of sports (Law on Sports and the National Sports Development Program 2012-2016);
- conduct an analysis of sport funding models in Montenegro;
- establish priority activities for the period 2015-2016;
- prepare initiatives to improve school and student sport;
- develop a system of vocational training and education of administrators in sports.

2.3.4. Social Welfare

Social welfare and child protection represent activities that provide and implement measures and programs intended for individuals and families with unfavorable personal or family circumstances, including prevention, assistance in meeting basic needs, and support.

In 2013, a new Law on Social Welfare and Child Protection has been adopted ("Official Gazette of Montenegro", No. 27/2013), which is compliant with international standards and obligations assumed by ratifying international treaties, above all those relating to the guarantee of human rights and freedoms and the rights of the child. Also, the reasons for adoption of this law lie also in the need to fulfill the European standards in the EU accession process.

Implementation of measures/actions identified in Development Directions 2013-2016

The strategic document in the field of social welfare and child protection is a Strategy to reform the system of social welfare and child protection for the period 2013-2017. It defined that the system of social welfare and child protection will be developed through the following strategic directions:

- defining development policies for social welfare and child protection associated with other systems and activities in society and harmonized with international regulations and standards, aimed at preventing social problems;
- decentralization of social welfare and child protection;
- participation by citizens and consumers in decision-making on ways and means to meet the needs;
- efficient financial benefits in social welfare and child protection;
- provision of quality services in the social welfare and child protection.

The legislative framework for social welfare and child protection is regulated by the Law on Social Welfare and Child Protection and by-laws. This Law improved financial benefits, as well as the area of social welfare and child protection.

In the framework of the IPA 2010 project "Social Welfare and Child Care System Reform: Enhancing Social Inclusion", implemented by the Ministry of Labor and Social Welfare and the Ministry of Education, with the technical assistance of UNDP and UNICEF and funded by the European Union, procedures and criteria for financial and professional support in providing services at the community level have been developed and piloted in nine Montenegrin municipalities. Through the project, 23 social services have been supported that provided benefits to nearly 2,000 people (the elderly, persons with disabilities, victims of violence, single parents, people addicted to psychoactive substances).

In 2014, there was a continued implementation of the project "Social Card – Social Welfare Information system (ISSS)" in Montenegro. The project social card is one of the basic pillars of system reform, which will significantly improve the operation of centers for social work and, at the same time, realize cost savings in administrative costs of social welfare system. The project "Social Card - Social Welfare Information System" was implemented as a Phase I of the development of the Integrated social welfare information system (ISSS), in the period 2012-2014. ISSS provides for the exchange of information, not only among the social welfare centers and the Ministry, but also through interoperability with nine institutions in the system with which ISSS has an automatic exchange of information, by which it establishes financial status of individuals and families, as well as other data necessary for the realization of the right to financial benefits. After successfully conducted implementation of Phase I: Social Card - Social Welfare Information System, it was decided to construct Phase II: An integrated information system of social welfare (2015-2017). Within this phase, the functionalities will be upgraded and implemented an intensive monitoring system built under Phase I; an information system for all social welfare and child protection institutions will be developed. There shall be an automatic exchange of information especially regarding the procedures related to domestic violence (police, health, prosecution and judiciary), the exchange of data between centers and municipal Secretariats for Social Welfare will be improved.

Planned activities within the campaign "Fostering social inclusion and improving social welfare system" are as follows:

- Establishment and Implementation of grant schemes "Improvement of social services and child care at the local level";
- Service contract "Improving administrative capacity for the implementation of the reform of social and child protection";
- Grant scheme "Involving marginalized groups in the community, with special emphasis on the RE population";
- Supply contracts linked to the activation of the Center for Vocational Rehabilitation and Employment of Persons with Disabilities.

The activities aimed at permanently resolving the status of refugees and internally displaced persons are being implemented. In this regard, the activities on implementation of the Regional housing program have continued.

Providing shelter is one of the key elements of local integration of I/RL, and is planned to be realized through regional initiatives, international donations, soft loans and own sources. The Program of social housing has been adopted, which sets the goals of social housing in line with regional, overall economic and social development, and the development of social housing and other elements of importance to social housing. In line with the Program, local self governments adopt local social housing programs. Local programs should include persons or groups of persons that will address the issue of social housing, scope and conditions of granting funds to companies, retail and residential cooperatives and method for returning the funds, as well as closer standards and criteria for determining the amount of rent for the use of residential buildings.

The law set as a priority in this area RE population, persons with I/RL status, foreigners with permanent or temporary residence which preceded the I/RL status, etc. The Ministry of Labor and Social Welfare is beneficiary of IPA project "Identification of durable solutions for internally displaced persons and residents of the Konik camp." The first component of the project includes the development of social housing in the area of Konik and construction of a multipurpose center in the area of Konik. Construction of housing units in Konik within the IPA project officially began in September 2014.

Through the regional housing program for Montenegro the provision of funds for housing for 6,063 people had been envisaged (1,177 households), which are the most vulnerable categories (persons accommodated in informal collective centers and vulnerable persons in private accommodation, with a special emphasis on Camp Konik).

Proposed measures

In the forthcoming period it is planned to build 62 housing units in Nikšić, Home for the Elderly in Pljevlja, 120 housing units at camp Konik, 94 residential units in Berane and 32 residential units in Herceg Novi.

The pension system

Analysis of the pension system in Montenegro in 2013 showed that the reform in the pension system aimed primarily at ensuring long-term financial sustainability, gave the expected effects and that the results will be even more visible with the full implementation of the reform. However, the effects of reforms are, to some extent, disturbed and limited by introduction of specific requirements for retirement, which, among other things, have a significant negative impact on the population activity, which trend continued in 2014 and in 2015, with significantly increased number of such initiatives, seeking special requirements for retirement of certain categories of policyholders.

When it comes to reviewing the possibility of revising the retirement age for insured persons who, under favorable conditions are entitled to a pension, as well as revising the jobs at which insurance service is calculated at an accelerated rate, jobs in which insurance service is calculated at an accelerated rate, and the magnification of insurance is subject to review at the latest after the expiry of five years from the date of their determination. The audit of jobs for which the insurance service is calculated at an accelerated rate and the degree of acceleration of insurance, is considered reassessment of existing requirements on the basis of which insurance service will no longer be calculated at an accelerated rate for working places, as well as the working places or jobs were to introduce insurance service at an accelerated rate.

To carry out a revision of established positions, i.e. jobs with accelerated insurance service, professional documents need to be created by the authorized organizations registered for performing professional jobs of safety at work according to the prescribed methodology, which helps provide all necessary data and

evidence upon which to decide whether the conditions are met for certain positions or activities to receive insurance calculated at an accelerated rate. The list of jobs for which insurance service is calculated at an accelerated rate and the degree of magnification should be revised in terms of the fulfillment of requirements for increase of service in order to reduce their number in business, public administration, and in the army.

Since the start of pension reform a number of activities are undertaken to improve the material position of pensioners, related to one-off aid to pensioners, subsidies in the procurement of food supplies, subsidizing the rest and recreation in recreational centers in Žabljak and Ulcinj, as well as the co-financing of housing construction for the needs of pensioners.

In the forthcoming period, through various support programs (subsidies for the most vulnerable, programs of recreation and relaxation, the distribution of commodity surpluses), activities will continue to improve the financial position of pensioners in Montenegro, where account will be taken about the liquidity of the Fund and ensuring regularity in the payment of pension benefits.

Proposed measures

Improving the system of pension and disability insurance, in order to ensure long-term financial sustainability

In order to create sustainable pension system, it is necessary to revise the existing model of pension indexation, which creates conditions for the stability of the state budget and, on the other hand, the maintenance of the income of the beneficiaries of the right to an adequate level.

In this connection, the adjustment of pensions in the short term, may be linked to the the general budget revenues aimed at financing expenditures of the Pension and Disability Insurance Fund. Also, the alignment can be linked to the movement of wages in the public sector, and depending on the financial possibilities of the state, the growth of pensions can be limited.

In the long term, the existing model of pension adjustments should be reviewed and pension value for one personal point, so that the income of the beneficiaries of rights from pension and disability insurance would be maintained at a satisfactory level. One possible solution, which the World Bank suggested as the best international practice and the most commonly used form, refers to the indexation of pensions according to prices, with exclusive application of valuation of income earned in working life with wage growth.

2.3.5. Health

Preserving and improving the population's health is the main objective of health service and, therefore, requires sustained and stable development of the health system in line with the developments of European health, focused on balanced efficiency and quality, as well as the development of capacities and resources (financial, human, material) for optimal and equal access to health care. Building a sustainable and integrated healthcare system, based on the principles of solidarity, equity, access and quality has given a central place to the needs of citizens.

The main task of health policy is to create conditions for better health care, giving priority to programs of health services with a focus on health improvement and implementation of prevention programs and health promotion, early detection of chronic diseases among the most vulnerable population, and optimal operation of the health system, which will inform the citizens about the consequences of their personal decisions about health care and responsibility towards health.

The strategy for health is based on improving the quality of public health with the aim to make health care more efficient, of higher quality, and to include the health care system of Montenegro in the European and World health development process.

Implementation of measures/actions identified in the Development Directions 2013-2016

We have worked intensively on:

- **health care of the population**

Primary health care reform is a process that is carried out continuously, as a product of that, new statutes and systematization in health centers were developed, where new activities were identified in the area of integration of health centers into general hospitals - biochemical and radiological diagnostics.

Intensive work on the implementation of the strategies and national programs has been carried, including the early detection of certain diseases.

The program "National Research Projects" has been implemented (15 national research projects, which are together funded by the Ministry of Science and the Ministry of Health) in priority areas of research - "Medicine and Public Health", as well as the project "Optimal Use of Energy and Natural Resources of the EU"

The Rulebook on the manner of implementation of health care of asylum-seekers, persons who have been recognized as refugees, persons granted subsidiary protection and persons who have been granted temporary protection, has been adopted.

- **Rationalization of the network of health institutions as an optimal spatial arrangement of the capacity of public health institutions and concessionaires**

This measure is not implemented, because the Law on health care on the basis of which it was supposed to streamline the network of health facilities was not adopted in 2014.

- **Implementation of patient classification system as the basis for changing the system of financing, i.e. charging for services according to the complexity of the disease – DRG**

The introduction of payment models of acute hospital treatment that is based on the results of the ongoing process, based on diagnostically related groups, will ensure more transparency in the financing, in accordance with the actual results of the hospitals, a better allocation of resources between health care providers and a better quality of health services within available funds.

In this direction in 2014 a software package called "grouper" was created, which is used to perform the classification of stationary cases in DRG groups.

- **Strengthening specialist outpatient services, acute and non-acute hospital treatment and transferring activities of daily hospital**

Specialist and subspecialist clinics operate in general hospitals, thereby achieving better access, efficiency and cheaper treatment, which is provided in specialist ambulances, a shorter period of hospital stay, fewer nosocomial infections, resulting in lower treatment costs.

The Clinical Center of Montenegro at several clinics established treatment of patients through the daily hospitals for the purpose of treatment of up to 15% of recumbent patients in these hospitals, which results in a significant reduction of the costs of hospital treatment. There are specialist clinics outside of Podgorica, in cooperation with Health Centers Danilovgrad and Kolašin, which resulted in reduced travel costs of the insured persons.

- **Implementation of a development program for palliative care at national level**

In order to preserve, prevent and improve the health of the population, the Ministry of Health has

established cooperation with the National Society for Oncology and Palliative Care of Croatia and collected data that form good basis for the development of the Montenegrin documents for palliative care.

- **Implementation of national and international clinical guidelines and establishing clinical directions, standards, protocols and professional rules that are based on scientific evidence**

Clinical guidelines (good practice guides) are systematically developed evidence that help physicians and patients in making decisions about appropriate health care for specific clinical situation. Developing new and revising existing clinical guidelines is a continuous process, that should cover different areas of medicine and health care, in line with the latest scientific knowledge and evidence. In 2014, a series of guidelines have been made.

Proposed measures

The health system in Montenegro will strive to ensure the preservation and improvement of health of the population of Montenegro by implementing a series of continuous activities and measures aimed at prevention of diseases, treatment and rehabilitation of patients through:

- *Institutional reform*, in order to enable the health administration of health institutions at national and primary level to more efficiently manage the health system. In this sense, the laws will be passed that will define the general principles of the health care, the system and organizations of health care focused on increasing efficiency and quality; secondary legislation that will regulate the activities of the institutions and entities of the health system in an objective and standardized manner, in order to ensure equal rights in the use of health care, optimum working conditions, and appropriate quality control system of health care, as well as Professional standards that represent tools to determine the division of work, a catalog of knowledge and skills to be achieved by various health workers. Applying standards will ensure criteria for quality control, for expert assessment of individuals, for adequate evaluation and rewarding, as well as the implementation of measures of patient safety in the process of health care delivery.
- *A change in economic relations in health care*, in order to establish a stable source of financing of health care and change methods of payment for health services. In this regard, Analysis of economic relations and financial flows in health care will be done, which should indicate the availability of total health care resources, problems in obtaining resources and efficiency of their use; and the Project of improving payments for health services will be implemented, which should provide change to the system of economic relations and rational health care while assuring stimulation of quality and affirmation of the medical profession.

Structural reforms

Guided by the basic postulates of health systems (quality, equity, affordability, universal health care, protection from financial risk), the need for amendment of the Law on Health Care and Health Insurance has been determined (until end 2015).

When it comes to the **strategic framework**, the preparation and adoption of the following has been planned:

- Master plan of health care in Montenegro; and
- Strategy to improve employees' health and safety at work in Montenegro 2015-2020.

3. PUBLIC SECTOR REFORM

Public administration reform is focused on more efficient, more reliable and competent service of the public sector, which is essential for improving the quality of life of residents and the creation of a more favorable economic and social environment. The planning framework for the reform of public administration in Montenegro, in the past, represented the Public Administration Reform Strategy 2011 - 2016 (AURUM), with the Framework Action Plan, which, in the meantime, was modified for the period 2014-2015. In addition, in 2013 a Public Sector Internal Reorganization Plan was adopted, which includes recommendations, measures and actions for reform in all areas of the public sector. Both documents are focused on achieving identical goals: to improve the efficiency, productivity and quality of the improvement of administrative services; increasing efficiency and savings in the public sector; reducing the number of employees in the public sector; improving human resources planning in the public sector and standardization of wage policy in the public sector, harmonized with the fiscal capacity of the country. Special emphasis in the reform has been placed on the financial sustainability of public administration, in terms of expenditure for its functioning.

Previous monitoring of the implementation of measures and activities set out in the said documents showed intense activity of carriers of individual measures, but also the limited effects in terms of achieving the set goals. For this reason it is necessary to in the coming period further intensify activities on the finalization of measures, especially those whose implementation will provide for the greatest effect.

Problems and bottlenecks

The Optimization. Finding an adequate institutional framework, whose function will ensure a more efficient functioning of the public administration, is a key challenge to optimize the administrative system. Contrary to the objectives identified by the Strategy of the PAR the number of the state administration bodies has increased since the adoption of this document. The current realization of the activities from the Plan of internal reorganization of the public sector is not satisfactory, and additional efforts are needed to change this situation for the better. In the coming years, it is necessary to reduce the number of public sector institutions, as well as the number of employees and to reform the organizations with public authorities, in order to better position them in the system.

Human resource management. In the area of civil servants relations established goals relate to: the establishment of a unified civil service system, strengthening accountability at all levels in the civil service, raising the level of ethics of civil servants and strengthening the capacity of institutions in the field of human resources development. In the first two years of the implementation of the new Law on Civil Servants and State Employees, despite the positive effects, numerous problems are also noticeable that adversely affect the achievement of objectives. Horizontal mobility of employees, through the application of the "internal advertising," is very low. Availability of the Central Personnel Records data on employees in the public administration is constantly increasing and is at the level of 82.7%, but even this fact can be considered unsatisfactory. Personnel Planning has not fully taken hold in state bodies, even though normative preconditions were created. The system of evaluation of civil servants and employees is largely dysfunctional because of the unrealistically high percentage of officers who are assessed with the highest marks. A significant number of public bodies (62) brought the integrity plans, but there are a number of state authorities who still have not fulfilled this legal obligation. In the future the focus of reform efforts should be aimed at improving the system of employment in state bodies, through the consistent application of the "merit system", raising the level of replenishment of the Central Personnel Records up to 100%, improving the system of evaluation of civil servants and state employees and improvement of human resources planning in state authorities.

Improving public finance system. The total wage bill in the general government sector is by 1.7 percentage points higher than the EU average and reached 12.5% of GDP, while the wage bill in the public sector (including state-owned enterprises) reached approximately 17% GDP. It is necessary to establish a balance

between austerity measures in public administration and the requirements of building adequate capacity to manage the process of accession to the European Union, in order not to create negative implications for the achievement of the key foreign policy priorities of the country. It is necessary to unify the system of salaries, by passing a law that would regulate wages in the public sector (the preparation of the Law on Salaries in the Public Sector is in progress). This will intensify fiscal consolidation across the public sector and cover all users of the state budget, local governments, enterprises owned by the government, regulators and the Central Bank. In addition, in future the focus of reform efforts should be placed on the reduction of budget expenditures for the work of administration on all grounds, as well as the strengthening of internal financial control system in the public sector.

Strengthening the rule of law and service orientation of public administration. The system of inspection control in Montenegro, after the amendments to the Law on Inspection Control in 2011, is largely based on the work of the Inspection Directorate, which was formed on the basis of these changes. The Directorate has unified the inspections in most administrative areas and since its establishment it justifies the purpose for which it was established. The data show that there is intense activity of the Directorate in all aspects of its operations. In the coming period it is necessary to undertake activities aimed at strengthening human and technical capacities of the Inspection Directorate and completion of the second phase of unifying inspections, by overtaking the inspection activities in the areas of education, sports, protection of cultural assets and cultural heritage and archival activities of the Inspection Directorate. The adoption of the new Law on Administrative Procedure, at the end of 2014, whose implementation will commence on 1 July 2016 created a legal basis for the reform of administrative procedures in Montenegro. The law contains significant reform solutions, which are expected to improve the practice of administrative procedures and to contribute to the functionality and commitment to services of the governing bodies. The focus of reform efforts should be aimed primarily at creating favorable conditions for the implementation of the new Law on Administrative Procedure (implementation of training of civil servants and state employees for the implementation of new solutions, the adoption of the Law on Administrative Disputes and aligning specific laws with the Law on Administrative Procedure). eGovernment portal was established, whose main goal is to make more administrative services available to citizens via the online service. The number of available services is increasing and at the moment there are 77 services available, provided by 25 institutions. The goal is to continuously increase the number of online services available to citizens.

Improving the quality of public policies. With the aim of simplifying administrative procedures and creating favorable "business" environment, it is important that the quality of legislation, strategic documents and other acts of public policy are at a satisfactory level. This means that administrative procedures must be simplified to the extent possible, so as not to constitute barriers to the exercise of the rights and legal interests of citizens before the administrative authorities. The project "Guillotine of Regulations", the implementation of which is underway, is a comprehensive analysis of existing regulations, in terms of simplifying administrative procedures, improving the business environment, as well as faster and better realization of the rights of citizens before the state administration bodies. Information on the implementation of the recommendations of the "Guillotine of Regulations" show that 1,446 recommendations of 1,887 were accepted. Since the adoption of the Action Plan for the implementation of the "Guillotine of Regulations", and ending with the third quarter of 2014, a total of 987 recommendations were realized of 1,446 recommendations adopted, which amounts to 68.3%. According to the revised deadlines, the plan is to complete the implementation of the recommendations by the end of 2017. One of the most important steps in improving the legislative framework is the introduction of Regulatory Impact Assessment (RIA) in Montenegro system in early 2012. RIA introduced the obligation of proponents of legislation to, in the preparation of laws and regulations, conduct an analysis of regulatory impact assessment. Since the formal introduction of the RIA by the end of 2014, the Ministry of Finance has given 1,057 opinions on proposed legislation and accompanying forms of the Report on the analysis conducted of the regulatory impact assessment in terms of implications for business environment and impact on the state budget. Adoption of the Regulation on the procedure of conducting public hearings in the preparation of laws and the Regulation on the procedure for cooperation between state authorities and non-governmental organizations in 2012, established the mechanisms of the public consultations in the design and monitoring of the enforcement of the policy. This has resulted in the inclusion of a large number of

NGO representatives in working bodies established by the state administration and a significant number of public hearings that are conducted in the preparation of acts of public policy. It is necessary to ensure the continued application of these regulations, so that in the prescribed manner, citizens, NGOs and other stakeholders, could participate in the preparation of these documents.

Proposed measures

- Improving the system of employment in state bodies, through the consistent application of the "merit system";
- Occupancy of the Central Personnel Records at 100%;
- Linking performance appraisal system for civil servants and employees with advancement in service;
- Implementation of a system of human resources planning in state bodies;
- Consistent application of the new Law on Administrative Procedure;
- Completion of the second phase of the unification of inspections, by overtaking inspection activities in the fields of education, sports, protection of cultural assets and cultural heritage and archival activities by the Directorate for Inspection Affairs;
- Increasing the number of administrative services that are available to citizens via the online service;
- Finalization of the project "Guillotine of regulations";
- Consistently complying with the obligation of making the RIA in the preparation of normative acts;
- Involvement of the public in the process of creating and monitoring the implementation of laws of public policy.

Structural reforms

- Reduction of budget expenditures for the operation of public sector institutions;
- Unified wage system in the public sector, the adoption of the Law on Salaries in the Public Sector;
- Reducing the number of administrative bodies, through their merger or positioning in the composition of the line ministries;
- Implementation of reform of the organizations exercising public powers (public agencies, public funds, public institutions and so on), through clearer redefining of their position in the Montenegrin legal system.

4. SWOT ANALYSIS OF MONTENEGRIN ECONOMY

SWOT analysis for the three strategic directions of growth (smart, sustainable and inclusive), based on identified policy areas, was made on the basis of the assessment of the situation by policy areas, the results achieved from the Development Directions of Montenegro 2013-2016, with the aim of linking the strategic vision of Montenegro to the strategy "Europe 2020".

Smart growth

For Montenegro, the smart growth primarily means reducing import dependence and balance of payments deficit and an increase in foreign direct investment (FDI) and productivity. The advantages outweigh the disadvantages, so that their removal is of paramount importance for the exploitation of opportunities.

Table 11. SWOT analysis for smart growth

STRENGTHS	WEAKNESSES
Tourism <ul style="list-style-type: none"> – Institutional framework to protect natural areas – Availability of quality space and conditions for the purposes of building new tourist facilities of high category – The availability and diversity of natural resources for all forms of tourism related to nature (adventure tourism) – The completed image of the northern and southern regions, with respect for the local heritage and culture – The growing number of events and organizing events in the tourist centers – Active work of the services of local tourism organizations – Good relations with neighboring countries and proximity to major European capitals – Possibilities for the development of cultural tourism – An extensive network of educational institutions 	Tourism <ul style="list-style-type: none"> – Pronounced seasonal character – A small number of new tourist facilities with additional facilities – Inadequate evaluation and inaccessibility of natural resources in the northern region – Insufficient investment in existing tourism facilities or hotels that are bankrupt – The lack of additional facilities in existing hotel and tourist facilities – Insufficient involvement of local governments at all levels of management of the area – Insufficient promotion of tourist facilities – Non-standardized services – A high degree of dependence of tourist facilities in the northern region of climatic conditions – Distance from key source markets (Montenegro is still predominantly cheap destination) – Lack of funds for the production of cultural products and projects
Competitive tax policies	One-sided industrial structure
Favorable investment climate	The high share of primary and low-tech products in exports
Good maritime transport connections (the importance of the Port of Bar)	Fragmented production in some sectors
	Dependence on imports
	The low intensity of research and innovation, the deficits in the management of business
	Poor infrastructure
OPPORTUNITIES	THREATS
Tourism <ul style="list-style-type: none"> – The growing international demand for high-quality tourist facilities – Development of sustainable forms of tourism – Private - public partnerships – Integration into the European Tourism Union 	Tourism <ul style="list-style-type: none"> – The impact of climate change – High import dependence – The high dependence on the labor force from abroad – "Sending" negative message to potential investors – "Sending" negative messages to students who are enrolled in certain programs
Expansion of tourist supply	Dynamics of reforms
Import substitution	Strong competition for attracting foreign direct investments in the international market
The development of medium and high technology areas	Slow recovery of the world economy and the fall of the aluminum prices
	Lack of funds for the development of industrial sector
Development of small and medium enterprises (manufacturing)	Strong foreign competition present on the local market
The development of regional economic relations	Lack of orientation towards services (mentality)
Attractiveness of production (low labor costs)	

Sustainable growth

Sustainable growth for Montenegro means, above all, the further development and effective use/evaluation of own resources, particularly natural.

Table 12. SWOT analysis for sustainable growth

STRENGTHS	WEAKNESSES
Landscape (coast, mountains)	An inefficient and environmentally harmful production
Availability of natural energy sources, especially renewable	Technology slowing (production, consumption, waste, waste water)
High quality, preservation and soil fertility	Much of the production is not competitively priced
Favorable climate for many types of production	Unfavorable age and social structure in rural areas
	Dependence on energy imports
Tourist centers (e.g. The Bay of Kotor, Ulcinj)	Low energy efficiency (housing sector, transport)
Preventive and improved environmental protection	Insufficient development of energy and transport infrastructure
Recycling	The long travel time
Increasing awareness of environmental protection	Uneven distribution of all forms of transport
Preserving the existing road infrastructure and the development of new routes	Administrative implementation
Revitalization of the maritime fleet	High value investments, long deadlines for implementation, and the large, fixed maintenance costs of transport infrastructure
Reconstruction of railway	Lack of an appropriate institutional framework for the development of public-private partnerships
OPPORTUNITIES	THREATS
Expanding the capacity for processing agricultural products	Property rights and the right of disposal (all levels of the administration)
Processing of primary agricultural products, fish farming (aquaculture)	Low productivity, agricultural production, lack of modern technology and knowledge
Organic farming	Lack of planning and land use regulation
The development of agriculture through tourism, additional food consumption	
The expansion of renewable energy sources	Lack of network infrastructure
Increasing energy efficiency	Insufficient connection with international transport networks
The expansion of the network infrastructure	Transport infrastructure is still a bottleneck
The strategic position of Montenegro in Southeastern Europe	Lack of trained professional staff in public administration
Improving transport links with countries in the region	Keynesian growth effects
Development of multimodal transport and establishment of intermodal logistic centers	Effect on the reduction of private investment due to increased public spending
The implementation of measures supported by EU funds	Limited capacity of the building sector
	Capacity Planning
	The environment as a public good, is in constant conflict with growth
	Opening up the market will lead to stronger competition, which may threaten a large part of commercial production

Inclusive growth

Inclusive growth aims to increase the employment of all social groups, through the strengthening of active and passive labor market measures, lifelong learning and civic culture, supporting social cohesion, that prevents social marginalization and reduces poverty. Given that this is a wide field of action at this time, emphasis was placed on increasing employment through education and vocational training.

Table 13. SWOT analysis for inclusive growth

STRENGTHS	WEAKNESSES
A high proportion of the working age population in the total population	The high rate of youth unemployment
Established cooperation with partners at the national level through joint work in sectoral committees, as a basis for linking the labor market and education	Insufficiently flexible labor market
The ability of employers through participation in the work of the bodies involved in education to promote human resources	A low rate of labor force activity
The involvement of partners in the work of bodies that create education policy	High rate of long-term unemployed
The growth of interest of students in programs in the field of hospitality and tourism in some municipalities	Insufficiently flexible educational programs of vocational education
The results achieved in the reform of the health system	The lack of interest of students for individual profiles of vocational education, for which there is demand on the labor market
	Arbitrary assessment of the quality of vocational education on the basis of perception, without providing opportunities for students to demonstrate their abilities and to improve
	The lack of willingness of employers to engage in providing student scholarships
	Insufficient interest of employees to engage in planning, organization, implementation and monitoring of vocational education
	The lack of employers' willingness to engage in dual training, for which there are legal requirements
	Lack of relevant labor market information about the long-term needs for qualifications
OPPORTUNITIES	THREATS
Legal preconditions created and initiated activities on establishing a national qualifications framework covering all levels and types of qualifications based on learning outcomes	Lack of funds to implement the planned activities in the field of initial and continuous vocational education
Created the conditions for the recognition of non-formal and informal learning, which would increase the possibility for recognition of prior learning and the empowerment of individuals in the labor market	Lack of private initiative which, along with the state, would support the development of vocational education for young people and adults and investment in education (equipment, personnel training, evaluation of achievements)
Increasing the number of newly established enterprises	
Defined national strategy for employment and human resources development	
Providing partnership by opening the schools to the local community, vocational schools, adult education	
Development of new programs and modularizations and credit rating of programs based on learning outcomes	
Creation new jobs in new and promising sectors (renewable energy, 'green' tourism)	

Public sector

Public administration is facing challenges and undergoing a process of major adjustments. The EU accession process has imposed the need to introduce new regulations and standards, as well as restructure the public sector.

Table 14. SWOT analysis for the public sector

STRENGTHS	WEAKNESSES
Willingness to adopt European standards	Lack of accountability for administrative products
	High staff turnover
	Inconsistencies in staff
	Shortcomings in the organization and administration procedures
	Fragmentation of institutions
	Difficulties in implementation
OPPORTUNITIES	THREATS
Orientation towards customers and services (public administration service to citizens and companies) by the use of information and communication technologies	The competitiveness of the private sector pushes qualified staff from the public sector
	The lack of determination and commitment to reform
Efficient and reliable administration supports economic growth and foreign direct investment	Insufficient use of information and communication technologies in the effective delivery of public administration services
Efficiency and rationalization costs (less of a burden to the public)	

Conclusions:

- Economic growth and development of Montenegro is based on four pillars: tourism, energy, the agriculture and rural development, and manufacturing;
- Tourism is the economic mainstay, but tourism activities must be enriched and created conditions for faster development of "cultural tourism." A better networking and connectivity with other coastal areas of the country;
- The country disposes of great potential for energy production from renewable sources (water, sun, wind, biomass), which can represent one of the main areas of investment in the future;
- It is necessary to valorize the potential for development of primary agricultural production and, in this connection, to expand the range of manufacturing production and establish an appropriate relationship with the development of rural areas;
- It is necessary to create the conditions for launching production with higher stages of processing and joint appearance on the market, in order to create greater value through the production and export of competitive and innovative products of high level finalization;
- Management of resources (natural and public resources) is an important factor of the economy, which needs to be improved;
- Foreign direct investment is a necessary component of development, but need 'smart' orientation, for example in the sector of information and communication technologies (investments in the development of telecommunications infrastructure, start-up programs in the field of information

and communication technologies, small and medium enterprises engaged in the production of software, etc.);

- Transport, housing and construction, infrastructure and the environment are the focus, as well as a prerequisite for economic growth;
- The level and structure of qualifications of the workforce need to improve and adapt to the needs of the labor market and economic development;
- Employers and their associations should use the established mechanisms of cooperation and existing opportunities for active involvement in policy development in the field of education through active participation in the working bodies;
- Successful investment in all sectors implies improving the functioning of the public sector;
- Public administration should be aimed at creating a favorable business environment with the use of information and communication technologies, strengthening competitiveness and attracting foreign direct investment.

5 NECESSARY PUBLIC INVESTMENT / DEVELOPMENT MEASURES IDENTIFIED IN THE MONTENEGRO DEVELOPMENT DIRECTIONS VS. AVAILABLE PUBLIC FUNDS

The aim of this chapter is to, inter alia, determine the scope and structure of the required public investment/development measures and available public funds at the level of defined development directions and their respective policy areas. The required investment/development measures, with the funds/sources of funding for their implementation have been identified by the relevant ministries and other institutions.

Based on the macroeconomic and fiscal forecasts and budget projections and national funds of the Instrument for Pre-accession Support for the period 2014-2020 (IPA II), as well as credit debt of Montenegro for 2015-2018, the financial gap has been revealed between available and required public funds to finance identified investment/development measures at individual policy areas for the next four years. At the same time, we made a parallel between the optimal and the proposed allocation of available public financial resources for the three-defined directions of development.

5.1. Quantification of the necessary investment/development measures

The total estimated value of identified projects /development measures at the level of defined directions of development (smart growth, sustainable growth and inclusive growth) is €2,889,114,374.²⁶

The value of identified projects within individual lines of development:

- "smart growth" - € 1,088,869,799 (37.66% of the total estimated value of identified projects);
- "sustainable growth" - € 1,745,502,372 (60.44% of the total estimated value of identified projects) and
- "inclusive growth" - € 54,742,203 (1.90% of the total estimated value of identified projects).

The scope and structure of the funds required for the implementation of the identified projects/development measures for individual development directions 2015-2018 vary significantly compared to the period 2013-2016, partly due to changes in the methodology/coverage, and partly because of the decisions made, and started realization of significant capital projects, primarily within the areas "Tourism" and "Transport".

From the aspect of providing funds or funding sources, most funds, according to projections, will be provided from the loans - € 1,362,709,554.0 (47.17% of the necessary funds). From this amount the largest part (87.3%) relates to the fields "Transport" and "SMEs".

The second largest/important source of funds is in the category "other assets", mainly based on private financing, and is estimated at € 1,057,714,278.0 (36.61% of the necessary funds). From this amount the largest part (95.18%) relates to the areas "Tourism" and "Energy".

Of funds from the state budget, which, according to projections, amount to € 377,485,197.0 (13.06% of all the necessary resources), the largest part (69.19%) will be earmarked for financing the projects in the areas "Transport" and "Agriculture and Rural Development".

In the structure of the estimated total funds needed for the implementation of projects/ development measures for the period 2015-2018, the least part take the funds of the national programs of the Instrument for Pre-accession support 2014-2020 (IPA II) € -91,205,345.0 (3.16% of all the funds needed). Of

²⁶ The total estimated value of identified projects in Montenegro Development Directions 2013-2016 amounted to 1,164.71 mil. €.

this amount, the largest part (75.74%) will be focused on the implementation of projects/development measures in the policy areas "Environment" and "Agriculture and Rural Development".

Looking at individual policy areas, most funds for implementation of identified projects/development measures are needed within the policy area "Transport". Their estimated value is € 1,123,714,305.0 (38.89% of the necessary funds).

At the same time, we had identified a significant need for the funds for the following policy areas:

- **Tourism (smart growth)** - estimated necessary funds amount to € 742,965,209.0 (25.72% of all the necessary resources);
- **Small and medium enterprises (smart growth)** - estimated necessary funds amount to € 302,932,101.0 (10.48% of all the necessary resources);
- **Energy (sustainable growth)** - estimated necessary funds amount to € 263,777,474.0 (9.13% of all the necessary resources);
- **Environment (sustainable growth)** - estimated necessary funds amount to € 232,375,865.0 (8.04% of all necessary means)
- **Agriculture and Rural Development (sustainable growth)** - estimated necessary funds amount to € 92,637,829.0 (3.20% of all the funds needed).

On the other hand, the minimum amount of funds for implementation of identified projects/development measures is required for the policy area "business environment" (smart growth) - € 528,000 (0.02% of all the necessary resources) and "ICT" (smart growth), € 545,000 (0.02% of the necessary funds).

In addition to these policy areas, due to the characteristics of individual policy areas, the low level of funds required has been identified in the following policy areas:

- **Higher Education (smart growth)** - the estimated funding amounts to € 1,030,000.0 (0.04% of all the necessary resources);
- **Competitiveness/foreign direct investments** (smart growth) - the estimated funding amounts to € 1,190,000.0 (0.04% of all the necessary resources);
- **Sport (inclusive growth)** - the estimated funding amounts to € 1,877,400.0 (0.07% of all the necessary resources);
- **Industry** (smart growth) - the estimated funding amounts to € 2,294,341.0 (0.08% of all the funds needed).

Table 15. Overview of the number and value of investment/development measures, according to the directions of development/policy areas

Development directions and policy areas	Number of projects/development measures	Participation in%	The necessary investments in €	Participation in%
Smart growth	68	24.11	1,088,869,799	37.66
Business Environment	3	1.06	528,000	0.02
SME	3	1.06	302,932,101	10.48
Manufacturing ²⁷	6	2.12	2,294,341	0.08
Competitiveness / FDI	4	1.41	1,190,000	0.04
Science	6	2.12	13,538,233	0.47
Higher education	4	1.41	1,030,000	0.04

²⁷ There is some overlap in 3 measures within the policy areas manufacturing and competitiveness/FDI, and for purposes of this table the measures are included only in the field of competitiveness/Foreign Direct Investment

ICT	5	1.77	545,000	0.02
Tourism	7	2.48	742,965,209	25.70
Cultural tourism	30	10.60	23,846,915	0.82
Sustainable growth	189	67.02	1,745,502,372€	60.44
Agriculture and rural development	4	1.41	92,637,829	3.20
Forestry	9	3.18	9,170,000	0.32
Energy	23	8.13	263,777,474	9.13
Environment	48	16.96	232,375,865	8.04
Transport	85	30.04	1,123,714,305	38.87
Construction and housing	20	7.07	23,826,899	0.82
Inclusive growth	25	8.86	54,742,203	1.90
Labor market policy	4	1.41	37,822,808	1.31
Education	11	3.89	5,741,558	0.20
Sport	3	1.06	1,877,400	0.07
Social welfare	4	1.41	4,115,000	0.14
Health	3	1.06	5,185,437	0.18
Total	282	100.00	2,889,114,374	100.00

Table 16. The overview of the necessary funding / financing sources by the development directions / policy areas (in €)

Development directions and policy areas	Necessary funds	State budget	EU funds	Loans	Other funds
Smart growth	1,088,869,799	33,797,361	5,310,707	304,063,588	745,698,143
Business environment	528,000	528,000	-	-	-
SME	302,932,101	3,166,772	1,977,395	297,110,000	677,934
Manufacturing	2,294,341	100,000	194,341	-	2,000,000
Competitiveness / FDI	1,190,000	1,180,000	-	-	10,000
Science	13,538,233	4,415,674	2,798,971	6,323,588	-
Higher education	1,030,000	60,000	340,000	630,000	-
ICT	545,000	500,000	-	-	45,000
Tourism	742,965,209	-	-	-	742,965,209
Cultural tourism	23,846,915	23,846,915	-	-	-
Sustainable growth	1,745,502,372	297,482,734	82,394,638	1,053,615,565	312,009,435
Agriculture and rural development	92,637,829	60,524,221	31,413,608	700,000	-
Forestry	9,170,000	3,570,000	600,000	-	5,000,000
Energy	263,777,474	-	-	-	263,777,474
Environment	232,375,865	28,117,437	37,667,835	140,255,315	26,335,278
Transport	1,123,714,305	201,737,022	12,713,195	892,487,405	16,776,683
Construction and housing	23,826,899	3,534,054	-	20,172,845	120,000
Inclusive growth	54,742,203	46,205,102	3,500,000	5,030,401	6,700
Labor market policy	37,822,808	37,822,808	-	-	-
Education	5,741,558	711,157	-	5,030,401	-
Sport	1,877,400	1,870,700	-	-	6,700
Social welfare	4,115,000	615,000	3,500,000	-	-
Health	5,185,437	5,185,437	-	-	-
Total	2,889,114,374	377,485,197	91,205,345	1,362,709,554	1,057,714,278
%	100,00	13,06	3,16	47,17	36,61

5.2. Quantification of available public funds to finance the investment/ development measures

The available public resources to finance identified investment/development measures in the four-year period, from 2015 to 2018, are determined on the basis of macroeconomic and fiscal forecasts, and projections of the state budget, as well as the Instrument for Pre-Accession Assistance 2014-2020 (IPA II), which will be available to Montenegro for the implementation of national programs and the estimated amount of credit debt of Montenegro for the observed period.

The available resources are estimated at € 1,282,220,000.0, where the largest share of 62.39% create loans estimated at € 800,000,000.0. Funds from the state budget, with the share of 25.74% are estimated at € 330,020,000.0 in the total amount available.

At the same time, it is estimated that the available public funds of € 152,200,000.0 or 11.87% will include funds from the Instrument for Pre-Accession Assistance 2014-2020 (IPA II).²⁸

The estimated amount of the loan intended to finance the necessary investment/development measures includes designed loans of Montenegro in the next four years, the purpose of which will be the investment in defined directions of development. In this sense, when we talk about loans available for this purpose, we are referring to the amount created by the impairment of the total planned borrowing of the country during the period 2015-2018 by the value of the debt relating to the financing of the planned budget deficit.

Estimated available funds from the state budget include the amount of the capital budget for 2015 and its projections for 2016, 2017 and 2018.

The available resources of the Instrument for Pre-Accession Assistance (IPA), are estimated on the basis of the amount of IPA funds that will be available to Montenegro for national programs for the period 2015-2018, in accordance with the allocations set out in the Indicative strategic document of Montenegro for IPA 2014-2020. In doing so, the estimate for 2018 has been done on the basis of the amount that Montenegro will have available during the period 2018-2020.

Table 17. Available funds by sources of financing for 2015-2018 (in mil. €)

Public funds	2015	2016	2017	2018	Total	%
State Budget	69.48	77.91	90.53	92.10	330.02	25.74
EU funds	35.60	37.50	39.60	39.50 ²⁹	152.20	11.87
Loans	200.00	200.00	200.00	200.00	800.00	62.39
Other funds	-	-	-	-	-	-
total	305.08	315.41	330.13	331.6	1.282.22	100.00

5.3. The financial gap between the estimated necessary funds from public sources and envisaged available public funds

Estimated required funds from public sources (budget, loans, EU funds) to finance identified investment/development program amount to € 1,831,400,096.0³⁰ and the estimated available public funds amount to € 1,282,220,000.0. The difference between these funds amounts to **€ 549,180,096.0, which also makes the estimated financing gap for the entire period 2015-2018.** On an annual basis, the estimated financing gap amounts to €137,295,024.0. This means that the available public funds represent 70% of the estimated necessary funds from public sources.

²⁸ An estimate of available funds based on donations has not been done

²⁹ The value of EU funds that will be available for the year 2018 was determined as the average value of the total amount of funds available under IPA II National Programme for the period 2018-2020 - 118.5 million euros.

³⁰ The amount of necessary funds from public sources is equal to the difference between the total estimated funds needed (2,889,114,374 €) and estimated funds from other sources or private funds (€ 1,057,714,278.0), which is mainly related to the policy areas "Tourism" and "Energy"

When it comes to individual sources of financing or the necessary/available public funds, the biggest gap is in loan funds, which are estimated at € 562,709,554.0 or € 140,677,389.0 annually.

The existence of the gap, totaling € 47,465,197.0, i.e. € 11,866,299.25 annually, is estimated with funding from the state budget as well.

The only source of financing in which it was estimated that there will be no gap are the EU funds as a result of the fact that the planning of these funds is still mostly carried out annually. According to the current situation in the next period it will be necessary to adequately plan the consumption of € 60,994,655.0, i.e. € 15,248,664.0 annually.

Table 18. The financial gap between the estimated required resources and funds available from public sources, for the period 2015-2018 and annually (in €)

Funds	Total (2015-2018)			Annual average		
	Required	Available	Gap	Required	Available	Gap
Budget	377,485,197	330,020,000	47,465,197	94,371,299	82,505,000	11,866,299
EU	91,205,345	152,200,000	-60,994,655	22,801,336	38,050,000	-15,248,664
Loans	1,362,709,554	800,000,000	562,709,554	340,677,389	200,000,000	140,677,389
Total	1,831,400,096 €	1,282,220,000	549,180,096	457,850,024	320,555,000	137,295,024

5.4. Optimal and the suggested allocation of funding available for three areas of development

In EU countries the largest volume of investments is realized in the policy areas "Transport" and "Environment". Their share in total investment is in the range of 35% to even 55%. Also, significant funds are allocated in EU Member States for policy area 'Competitiveness/foreign direct investment' (direction of smart growth), on average, about 20% of all investment funds, as well as the policy area 'Agriculture' (direction of sustainable growth), where Member States invest about 15% of all funds. As far as policy areas of the direction of inclusive growth are concerned, their share is between 20% and 30% of all investments.

Available data on investment activities in EU member states create the basis for defining the optimal allocation of available public funds for development directions of Montenegro 2015-2018, as follows:

- **direction of smart growth** - in this direction 25-35% of all available public funds would be allocated, where the priority was given to policies to encourage competitiveness, with the participation of about 15-20% of all assets, while the rest, also from 15-20% of the funds would be available to other policy areas within this line of development;
- **direction of sustainable growth** - as the optimal route allocation of 50-60% of all available public resources is proposed, i.e. 40-50% of the available funds should be devoted to policy areas transport and environment, and the remaining 10-20% of available funds should be allocated to the remaining policy areas, primarily in the area of energy policy and agriculture and rural development;
- **direction of inclusive growth** - in this direction, according to the optimal allocation, 10-20% of available funds should be generated, where the largest share of these funds accounted for the funds available to policy areas of education and health.

The allocation of available funds in the case of Montenegro, if applied presented optimal allocation, can be seen in the following table:

Table 19. The optimal allocation of available public funds between the three directions of development

Development direction	%	Volume
Smart growth	30 (25-35)	384,666,000
Sustainable growth	55 (50-60)	705,221,000
Inclusive growth	15 (10-20)	192,333,000€
Total	100 (85-115)	1,282,220,000€

Based on the data obtained, it can be concluded that in the period 2015-2018 this allocation cannot be applied in Montenegro. At the same time, it is not realistic to propose an allocation of resources that would have been approximate to the optimal, because, in the reporting period, most of the available public funds relate to the implementation of priority section of the highway.

6. FRAMEWORK FOR DD IMPLEMENTATION

The process of drafting the Development Directions was coordinated by the Ministry of Finance and the actual making of the document is implemented in cooperation with relevant institutions. In order for this process to be successful, it must be properly prepared and carried out. Institutional way of managing the process is very important for effective cooperation and implementation of the objectives of the Development Directions, as well as measures that would achieve these goals. Different objectives and measures identified in the Development Directions 2013-2016, and confirmed in this document, are related to the competences of various ministries and other institutions. For example, tourism is not only an economic dimension, but also has an impact on the sectors of construction, environment, labor market, etc. For these reasons, the process of coordination is crucial to the successful implementation of DD. Coordination is essential and a necessary precondition for the coordinated and consistent performance of individual segments of economic policy.

The purpose of the implementation strategy is to improve the operationalization of DD. In this respect, the successful implementation of DD requires:

- the ownership of DD by all;
- the political will at the national level;
- the sustainable annual planning and commitment of resources;
- the effective monitoring and evaluation in order to support the implementation and
- the standardization of the crucial points in the implementation process.

The implementation of DD is the joint responsibility of the public sector and, in part, the other members of society. Implementation, management and control of DD will be under the leadership of the Minister of Finance and Coordinating Team for the establishment of institutional structures for the implementation, monitoring and evaluation of results, and the financial implementation of development directions of Montenegro.

Coordination team supervises the implementation of DD. The chairmanship of the Coordination Team is the responsibility of the Cabinet of the Minister of Finance in the Government of Montenegro. In addition to representatives of the Cabinet, members of the Coordination Team are representatives of the ministries which have priorities in DD and public bodies involved in the implementation of the measures of DD. Coordination team has adopted internal rules, which define the areas of work, the dynamics of meetings and decision-making and reporting.

Monitoring and evaluation

Strategy of monitoring and evaluation consists of data collection, analysis and storage of data, flow and format of reporting, review and communication of results of DD.

Strategy of monitoring and evaluation presents indicators at the macroeconomic and sectoral levels, which will be used to measure the impact of implementation and the results achieved during the planning period. The strategy will be the basis for collecting information on the key points of the development directions, the progress of policies and initiatives, implementing, assessing immediate results and long-term effects. All this would make important elements for initiatives in DD, and at the same time facilitate the decision-making process based on the results.

The aim of the strategy for evaluating and monitoring is the establishment of a strong, comprehensive, integrated, harmonized and co-ordinated system, in order to monitor the implementation of DD, as well as evaluation of their impact. Accordingly, the strategy is based on principles which aim to institutionalize

monitoring and evaluation as a tool for better public sector management, transparency and accountability, as well as to support the overall strategic orientation of the DD and the achievement of the results.

At the operational level, the scope of monitoring and evaluation strategy will cover all aspects of DD, including the implementation (inputs, activities and outputs), the results, relevance and measurement activities, the efficiency (optimal use of resources), effectiveness and impact assessment of the results of DD and their sustainability.

Establishing a well-coordinated and comprehensive monitoring and evaluation system, which aims to effectively monitor, evaluate and provide feedback on the implementation and results of DD, implies a direct or indirect involvement of all administrative bodies (ministries) and other stakeholders in the activities of monitoring and evaluation. So, participatory approach will be applied, which requires the participation of all key stakeholders, allowing them ownership of the system and use of the results for future activities.

The monitoring system includes monitoring the quality of the implementation of measures, which will be followed by input indicators and indicators of results (table below). In the final stage of monitoring an annual report on the progress of implementation of DD will be prepared.

Monitoring data will be collected by the relevant authorities in the ministries. These data will flow into a database that should be created. The process will be coordinated by the established Coordination Team, which will gather data on the monitoring of the various responsible bodies and compile an annual report on the monitoring of DD measures, with the addition of further analysis and recommendations.

National report on the monitoring of DD will be presented to the Government of Montenegro.

Evaluation of DD will be continuously carried out by experts in order to improve the quality, efficiency and effectiveness of its implementation. Therefore, management bodies will establish a common system for the continuous evaluation of DD, which includes:

- the installation and implementation of a system of indicators on the level of measures;
- the collection and analysis of information on financing;
- the indicator database update;
- cooperation with external evaluators;
- the analysis and allocation of studies;
- the annual report on the activities relating to the evaluation, which will be submitted to the Coordination team;
- the mid-term review of DD and
- the final evaluation of DD.

Mid-term and final evaluation of DD will be lead by coordination team, in cooperation with the Office of the Minister of Finance, and the external experts will conduct it. The basic principle of the evaluation process will be to ensure the independence and objectivity. The evaluation process will demonstrate the overall effectiveness of DD in relation to its objectives and, to the extent possible, will provide the monitoring of its effects. The purpose of the evaluation before the completion of DD is to obtain recommendations for the next development document.

Table 20. Monitoring and evaluation of DD

Or.No.	Development direction/ Policy Area	Main objectives and indicators
	Smart growth	
	Business surrounding	
1.	Revision of the procedure for amendment of relevant legislation and reducing administrative barriers	<ul style="list-style-type: none"> • improved position in the ranking of the World Bank

2.	Elimination of business barriers on the local level (municipality level)	
3.	"Guillotine of Regulations" / Department of regulatory impact assessment (RIA)	
	SME	
4.	Improving the financial measures for the development of SMEs - The granting of credit, factoring, grants, training for SMEs in the field of finance	<ul style="list-style-type: none"> Increasing the number of SMEs An increased number of employees in SMEs increased participation of SMEs in exports Achieved participation of SMEs at a level of 50% in GDP, total investments, turnover, profit margins and gross value added
5.	Enhancing the competitiveness of SMEs and promotion of entrepreneurship	
6.	Support for beginners in business ("start-up") Development of incubators, loans for start-ups, advisory services and training for beginners	
	Manufacturing	
7.	Improved investment and business surrounding	<ul style="list-style-type: none"> increased employment increased competitiveness increased export opportunities
8.	Continued process of privatization and enterprise restructuring	
9.	Increase the supply and availability of financial resources	
10.	Strengthening human resources and adapting to the requirements of the labor market	
	Competitiveness	
11.	Further activities for the development and promotion of business zones as well as introducing and encouraging cluster development	<ul style="list-style-type: none"> greater inflow of foreign direct investment increasing the number of operational business areas and increasing the functionality of existing Increasing the number of employees
12.	Increase the competitiveness of the Montenegrin economy	
13.	Training for representatives of local government in order to increase the competitiveness of local governments	
	Science	
14.	The development of the scientific research community	<ul style="list-style-type: none"> increased investment in science and research introduced new instruments to encourage innovation harmonized admission policy with the requirements of the labor market employers' associations involved in the evaluation of the implementation of vocational education increased enrollment of students in deficient programs
15.	Linking science with economic sector	
	Higher education	
16.	Develop mechanisms to monitor labor market needs and the missing skills and, accordingly, the development of qualifications;	
17.	The development of occupational standards and qualifications in accordance with the identified needs of the labor market and society, in accordance with the principles of the National Qualifications Framework;	
18.	Preparation of flexible, modularized programs based on learning outcomes;	
19.	Improving the social partnership and involvement of employers in the organization and implementation of training and learning from work;	
20.	Promotion of career orientation;	
21.	Improvement and quality control of higher education and monitoring the implementation of the principles of the Bologna Declaration, developing the concept of lifelong learning	
	ICT	
22.	Further and rapid growth of broadband Internet access sector and the sector of information and communication technologies	<ul style="list-style-type: none"> Better broadband access and the increased number of electronic services
23.	Establishment of a national point of Internet traffic exchange (IXP)	
24.	Encourage cooperation in the electronic communications -Reducing price of telecommunication services in roaming	
25.	Ensuring the availability of broadband Internet access	
26.	Encouraging end-users, citizens and businesses to use the available equipment and services of information and communication technologies in everyday life and business	
	Tourism and "Cultural Tourism"	
27.	Raising the competitiveness of the tourism industry	<ul style="list-style-type: none"> An increased number of tourists, especially highly-up payment

28.	Improved business environment for the expansion of existing and attracting new investment activities in the tourism sector	<ul style="list-style-type: none">• An increased number of accommodations in hotels 4 * and 5 *• increased revenues from tourism and• generating new jobs• stimulated private sector development• realization started and attracted new investments in the tourism sector• Higher levels of the quality of services• Enhanced promotion of Montenegro in strategic source markets
29.	Improving the quality of accommodation and services	
30.	Diversification of the tourism offer	
31.	Improved accessibility of the destination	
32.	Bolja promocija Crne Gore na udaljenim emitivnim tržištima	
	SUSTAINABLE GROWTH	
	Agriculture and rural development	<ul style="list-style-type: none">• reinforced competitiveness of agricultural support• a larger number of farms• support for enterprises in the food processing industry in modernization and restructuring, or opening• financial support for diversification of economic activities in rural areas (linking agriculture and tourism sectors)• Support to the preservation of the environment through investments in agro-environmental measures
33.	Strengthening the competitiveness and sustainability of the agricultural sector through investments in primary agricultural production, processing and marketing of agricultural products;	
34.	Sustainable development of rural areas through the improvement and development of rural infrastructure and diversification of economic activities in rural areas	
35.	Restoration, preservation and strengthening of ecosystems through the implementation of agri-environmental measures	
36.	The transfer of knowledge and innovation in agriculture through investments in education, research and analytical work	
	Forestry	<ul style="list-style-type: none">• secured and enhanced long-term resistance and productivity of forests
37.	The implementation of the strategy with the plan of development of forests and forestry	
38.	Implementation of the plan of rehabilitation of forests degraded by wildfires	
39.	Forest certification	
	Energy	<ul style="list-style-type: none">• energy needs are met through minimal economic costs in the systems of production, supply and minimal environmental impact• Reduced final energy consumption• Increased use of renewable energy through the construction of additional capacity
40.	Improving the legislative and regulatory framework for energy efficiency in accordance with the legal framework of the EU and the further implementation of the Third Energy Package of the EU;	
41.	Establishment and implementation of energy efficiency projects in all sectors of energy consumption;	
42.	Training of various target groups and raising public awareness about the importance and benefits of the energy efficiency measures;	
43.	Modernization and rehabilitation of electricity distribution systems (which, together with measures to reduce non-technical losses) should reduce distribution costs from the current 20% to less than 10%. Continued implementation of projects of construction of the power transmission grid of Montenegro	
44.	The construction of additional capacity for the production based on renewable energy sources such as hydropower, wind, solar and waste wood.	
	Environment	<ul style="list-style-type: none">• the Natura 2000 network• prepared strategic noise maps for particularly
45.	The preservation of biodiversity and effective management of protected areas	

46.	Reduction of noise exposure in the environment.	<div>sensitive areas</div> <ul style="list-style-type: none">• implemented measures from the Strategy of the management of chemicals and obligations under the Stockholm Convention.• National Strategy on Climate Change, prepared Low carbon Strategy and National Plan for Adaptation to Climate Change• project 'Industrial Waste Management and Cleansing'• implemented measures from the National Strategy for air quality management, enhanced national network for monitoring air quality.• built-reconstructed sewage networks, built plants for wastewater treatment• transpose the acquis in the field of ionizing and non-ionizing radiation• adoption and implementation of national waste management plan.
47.	Safe management of chemicals	
48.	Development of a strategic framework on climate change	
49.	Restoration and reclamation of sites contaminated by hazardous industrial waste	
50.	Reduction of emissions of air pollutants	
51.	The rehabilitation and expansion of water supply systems, construction of wastewater treatment.	
52.	Limitation of exposure to ionizing and non-ionizing radiation	
53.	Develop waste management infrastructure in order to reduce negative impact on environment	<ul style="list-style-type: none">• project 'Industrial Waste Management and Cleansing'• implemented measures from the National Strategy for air quality management, enhanced national network for monitoring air quality.• built-reconstructed sewage networks, built plants for wastewater treatment• transpose the acquis in the field of ionizing and non-ionizing radiation• adoption and implementation of national waste management plan.
	Transport	
54.	Activities on realization of construction of two highways Bar-Boljare and the Adriatic-Ionian highway	<ul style="list-style-type: none">• increased contribution of the transport sector to the GDP growth• Increased traffic safety
55.	Fast traffic route along Montenegrin coast - coastal variant of the Adriatic-Ionian corridor	
56.	Rehabilitation of state roads	
57.	Continuation of work on reconstruction and modernization of the railway Bar-Vrbnica	
58.	The modernization of the Port of Bar and revitalization / expansion of the merchant fleet	
	Construction and housing	
59.	approved Eurocodes as national standards for structural design	<ul style="list-style-type: none">• innovated technical legislation in order to increase the competitiveness of domestic construction companies on foreign market,• achieving a higher level of quality and safety of facilities• informal structures integrated into the formal sector housing• increase in the quality of life in informal settlements by building the missing infrastructure• increasing security in informal settlements• promoted, organized and effective sector management, allocation and maintenance of existing housing stock;• Development of modalities of public-private partnership in housing sector
60.	The approved national rules for construction products, in accordance with EU legislation	
61.	Integration of illegally constructed buildings in the formal housing sector	
62.	Defining standards of humane housing and ensuring non-discriminatory access to affordable and safe housing	
63.	Improvement, management, allocation and maintenance of existing housing stock	
64.	Implementation of programs of social housing, mainly for the issuance, including the construction of housing for vulnerable target groups (pensioners, persons with disabilities, etc.).	
65.	New program of social housing, mainly for the issuance, including the construction of housing for pensioners	

	INCLUSIVE GROWTH						
	The labor market						<ul style="list-style-type: none">• increased employment and reduced unemployment
66.	Increasing the efficiency of active employment policy						
67.	Integration of persons with disabilities and other vulnerable groups in the labor market						
68.	Increasing the formalization of informal employment						
	Education and Sports						<ul style="list-style-type: none">• An increased number of children in pre-school education;• Improved student achievement on PISA;• increased number of pupils of RE population and other vulnerable groups;• increased participation of adults in lifelong learning programs.• improved quality of sport
69.	Increase in the coverage of children in pre school education						
70.	Improve the mechanisms of checking and evaluating students and continue to improve the system of quality assurance at the national level and at the school level						
71.	Preparation of flexible, modularized programs based on learning outcomes;						
72.	Improving the initial and continuing education of teachers.						
73.	Further improvement of the quality assurance system at the national level and at the school level.						
74.	Improve the existing legal framework in the field of sport						
75.	Improve the conditions for administration of sport for all						
76.	Providing conditions for the implementation of the vocational training / development of staff in sports						
77.	Increase the level of health protection of athletes						
	Social welfare						<ul style="list-style-type: none">• a greater degree of social inclusion and improved social welfare and child protection• stable pension system
78.	A more efficient and effective administration and service delivery, through the development of an integrated information system of social welfare - the project "Social Card"						
79.	Strengthening the administrative capacity to implement reforms of social welfare and child protection						
80.	The development of social services and child protection at the local level						
81.	Improving the system of pension and disability insurance, in order to ensure long-term financial sustainability						
	Healthcare						<ul style="list-style-type: none">• provided comprehensive, accessible, safe, high-quality and timely health care.
82.	The implementation of the strategies and national programs						
83.	Institutional reform						
84.	Changing economic relations in health care						