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Delivering on Promises: The work of the European Agency for Reconstruction in Montenegro

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By setting up the European Agency for Reconstruction in 2000, the EU demonstrated its determination to respond to the needs of the Balkans: to rebuild after the damage caused by conflict, to stabilise the region, and to support governments with their democratic reforms.

This paper looks at how EU assistance is helping Montenegro in that process and the role of the Agency since it was asked in late 2000 to take the lead in managing that assistance.

Montenegro had little direct involvement in the conflicts during the break-up of Yugoslavia. But it did not emerge unscathed. It was host to thousands of refugees from Bosnia and Kosovo; its economy was in crisis; its infrastructure dilapidated; and its institutions and services in disarray. The Montenegrin Government declared economic and social reform a national project, with eventual EU membership as the prime target.

Six years on, and with the help of €130 million of EU assistance, managed by the Agency, much has been achieved. There is far reaching structural and institutional reform; the economy is recovering; many former state-run companies have been privatised; and important infrastructure - especially roads and border crossings - have been upgraded. To date, more than 160 projects, managed by the Agency on behalf of the EU, have been completed successfully.

Key Figures
As of September 2007:
€130 million managed by the Agency in Podgorica
€123 million (95%) contracted, €108 million (83%) paid out



Enthusiasm on Europe Day! School children come together in Podgorica city centre to celebrate 9 May

By early 2007, newly-independent Montenegro was able to initial a Stabilisation and Association Agreement, a first step towards eventual EU membership.

Transport

The government recognised the urgent need to improve Montenegro's ailing road network, not only to ease the transportation of goods but also to attract foreign tourists to its beautiful coastline. Initially, EU assistance, managed by the Agency, was concentrated on urgently needed road works.

EU-funded road works projects completed:

- Bridge over the Moraca River in Podgorica
- Airport to capital road link
- Rehabilitation of the road from Podgorica to the coastal town of Petrovac
- Resurfacing and stabilisation of landslips on the road link to the Port of Bar
- Resurfacing road from Petrovac to Croatian border and construction of rock-fall protection galleries
- Rehabilitation of road tunnel to access northern towns

Having addressed some of the immediate physical repairs/improvements, attention turned to supporting the institutions responsible for transport services. The government, with EU support managed by the Agency, has pushed through important legal and institutional reforms including: a roads directorate responsible for the maintenance and development of the road network; project implementation units to manage and implement investment in road and rail infrastructure; and the separation of operational and infrastructure functions within the Railway Company in anticipation of privatisation. In all, EU assistance managed by the Agency in this sector, totals some €29 million.

EU support has also helped pave the way for investments from international financial institutions. On the basis of studies financed by the Agency and other donors, the newly established Montenegrin Airports Authority secured €23 million for the modernisation of the country's two major airports, Podgorica and Tivat (which mainly serves the tourist industry). And consultants, contracted by the Agency, provided crucial support in implementing an €84 million investment to improve the strategic road and railway links between the Port of Bar and Serbia.

Institutional reform and development

The Montenegrin Government, with EU support, is putting in place institutional reforms across many sectors ranging from the delivery of public services, to energy and the environment.

Reforming central and local government

Recent reforms have aimed to de-politicise and professionalise the civil service. With EU support, a Public Administration Strategy was developed, and a Human Resources Management Agency was created with responsibility for civil servants' selection and training. Other EU funded projects managed by the Agency are aimed at public sector salary reform to improve recruitment and retention, and prevent corruption. The Ombudsman's Office has been strengthened with accompanying measures to make citizens more aware of their rights. The EU has also supported the Secretariat for EU Integration in dealing with the



The rehabilitation of 52km of road infrastructure in Montenegro, such as this new third lane between Podgorica and Cetinje has significantly reduced journey times and improved safety.



Improved border crossing facilities and training of border police have enhanced security while facilitating trade, tourism and business travel

challenges of legal harmonisation, management of EU funds, and coordination and communication. Strengthening local government so that decisions are taken as close as possible to the citizens is also crucial. The Union of Municipalities has been significantly strengthened through a twinning with the Dutch Association of Municipalities and now enjoys close cooperation with EU local government experts under a joint initiative between the Agency and the Council of Europe. Local municipalities' staff also received training. Coupled with this 'soft' assistance, the EU has funded numerous local infrastructure projects, from improving water supply and sewerage to building schools, and upgrading fire brigades and cultural facilities. The know-how imparted through these projects has improved municipalities' planning and implementation capacity, and boosted public confidence in local government.

Strengthening the rule of law and enhancing security

Montenegro commenced the de-militarisation of its borders in 2003, gradually handing over border management to civilian forces. In parallel, it developed an 'integrated border management' strategy based on EU recommendations for the Western Balkans aimed at improving border management, increasing security, and encouraging trade and tourism. Agency managed projects have helped to provide training for border

police forces (e.g. in anti-trafficking measures); upgrade equipment and border crossings with Croatia, Bosnia and Albania; supply modern IT, communication and control equipment at Podgorica and Tivat airports; and improve the Customs and Finance Administration.

EU funded projects managed by the Agency have also supported the development of the police service. The sole National Police School has been transformed into a Police Academy - where now only students who have completed their secondary education may apply - with the aim of creating professional and specialised police forces. Apart from contributing to the development of new curricula, support was also provided for the extension of the Academy's training facilities. And a new forensics laboratory, which is being built with EU assistance, will make a significant difference to the work of the enforcement agencies thus boosting the fight against organised crime.

In June 2007, the government adopted a comprehensive strategy for the reform of the judiciary. Formal training for judges has become mandatory. The EU, through projects managed by the Agency, is supporting the work of the Judicial Training Centre which provides training for judges as well as prosecutors and other court staff.

Energy

Montenegro's two hydro and one thermal power stations are unable to meet local demand. About 33% of the total electricity consumption was imported in 2006, and this is expected to reach 41% in 2007. This arises from both a lack of investment and a rapid growth in demand. Transmission and distribution networks in particular require significant investment, while customer service standards need to be established and maintained.

The entry into force of the Energy Community Treaty in July 2006 created significant obligations on Montenegro to comply with EU laws and standards, open its market and adopt cost reflective tariffs and support schemes for the protection of vulnerable consumers.

EU funded assistance has supported Montenegro's participation in the regional energy market in two key areas. First, assistance for the institutions that are responsible for implementing the Treaty and developing the Regional Energy Market (i.e. the Ministry of Economy, and the independent Energy Regulatory Agency). And second, support for restructuring the electricity utility and enabling it to compete in a liberalised energy market.

This has involved assistance in the development of policies and strategies to guide reforms in line with the Treaty, including the preparation of an energy efficiency strategy and action plan that was widely praised by the media and NGOs. In addition, the state-owned electricity utility, EPCG, has received support to develop and implement an unbundling plan in preparation for possible privatisation. And the Energy Regulatory Agency has been helped to start reforming the electricity tariff system.

But a number of challenges remain. Currently, the government is reviewing EU experts' papers on options for legal unbundling and privatisation/private sector participation in the electricity utility company - key steps in complying with the Treaty and in attracting investment.

Environment

Montenegro's constitution alludes to its status as an "ecological state", an aspiration which is a long way from being achieved. Only 15% of the population is connected to a wastewater collection system and there are no fully effective wastewater treatment facilities. Solid waste collection and disposal is sporadic and unsanitary. EU funded studies have highlighted the need for €500 million of investment in environmental infrastructure in order to comply with European standards. Against this backdrop, the EU has provided support

of €11.5 million, managed by the Agency. This has targeted three specific issues: the development of strategic plans to prioritise the huge investment required to upgrade wastewater and solid waste infrastructure; grant funding of €6.5 million to address environmental "hot spots" and provide solid waste equipment; and support for the development of EU compatible institutional structures essential for effective environmental management and control.



The major task of cleaning up Montenegro's rivers and lakes is gathering momentum following the successful rehabilitation of Podgorica's wastewater treatment plant.

The Ministry of Environment is now developing a framework and timetable for implementing a comprehensive strategy to bring environmental institutions and legislation in line with EU standards. A crucial element is the transfer of responsibility for environmental regulation, permitting and enforcement to a new Environmental Protection Agency (EPA). The Ministry will then focus on issues relating to strategic planning and legislation. With the help of the EU, the operational capacity of the new EPA will be enhanced and the Ministry will be provided with assistance to develop investment plans, and monitor their implementation.

EU-funded projects managed by the Agency are also helping with the identification and mobilisation of funding from IFIs, such as the EIB and EBRD, for large-scale infrastructure investment in this sector.

Main environmental achievements supported with EU assistance:

- Adoption of Strategic Master Plans for development of wastewater and solid waste infrastructure, attracting IFI funding of €57 million
- Agreement on the structure of the Environmental Protection Agency
- Improvement in the quality of wastewater discharge into the River Moraca and Skadar Lake
- Improvement in quality and coverage of solid waste collection and disposal services throughout the country



Following similar projects developed with the Electricity Utility and the Montenegrin Railways, EU experts help restructure the Port of Bar and attract investment.

Economic reform and development

The Montenegrin economy has been returning to growth after more than a decade of decline. The government's Economic Reform Agenda 2002–07 was designed with the assistance of EU experts who are also providing guidance and support in its implementation.

One of the most challenging aspects of the government's reform agenda has been the privatisation of state-owned industries, which can entail negative social consequences, such as higher unemployment. EU assistance, managed by the Agency, has helped the government to prepare and implement pre-privatisation restructuring action plans for several large companies. That assistance is also being used to prepare some of these companies for privatisation or other forms of private sector participation.

The private sector is now benefiting from new economic policies, fiscal discipline and the many institutional reforms implemented over recent years. A busi-

ness support network was established with EU assistance - through capacity building and other forms of support to the Directorate for Small and Medium Sized Enterprises and its regional business centres. Assistance was also provided to help establish the first Euro Info Correspondence Centre in Podgorica.

EU support, managed by the Agency, has been crucial in the Turn Around Management and Business Advisory Services programme which is implemented in cooperation with the EBRD. This programme has, over the past five years, provided direct advisory support to 185 small and medium sized enterprises (SMEs). It is now focussed on companies from rural and less developed regions, and specifically targets women and disadvantaged groups. And studies are underway by EU experts and their Montenegrin counterparts into the viability of establishing a credit guarantee fund for new SMEs, particularly those from rural and less developed areas that might otherwise not qualify for bank credits.

Agriculture and Fishery

Agriculture and food processing is an important sector (some 15% of GDP), but particularly farming suffers from poor productivity. It is crucial that the industry meets international standards in competitiveness and food safety.

Initial EU assistance focussed on reviving those parts of the agricultural economy that enjoyed a comparative advantage. Improved cattle breeds were introduced to boost milk and meat production, and credit lines made available for the acquisition of modern dairy equipment. This helped farmers to meet hygiene standards and obtain better prices, and allowed dairies to compete in an increasingly liberalised market.

EU assistance, managed by the Agency, then focussed on helping to amend key veterinary and phytosanitary legislation to bring Montenegro into line with EU and WTO trade related standards. It supported enforcement services through capacity building; the construction and equipping of a veterinary laboratory in Podgorica; and the upgrading of other food safety laboratories. An animal identification and registration system for cattle has been initiated capturing data on 120,000 animals in over 30,000 holdings.

Meanwhile, an agriculture and rural development strategy has been adopted by the government following help from EU experts. It provides a roadmap for alignment with the EU's Common Agricultural Policy, with particular attention to rural development. Montenegro has considerable fresh water and sea fishery potential. However, it has not kept pace with modern developments. EU experts have helped with a fishery sector strategy. It aims to foster sustainable

fishery resource management; ensure EU hygiene standards for fishery products; promote the modernisation and expansion of aquaculture; and secure the long term future of fishing communities - by and large emulating the key principles of the EU's Common Fishery Policy.

In all, €10 million in EU funds have been invested to support agriculture and fishery development during the past 6 years.



Farm animal registration and movement control systems facilitate animal disease control and introduce the concept of tracking food from "stable to table"



Aquaculture such as this mussel farm in the Kotor Bay is an expanding industry - however its future prospects depend on effective environmental management of Montenegro's coastal waters

Education and Training

Unemployment remains a concern. The Montenegrin Government recognises that it needs to address the educational needs of a new generation if it is to develop a competitive market based economy and curb unemployment. Initially EU assistance helped in revising the legislative framework for education (from pre-school to university education), introducing quality assurance in the system, and addressing the most urgent infrastructure needs in schools.

Assistance then turned to reforms of vocational education and training. The VET programme aimed to help the Ministry of Education introduce a flexible and integrated vocational education and training system for youth and adults. It has focussed on key economic development sectors such as agriculture, wood-processing, civil engineering and tourism.

EU support to vocational education

- Central VET Agency in Podgorica and regional VET centres opened in Berane and Herceg Novi
- Development of a VET training manual
- Establishment of a teacher training network
- Provision of training equipment to VET schools

Strengthening civil society

Socio-economic reforms cannot succeed without the active involvement of citizens. Although there are some 3,500 civil society organisations (CSO) registered in Montenegro, many are new and have limited capacity to represent citizens' concerns and assume a credible watchdog function. EU support, managed by the Agency, has therefore focussed on both helping CSOs build up their own capacity, while supporting concrete CSO projects especially in the social and economic sectors.

For example, research campaigns and public debates have been organised to raise awareness about the rights and needs of disabled people. As a result, the Law on Vocational Training and Employment of People with Disabilities, drafted by CSOs, was adopted by the government. Successful public campaigns on consumer rights led to the adoption of the Law on Consumer Protection. And there have also been CSO led research and campaigns on the environment that have raised awareness of the problem of illegal and shoddy construction.



Increased awareness of the importance of product labelling - a success of civil society involvement in aligning consumer protection legislation with EU standards

What is equally important is that CSOs are now recognised by the government as key partners in the reform process. A good example is the cooperation between CSOs (local and EU based) and the government in the area of social welfare/protection. These projects are expected to result in the development of the National Strategy for Social and Child Protection and the National Strategy for Elderly People. Another example is a joint project between CSOs and the Centre for Vocational Training and the Employment Agency, aimed at providing employment for young Roma.

EU assistance, managed by the Agency, has also helped trade unions to increase their role in social dialogue and play their part in ongoing public administration reform.

The media plays a critical part in any modern democratic society. EU support, managed by the Agency, has been used to help with the drafting and implementation of laws on media, broadcasting and public broadcasting services. This has now been extended to assisting in the transformation of the public broadcaster through management and editorial training.

Finding durable solutions for refugees and internally displaced people

Montenegro today still shelters more than 26,000 people - 4% of the country's population - who fled from their homes during the 1990s following the armed conflicts in the former Yugoslavia. That figure includes some 18,000 from Kosovo. The government adopted a strategy in 2005 aimed mostly at voluntary returns where possible, and local integration for the others.

On returns, an Agency managed programme has included funding "Go and See" visits, notably to Kosovo, and facilitated links with existing services that provide assistance for re-integration at the places of origin. The Agency has also funded "Go and Inform" visits and the participation of displaced persons (DPs) in municipal working groups in Kosovo. Although some Ashkalia families have returned, the number is still low and the process is slow and arduous, requiring patience and continuous support.

On local integration within Montenegro, EU assistance has been provided to displaced Roma, Ashkalis and Egyptians in the Konik Camp near Podgorica, currently home to 1,600 DPs. And integration received an additional boost through a €24 million EU funded programme, which will contribute to the closure of the last official collective centre in Niksic and offer its 156 inhabitants accommodation in two new apartment buildings now under construction. This project will also provide permanent housing solutions for the displaced Roma community in the Berane municipality.

In addition there has been support for the upgrading and construction of dozens of individual homes for those who have found shelter outside the collective centres and where municipalities have signalled willingness to accept refugees and displaced people permanently. Income generating schemes are being implemented alongside a special project addressing the needs of elderly refugees and displaced people. The new Bureau for Refugees has also received support.

Looking ahead

Montenegro has come a long way since 2000. Key infrastructure has been refurbished. Major reforms of the public, private and social sectors are underway. There are promising signs of economic growth. Environmental clean-up has been prioritised, but remains a major challenge. And civil society has been



Pre-school education of Roma children, one pre-requisite for successful integration

strengthened to care for the most vulnerable groups, including minorities. Security and the rule of law have improved but need to receive the highest priority from the government and society as a whole, on the basis of principles enshrined in a new constitution.

The goal of EU membership provides a strong impetus to bring institutions, laws and practices in line with the rest of Europe. And EU assistance - €130 million managed through the Agency since 2000 - has contributed to these extraordinary changes.

With a Stabilisation and Association Agreement to be signed in October 2007, Montenegro is on the road to Europe. But many challenges lie ahead and much remains to be done to ensure that political, economic and social reforms take root and are fully implemented.

European Union **European Agency for Reconstruction**

The European Agency for Reconstruction is responsible for the management of the main EU assistance programmes in the Republic of Serbia (including UN-administered Kosovo), the Republic of Montenegro and the former Yugoslav Republic of Macedonia

For more information about the Agency, see:
 www.ear.europa.eu

For the European Commission's Enlargement Directorate-General, see:
 www.ec.europa.eu/enlargement

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