

BTI 2010 | Montenegro Country Report

Status Index	1-10	7.35	# 25 of 128	
Democracy	1-10	7.80	# 27 of 128	➔
Market Economy	1-10	6.89	# 32 of 128	➔
Management Index	1-10	6.19	# 27 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	0.6	HDI	0.83	GDP p.c.	\$	12486
Pop. growth	% p.a.	-0.1	HDI rank of 182	65	Gini Index		-
Life expectancy	years	74	UN Education Index	0.89	Poverty ²	%	-
Urban population	%	60.5	Gender equality ¹	0.32	Aid per capita	\$	176.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the two-year period under consideration, Montenegro showed progress in its transition process. It made big steps toward Euro-Atlantic integration. In May 2007, Montenegro became a full member of the Council of Europe. On 15 October 2007, Montenegro signed a Stabilization and Association Agreement (SAA) with the European Union and its member states. The SAA provisions on trade liberalization entered into force in January 2008. In December 2008, Montenegro's government applied for EU membership.

Internally, the country has demonstrated progress in consolidating its democratic institutions by adopting a new constitution on 19 October 2007. The governing coalition led by Prime Minister Milo Djukanovic's Democratic Party of Socialists (DPS) was confirmed in office in the early parliamentary elections held on 29 March 2009. Together with the Social Democratic Party (SDP) and a Croatian as well as a Bosniak minority party, the DPS controls an absolute majority in parliament. The Djukanovic government has sought to design and implement policy reforms aimed at aligning the political and economic system with European norms.

Nevertheless, the country's transition to democracy faces some important challenges. Polarized relations between a governing party in power for more than a decade and a fractured opposition have jeopardized much-needed compromises on many reforms. National identity issues related to citizenship and organized religion, along with the rights of ethnic minorities, continue to dominate political discourse even after the adoption of the new constitution. The inclusion of civil society groups into the policy-making process remains weak.

The new constitution provides the basis for a civic nation state with full political, civil and human rights on the basis of the rule of law. The preamble names as citizens the Montenegrins and the representatives of minority groups. Furthermore, the new constitution provides for an 81-member parliament that elects a prime minister, while the president is elected by popular vote. The constitution was adopted in parliament by 55 out of 81 members of parliament – that is, by a

two-thirds majority. After a long period of negotiations, the Movement for Changes (PzP) led the way, together with Bosnian and liberal parties, in providing a high degree of consensus for the constitution. The law on the implementation of the constitution set a timetable for the adoption of new laws and the amendment of existing laws in line with the new constitution. This presents a big challenge in terms of legislative work for the government and parliament.

One of the arguments of the Montenegrin government before the referendum on independence was the acceleration of the EU integration process after its dissociation from Serbia. The developments in this field appear to confirm the government's view: When it comes to integrating into European structures, the period under review was much more successful for Montenegro than for Serbia.

History and Characteristics of Transformation

The final decade of the 20th century was extremely turbulent and traumatic for Montenegrin citizens, as it was for all those living in Southeastern Europe and the Balkan region. The toleration for and emergence of political pluralism in the Socialist Federative Republic of Yugoslavia (SFRY) and its six constituent republics brought political elites into power who instrumentalized nationalist ideologies and stereotypes to advance their nation-state projects. Irreconcilable aims and nationalist mobilization led to the collapse of the federation and the emergence of Bosnia and Herzegovina, Croatia, Macedonia and Slovenia as independent states. In Bosnia and Herzegovina, Croatia and Slovenia, wars of varying durations and intensities began when the Yugoslav National Army attacked the republics in order to assist the rebellions of ethnic Serb communities in Bosnia and Croatia against the secessions.

The wars involved neighbors and people that had been born and lived together in the same country for many years. Suddenly, friendships disappeared, families were broken up and diverted from a basic, honest and community-based lifestyle into a variety of activities not previously countenanced. Many have migrated to safe havens elsewhere. For those who remained, and especially the young, the trauma of the unfolding events and images of the war in the Balkans remains vividly in their minds as mental wounds.

Montenegro was the only republic of Yugoslavia that preferred to remain part of a joint state with Serbia in the early 1990s. This policy was not only advocated by the post-communist political elite that had won the first democratic elections, but it was also supported by a substantial part of Montenegro's citizens, who felt closely associated with the Serbian nation. In 1992, Montenegro and Serbia established a Federal Republic of Yugoslavia (FRY) to succeed the SFRY. While the constitution of the FRY envisaged parity between Montenegro and Serbia in federal institutions, the common state was de facto dominated by Serbia both economically and politically. Facilitated by the wars and nationalist mobilization, Serbia's then-president,

Slobodan Milosevic, was able to establish a semiauthoritarian system that included Montenegro and kept him in power until 2000. His regime was based on clientelist networks within the state administration, police, military and the state-dominated economy, all of which enabled him to exercise control over the electronic media, skillfully falsify elections and, thereby, engender the effective fragmentation and isolation of the political opposition. These methods enabled him to control the Democratic Party of Socialists and political leadership in Montenegro. With the election of the reform socialist politician Milo Djukanovic as president in October 1997, Montenegro increasingly loosened itself from Serbian control and implemented reforms aimed at establishing a market economy. Economic reforms focused on openness, the protection of property rights and freedom of contract (including the protection of investors), implementing a credible currency (the euro), maintaining low levels of business regulations and taxation, implementing the rule of law and fostering entrepreneurship, private initiatives and innovations. In the wake of the Kosovo war, in August 1999, the Montenegrin government proposed to transform the FRY into a confederation of two states with independent foreign policies. As the Milosevic regime rejected this proposal and unilaterally abolished the equal representation of Montenegro in the federal parliament, Montenegrins boycotted the federal presidential and parliamentary elections in September 2000.

After the fall of the Milosevic regime, Montenegro and Serbia negotiated a loosely integrated “state union” to replace the FRY. The talks were mediated by the European Union, which feared the destabilizing effects of another disintegrating state in the Balkans. Whereas the Montenegrin government wanted to establish an independent state, the Montenegrin opposition parties and most parties in Serbia preferred to preserve the common state framework. The negotiations led to an agreement in 2002 and a constitutional charter in 2003, which defined the state union and its institutions. The agreed aims of the union were accession to the European Union and the creation of an internal market in accordance with EU principles and standards. The state union’s powers were essentially limited to the enforcement of international law, cooperation with international courts and issues related to military and defense, standardization, intellectual property rights, statistics, borders, asylum, immigration and visas. To accommodate Montenegrin interests, the constitutional charter of the state union envisaged the option of an independence referendum held three years after the creation of the state union. The referendum was organized on the basis of this provision.

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force covers the entire territory. Police and military forces provide security in all areas of the country.

Monopoly on the use of force

In a census conducted in December 2003, 32% of Montenegro's citizens identified themselves as ethnic Serbs, while ethnic Bosniaks or Bosnian Muslims comprise 14% of the population and ethnic Albanians 7%. The adoption of the new constitution on 19 October 2007 revealed pronounced ethnic cleavages. From the opposition parties, the Movement for Change (PzP) and the representatives of the Liberal Party of Montenegro (LP) as well as the ethnic Bosniak and ethnic Croatian minority parties (Bosniak Party, BS, and Croatian Civic Initiative, HGI, respectively) voted in favor of it. The Serb List voted against it. And the Albanian members of parliament abstained. The Albanian parties opposed the new constitution because their demand for a municipal status for Malesija, a region with a predominantly Albanian population, was rejected. The Serb parties opposed the new constitution principally because they argued that it would give the 200,000 Serbs living in Montenegro a minority status and replace the Serbian language as an official language. They were also dissatisfied with the absence of a provision for dual citizenship.

State identity

Indeed, the constitutional provision on "the right to authentic representation" of national minorities in the parliament, in the assemblies of local self-government and in public services still needs to be clarified. Since legislation regarding special minority rights must be approved by a two-thirds majority of all members of parliament, it seems the minorities face a high hurdle for securing the constitutional right of representation they seek.

The three major religious groups in the country are Orthodox and Catholic Christians, on the one hand (which are further divided into several sub-groups), and Muslims, on the other, though there are also many other smaller religious groups. In the constitutional debate, the Serbian Orthodox Church supported the opposition

No interference of religious dogmas

and complained that the new constitution would label the church as a pure religious community without stating its full name and historical role. This showed the Serbian Orthodox Church's fear that the Montenegrin Orthodox Church will be recognized as the country's pre-eminent religious institution. This conflict between the two churches has an impact on political competition, but it does not indicate that religious dogmas interfere with politics.

Administrative structures that maintain a system of public security and order exist and operate throughout the entire territory of Montenegro.

Basic
administration

2 | Political Participation

Montenegro's unicameral parliament consists of 81 deputies who are elected under a proportional representation system with a 3% threshold. On 29 March 2009, preterm parliamentary elections were held following the dissolution of parliament initiated by the governing coalition. Prime Minister Djukanovic justified the early elections by citing the need to install a strong government in order to address the economic crisis and prepare Montenegro for accession to the European Union and NATO.

Free and fair
elections

A presidential election and two local elections took place on 6 April 2008. Filip Vujanovic (DPS) was elected president by an absolute majority (52.4 %) in the first round. Voter turnout was 67.5%. The electoral campaign was conducted in a calm atmosphere and constructive spirit. There were three other candidates from opposition parties.

According to international election observers, the elections "met almost all OSCE and Council of Europe commitments, although the process again underscored the need for further democratic development." Universal suffrage is limited by the constitution, which grants the right to vote only to Montenegrin citizens who have resided in Montenegro for more than two years.

Democratically elected rulers have the effective power to govern. There were no attempts by any institution to exercise veto powers or prevent democratically elected rulers from governing. According to the EU Commission's 2008 progress report, the parliamentary supervision of defense- and security-related bodies has significantly improved, although it could be further strengthened.

Effective power to
govern

The freedoms of association and assembly are constitutionally guaranteed and unrestricted within the basic democratic order. Political and civic organizations can form and act freely. There are no restrictions placed on their activities, unless they violate the law.

Association /
assembly rights

Montenegro has a dual system of public-service and commercial broadcasters. At present, there are 59 commercial radio and TV stations, 15 local stations and one nationwide, publicly funded radio and TV broadcaster (RTCG). The OSCE Observer Mission to the parliamentary elections in 2009 noted that public and private broadcasters provided coverage of the campaign that was biased in favor of the governing parties. All privately owned broadcast media currently operating in Montenegro are registered and licensed with the Broadcasting Agency of Montenegro. This state body is also in charge of their supervision and has been rated more than once as one of the best in the region. To a large extent, the commercial broadcasters are independent, although poor finances jeopardize their activity and prospects, except in the case of TV Pink and TV IN. The entry of large media companies into the market, combined with the launch of cable TV, further worsened the financial health of local broadcasters. No licensing process is required to publish a newspaper. The print media market is characterized by a diversity of opinions and political positions. However, the concentration of media ownership has not been regulated.

Freedom of
expression

The law on free access to public information is still being implemented and with mixed results. The law on electronic communications was adopted by parliament on 29 July 2008 without public debate. It establishes a new Electronic Communications Authority. The members of the body's governing councils will be appointed by the government, and the regulator's independence is not guaranteed. Moreover, the sensitive powers over planning, allocating and monitoring the broadcasting frequency spectrum will be transferred from the independent Broadcasting Agency of Montenegro to the Electronic Communications Authority. Legislation on media transparency remains pending.

According to the EU Commission's 2008 progress report, freedom of expression in Montenegro continues to be a cause for concern. For example, a journalist from the daily newspaper "Republika" was assaulted in November 2007, as was a photographer from the same newspaper in June 2008. In May 2008, a journalist writing an article on organized crime's involvement in sports betting was severely beaten. The director of the daily "Vijesti" was also assaulted.

Another development cast doubt on safeguards for the freedom of expression. In 2008, the number of sued journalists increased; most worked for the newspapers "Vijesti" and "Dan" and the monthly magazine "Monitor." Observers spoke of politically motivated actions. NGOs, such as the Action for Human Rights, have criticized judges for not sufficiently protecting the freedom of expression as an important human right.

3 | Rule of Law

The new constitution should have built a basis for a healthy balance of powers between the three branches of government. Although the parliament has made tentative steps toward improving its oversight functions, the executive continues to dominate legislation. In general, the supervisory role of parliament remains weak. However, in the field of defense, the parliament maintains oversight through the recently established Committee of Defense and Security. Montenegro's military operates under the Council for Security and Defense, which consists of the president, the prime minister and the speaker of the parliament. Such a constellation indicates that the government wished to establish joint responsibility with the legislature in this important policy field.

Separation of powers

There are still risks that the parliament will politically interfere with the judicial system and public prosecutions. An example of an unsatisfying provision of the constitution is the regulation regarding the president of the Supreme Court, which is unique in Europe: He is appointed by the three highest representatives of the state, that is, the president, the prime minister and the speaker of the parliament.

There is a low level of public trust in the judiciary, and particularly the courts, in large part due to a significant backlog of cases and the excessive duration of legal proceedings, but also due to a perception of there being high levels of political influence over the judiciary. Montenegro has made some progress in its judicial reform process and has started to implement the relevant sections of the constitution. For this purpose, the action plan to implement the judicial reform strategy (2007 – 2012), which was adopted in December 2007, identifies relevant measures. The commission for implementing this action plan was formally established in June 2008. This comprehensive judicial reform strategy provides a roadmap for additional changes aimed at improving the independence and effectiveness of the system, but there remains unease about how to balance the priorities of independence and accountability.

Independent judiciary

Although corrupt officeholders are not prosecuted adequately under the law, they do occasionally attract adverse publicity. Corruption is widespread and is a very serious problem, but the enforcement of mechanisms against it remains weak. Many charges against public officials for violating the Law on Conflict of Interest have been dismissed as unfounded. The Law seeks to limit incompatible or multiple functions by requiring public officials to declare their assets, functions and gifts. Unfortunately, the regime has a number of serious flaws, and the new law cannot be viewed as anything more than just a first step. Attempts to regulate political-party and -campaign finances have had a similarly disappointing outcome. Although Montenegro provides the most generous subsidies to parties in Southeastern Europe, other state resources continue to be misused for electoral purposes.

Prosecution of office abuse

Administrative corruption at the local level, where the majority of decisions are made, remains high, especially in coastal areas, as a result of booming development, privatization and public procurement.

Civil rights are violated occasionally. There are mechanisms through which citizens can seek redress in court if their rights are violated. Displaced persons face a number of obstacles to exercising key rights. These obstacles have been particularly damaging to uprooted Roma.

Civil rights

4 | Stability of Democratic Institutions

Although democratic institutions perform their functions in principle, there is some waste due to friction between institutions. There have been some improvements in the functioning of parliament, but it has not yet developed into a robust oversight institution, and it can't be viewed as an institutional counterweight to the government. In the spring of 2008, the parliament did not work efficiently for an extended period owing to a dispute between the governmental and opposition parties, who demanded more TV coverage of parliamentary debates and eventually boycotted the parliament. This impeded efficient parliamentary work until a temporary solution was found in early October 2008.

Performance of democratic institutions

According to the EU Commission's 2008 progress report, the legislative framework for public administration, human resources management and local government has been strengthened. However, a lack of human and financial resources combined with structural weaknesses and corruption continue to hamper the overall effectiveness of public administration and, as a whole, administrative capacity remains limited.

In many cases, the management of government bodies, including ministries, remains over-centralized. Monitoring of the implementation of policies and laws is insufficient.

All relevant political and social players accept democratic institutions as legitimate, despite some disagreement over a number of provisions in the new constitution. Formal institutions and rules are sometimes rendered ineffective by practices of informal agreement.

Commitment to democratic institutions

5 | Political and Social Integration

In the parliamentary elections of 29 March 2009, the governing coalition – comprised of the Democratic Party of Socialists (DPS) of Prime Minister Milo Djukanovic and the smaller Social Democratic Party of Montenegro (SDP) – obtained an absolute majority by securing 51% of the vote and 48 out of 81 seats.

Party system

The ethnic Serb party New Serb Democracy (NSD) and an electoral coalition led by the Socialist People's Party of Montenegro (SNP), which had advocated the preservation of the state union with Serbia, won 9.1% and 16.5% of the votes, respectively, which corresponded to eight and 16 seats in parliament. While this result implied a loss for the NSD, the SNP – which had claimed to represent ethnic Serb interests during the referendum campaign – was strengthened. The newly established liberal-conservative Movement for Changes (PzP) won 5.9% of the vote, while parties of the ethnic Albanian, Bosniak and Croat minorities gained eight seats in parliament. The effective number of parties and the volatility of the party system have decreased since the previous elections, in 2006.

On first glance, the party system seems to reflect the economic, social and ethnic cleavages. However, within the party system, there is a notable dominance by the DPS, which has been in government for nearly two decades. In terms of democratic categories of alternate governments, this denotes a lack of democratic development.

There is large number of associations – including ones for professionals, businesses, workers, minority shareholders and members of certain minorities – that articulate and advocate for the interests of many groups in society. Their network is relatively close-knit but dominated by a few strong interests.

Interest groups

All workers, with the exception of those employed in the state administration, enjoy the right to bargain collectively. Given that workers in the state administration also have no right to strike, the role of trade unions in the public administration can be regarded as very limited. A significant development in the civil society sector in 2007 was a split in the trade union confederation, whose former unity had made Montenegro unique in the region.

Consent to democracy as a form of government is moderately high, and political protests do not tend to call the constitutional framework into question. Citizens are conscious of the fact that they can use all mechanisms of democratic procedure to protect their rights and fight for their goals, and they use these mechanisms extensively, especially through different forms of nongovernmental associations and initiatives.

Consent to democratic norms

Montenegro has a robust but heterogeneous web of autonomous, self-organized groups, associations and organizations.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Social exclusion is quantitatively and qualitatively limited and structurally not very ingrained. The poverty rate for Montenegro (the threshold for which is an income of approximately \$5 per day) is estimated to be 12% and concentrated especially among the Roma and so-called internally-displaced persons. In addition, some 30% of the population is economically vulnerable. A sharp regional disparity in poverty levels is also noticeable. With 45% of the poor living in the northern part of the country, the poverty rate there is almost twice as high as the national average. Montenegro's Gender Index Development (GDI) for 2006 was 0.818, which is slightly higher than it was in 2004. Measured by the decile ratio (7.0) and Gini coefficient of income inequality (0.36), Montenegro is among the most unequal countries in the western Balkans, and there are indications that the large gap between rich and poor may be widening.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	2073.2	2257.2	2695.9	3846.2
Growth of GDP	%	4.4	4.2	8.6	10.7
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	30.3	-	-
Foreign direct investment	% of GDP	-	-	22.9	22.8
Export growth	%	4.4	4.2	8.6	10.3
Import growth	%	4.4	4.2	8.6	10.3
Current account balance	\$ mn.	-	-	-	-

		2004	2005	2006	2007
Public debt	\$ mn.	-	-	1228.1	1164.0
External debt	\$ mn.	-	-	1240.5	1174.0
Total debt service	% of GNI	-	-	1.2	2.2
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	26.3	29.9	27.0	22.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	6.3	6.2	6.0	-
R&D expenditure	% of GDP	1.0	0.9	1.2	1.2
Military expenditure	% of GDP	-	-	2.0	1.4

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Although market competition in Montenegro has a strong institutional framework, the rules are not always consistent or uniform for all market participants. In early 2008, the Ministry of Finance adopted decrees on conditions for granting state support. State aid is primarily granted to companies undergoing restructuring or privatization and takes the form of debt relief or severance payments to make their sale more attractive to potential investors. The amount allocated in the government budget for direct subsidies remains very small. The agency for competition protection and the State Aid Control Commission were both established in November 2007. A strategy for competition policy was adopted by the government in June 2008.

Market-based competition

The formation of monopolies and oligopolies is regulated inconsistently. In November 2005, Montenegro adopted a law on competition. In 2007, it established a competition agency, which should result in progress in this field.

Anti-monopoly policy

Foreign trade is liberalized in principle. With a view to accession to the WTO, Montenegro has amended its legislation on foreign current and capital operations, revoking protective measures where there is no reciprocity in current and capital transactions that could lead to a disturbance of monetary or financial conditions in

Liberalization of foreign trade

the country. Although foreign investors are in principle free to invest and transfer financial and other assets, Montenegro's legislation also contains some exceptions to that rule.

A new law on banks was adopted in March 2008 that provides the legal basis for a gradual transition to the financial stability standards prescribed by the Basel II Accords. The Banking Law has tightened prudential standards but limits the central bank's ability to impose penalties and provides limited immunity to supervisors for actions taken during the discharge of their duties. To establish fully consolidated supervision, a new organizational structure for the Bank Supervision Department of the Central Bank of Montenegro has been introduced. The implementing regulations are being drafted and are expected to enter into force by the end of 2009.

Banking system

8 | Currency and Price Stability

Montenegro unilaterally uses the euro as legal tender, although it is not an official member of the euro zone. Consequently, its monetary policy is limited to operations of liquidity management. Although the international financial crisis has so far had only a limited direct impact on the financial sector, the rising current account deficit, which is increasingly financed by repatriation of domestic bank assets abroad, has become a matter of concern, particularly under current capital markets. Montenegrin authorities have taken a series of measures, including imposing higher capital adequacy requirements for domestic banks, an unlimited coverage for deposits insurance as well as a guarantee scheme for intra-bank lending. The rapid growth of bank deposits expanded the money supply from 74% of GDP in 2006 to 112% in 2007, as the stock of domestic credit soared to 98% of GDP. However, restrictive measures introduced by the Central Bank (e.g., credit growth ceilings and higher minimum solvency coefficients) succeeded in moderating the elevated credit activity of domestic banks in 2008. The annual rate of lending decelerated to 25.8% during the first eight months of 2008, compared with 93% in December 2007. Average annual inflation accelerated from 3% in 2006 to 4.3% in 2007, notably due to a significant increase in food and energy prices. Consumer prices peaked at 11.4% up year-on-year in June 2008, slowing down to 9.5% in August on easing food and transport prices. Overall, lending activity decelerated in 2008, while inflation increased sharply.

Anti-inflation /
forex policy

Montenegro is clearly aiming for a consistent stability policy. Booming domestic demand helped generate a substantial improvement in the headline fiscal balance in 2007. The fiscal balance improved by 4.25%, to a surplus of 6.5% of GDP, led by strong VAT revenues from booming consumption and imports. Corporate tax and social security contributions also performed strongly. The fiscal surplus declined significantly in 2008. While strong demand kept taxes buoyant, overall revenues declined as a result of cuts in social contribution rates and a decline in non-tax

Macrostability

revenues. Moreover, the government decided to allocate the budget surplus achieved in 2007 to reducing foreign public debt by 8.3%, raising wages of civil servants by 30%, and increasing capital expenditures to 7% of GDP. At the same time, though, positive fiscal performance still continued during the first half of 2008, when a surplus of 2.9% of annual GDP was recorded, although it declined to 1.5% of GDP in late 2008. Unlike in previous financial years, capital expenditure in 2008 was executed as planned.

9 | Private Property

Property rights and the regulation of the acquisition of property are well-defined in principle. Restitution of property is regulated by the law on restitution of confiscated property rights and compensation, which came into force in August 2007. Three regional commissions were established in Podgorica, Bar and Bijelo Polje to decide cases involving restitution requests. Over 10,000 restitution requests had been filed by the deadline at the end of 2007. The regional commissions have approved some 925 requests for monetary compensation and 95 requests for property restitution. Over €15 million has been paid out from the Restitution Fund as monetary compensation in the period between the establishment of the fund, in 2005, and July 2008. Around 1,100 appeals against decisions have been brought to the attention of the commission of second instance.

Property rights

Although private companies represent the backbone of Montenegro's economy, there are still state companies and strong market concentrations, such as oligopolies, as the state tolerates the concentration of market power. The legal framework for a functional private sector exists in Montenegro. About 80% of all formerly state-owned companies are now private enterprises. Noticeable and criticized in the public is the large number of foreign investors or buyers of real estate. The top investor is the Oleg Deripaska, a Russian whose many activities in Montenegro include being a partner in steel-production works. Another problematic point is the nontransparent involvement of political officials in the process of privatization. On the other hand, there has been some progress on the amount of time and number of bureaucratic hurdles it takes to register a new business. However, the pre-registration process (e.g., the collection of certificates and licenses) remains a serious obstacle to the development of small and medium-sized enterprises. There is a lack of consolidated, readily available information for would-be entrepreneurs on the exact documentation they need to submit, and the system suffers from the fact that too many institutions are involved on the local and central levels that have substantial discretionary powers. Although these problems have been acknowledged for a number of years now, various reform efforts have failed.

Private enterprise

10 | Welfare Regime

Social networks are well-developed in part. Considerable portions of the population are still at risk of poverty. In 2007, the contribution rate to unemployment insurance was 19.3%, which denotes progress in comparison to 2006, when it was 29.6%. Regarding social protection, in November 2007, the government adopted a number of strategies, including one for the development of social and child protection, another for the development of social protection for the elderly, and yet another one for the inclusion of disabled persons. All three cover the period between 2008 and 2012. However, in its 2008 progress report, the EU Commission noted that the implementation of these strategies is weak.

Social safety nets

Although there are a number of institutions to compensate for gross social differences, there are not enough of them. The government reacted in 2008 with several action plans aimed at improving the situation. In the area of gender equality, a national action plan covering eight policy areas has been adopted for the period between 2008 and 2012. The government also adopted a strategy for inclusive education for the period between 2008 and 2016.

Equal opportunity

11 | Economic Performance

Economic growth remained strong in 2007 and expanded well above 8% in real terms, boosted by strong inflows of FDI and robust domestic demand. The solid performance of the economy continued during the first half of 2008, with GDP growing by 8% year-on-year. Services – most notably tourism, financial intermediation and real estate – remained the main drivers of growth, generating some 70% of gross value added (GVA). Around 20% of total growth was attributable to industrial output and construction. On the demand side, consumption remained solid as cumulative retail sales grew by 18% in real terms in the first eight months of 2008, supported by increasing household incomes. As a consequence of this robust economic growth, Montenegro's per capita income, measured in terms of purchasing power standards (PPS), increased in 2007 to around 32% of the EU-27 average.

Output strength

12 | Sustainability

Although environmentally compatible growth is taken into account at the institutional level in important aspects of economic life, it tends to be subordinated to growth efforts. In its 2007 constitution, Montenegro is explicitly defined as an environmental state. One example of progress is the fact that parliament has adopted a national land-use plan that provides for the municipalities to take on the

Environmental policy

task of urban planning and for which a pilot strategic environmental assessment has been conducted. Overall, environmental protection – in particular, in coastal areas and national parks – is a cause of concern.

Expenditure on education demonstrates the level of priority attached to education in the government's agenda and surpasses the average national investment of OECD countries (7.2% of GDP compared to an average of 6.1% spent in OECD countries). With 97% enrollment in primary schools (7 – 14 years) and an overall enrollment rate in secondary education of 85 – 90%, it can be said that access to education and training are generally good. There has been some progress in strengthening the legal framework and the quality-assurance system for education. There are 20,000 students enrolled at the University of Montenegro, 1,600 at the private Mediterranean University and 988 at five newly established private faculties. A total of 14,760 students – or 82% of the total number enrolled in the first year of undergraduate studies in 2006/2007 – went on to the second year of studies.

Education policy /
R&D

As regards research, in July 2008, the government adopted a strategy for scientific and research activities in Montenegro for the period between 2008 and 2010, which defines its science and technology priorities and sets out an annual budget for research, which it hopes to gradually increase.

Transformation Management

I. Level of Difficulty

Structural constraints on governance in Montenegro are moderate. The high level of poor individuals (according to various figures, between 11.3% and 25% of the population) and the exclusion of internally displaced people are problematic.

Structural
constraints

Although traditions of civil society did not exist in the Yugoslavia during its five decades of socialism, one can state that these traditions are gradually being built up in Montenegro. The country has a vibrant civil society community actively working on a number of issues, including the human rights agenda. At present, there are approximately 3,800 registered NGOs in Montenegro, although only 10% of these are believed to be active.

Civil society
traditions

The different ethnic groups in Montenegro find their expression in political parties. Even with some ethnically biased critics of the new constitution or other governmental policies, these conflicts tend to foster competitive coexistence rather than a deep split in society.

Conflict intensity

II. Management Performance

14 | Steering Capability

Montenegro's political leadership pursues long-term aims, combined with short-term political goals. After independence in 2006, one of the priorities of the government was to accelerate the process of European integration. In pursuit of this goal, a lot of efforts were made, such as the wave of reforms aimed at introducing European standards. However, it remains an important priority to strengthen the country's economic development.

Prioritization

Although Montenegro's government is committed to the goals of democracy and a market economy, it has had only limited success in implementing its reforms. Macroeconomic indicators indicate the effective implementation of reforms in that area. A lack of professionalism in the administration and established audit systems constitutes a hurdle to efforts aimed at implementing many of the action plans that the government launched in the past two years.

Implementation

Although Montenegro's political leadership responds to mistakes and failed policies with changes, its policies frequently remain stuck in the same routines. Learning processes occur, but they rarely affect the knowledge base or cognitive framework on which policies are based.

Policy learning

15 | Resource Efficiency

Montenegro's strengthening of human resources has been relatively limited. According to the EU Commission's 2008 progress report, the administrative and other resources required for parliamentary work, including expert support and office space, remain insufficient. The number of staff members is low, and there is no framework for systematic staff training. Some training efforts have been made with the support of international and bilateral donors.

Efficient use of assets

Montenegro's government has made some progress in the area of coordinating conflicting objectives and interests. The government seeks to coordinate various policy objectives, particularly conflicting objectives within different sectors of government. According to the SIGMA Report on Montenegro from May 2008, the legal framework underlying the policy-making system is adequate. Various elements of this framework have been amended in order to increase its efficiency and effectiveness. One can also observe an increasingly more effective system for the central coordination of decision-making on the governmental level.

Policy coordination

Although there has been some progress in the fight against corruption in Montenegro, the country still needs to confront what is perceived as the wide prevalence of corruption. In December 2007, parliament adopted a resolution on the fight against corruption and organized crime, which will serve as a good basic roadmap for anti-corruption efforts. According to the EU Commission's 2008 progress report, "there has been some evolution in the perception of corruption." More specifically, the powers of the specialized prosecutor's office for organized crime have been broadened to include corruption cases, and the human resources of the office have been increased. Specialized court units for organized crime and corruption have been set up at the Supreme Court level. However, the system of internal control and audit remains weak, although a number of government initiatives have been developed, such as the establishment of the State Audit Institution and the Public Internal Financial Control. The prerogatives of the

Anti-corruption policy

Directorate for Anti-Corruption Initiatives (DACI, formerly the Anti-corruption Agency) have been increased. It now has advisory, law-drafting and awareness-raising functions, but it still enjoys no decision-making authority. These oversight mechanisms can only be truly useful and effective if their independence is guaranteed.

According to the EU Commission's 2008 progress report, Montenegro lacks expertise in modern financial investigations: "Between January 2007 and April 2008, the Police Directorate for organized crime and corruption carried out only five financial investigations, excluding exchanges of data concerning transactions suspected of money laundering and seizure of proceeds. In 2007, no secret surveillance measures were used in investigations of corruption cases. The office of the Special Prosecutor lacks the necessary capacity in terms of staffing, expertise and equipment. The same applies to the special anti-corruption police task force. Overall, there has been some progress in strengthening the strategic and administrative framework for combating corruption. However, the declared commitment of the authorities to combat corruption has not been backed up by rigorous implementation with clear results, including higher conviction rates in corruption cases."

16 | Consensus-Building

The major political actors in Montenegro – that is, both the governing and opposition parties – basically agree on pursuing the strategic goals of democracy and a market economy. However, they do have some differences in terms of how they understand the role and scope of the state in society. One side holds that political actors should advocate a free market economy with a minimal but strong state (defined by a free market with no state interference in the economy, a high degree of economic freedom and private businesses), while the other advocates for a welfare state in which the state plays a significant role. There is also a basic consensus on European integration issues, as indicated, for example, by the unanimous adoption of a resolution on fulfilling Montenegro's SAA obligations. Since January 2008, the government has also formally changed its information policy, as a result of which it submits monthly reports to the committee on international relations and European integration on progress in EU integration.

Consensus on goals

There are no major political actors who explicitly pursue anti-democratic goals. Montenegro's political leadership has been able to either co-opt potentially anti-democratic veto actors or prevent them from becoming influential anti-democratic forces.

Anti-democratic
veto actors

Montenegro's political leadership has established a tradition of balancing visible differences and diversities. Co-optation (e.g., of ethnic-Albanian political

Cleavage /
conflict

representatives), informal agreements, side payments and accommodating policies have hitherto enabled the government to depolarize political differences. These consensual practices have been facilitated by the country's small size and its correspondingly small political elite, informal loyalties rooted in traditional kinship structures, the absence of radical socioeconomic change and, more recently, the integrative prospect of EU accession.

management

According to the EU Commission's 2008 progress report, Montenegro's government has kept up a strong pace in adopting new legislation: "The involvement of stakeholders, including civil society and international organizations, in developing new legislation has been improved by holding consultative meetings on a number of draft laws."

Civil society participation

There is also an overall understanding of the need to consult broadly on new pieces of legislation and strategic documents. In 2007, the government established an Office for NGO Cooperation and appointed a national NGO coordinator, who is considered to be open and committed to cooperation. In April 2008, parliament established a Council for EU integration. This body includes representatives of parliament, government and civil society and is meant to monitor the European integration process in Montenegro, including implementation of the SAA.

However, a report issued in January 2008 in the magazine "Gradanin" concluded "that (Montenegro's) government has a two-track approach to the nongovernmental sector. Cooperation is good when government wants to attract the interest of the international community and the topic is noncontroversial. However, when the issue is about transparency and government accountability and when the NGOs present themselves as bodies with the right to know, to criticize and to ask for accountability, the relationship is not so smooth."

Montenegro's political leadership recognizes the need to deal with historical acts of injustice and has sought to develop cordial relations with all former republics of the former Yugoslavia. In January 2009, it reached an out-of-court settlement in a trial that dealt with war crimes committed by Montenegrin officials. The case's settlement addresses 42 instances of individuals being expelled from the country in May 1992, during the Bosnian war, and involves damages worth \$4.13 million. The investigation into this crime, which started in late 2006, also led the Montenegro's state prosecutor to file an indictment on 19 January 2009 against nine individuals, which charges them with committing war crimes against civilians.

Reconciliation

17 | International Cooperation

Montenegro's political leadership works with bilateral and multilateral international donors and tries to make use of international assistance so as to improve its domestic reform policies. Key international partners that have supported Montenegrin reforms since their inception include the United States, the European

Effective use of support

Union and, more recently, NATO. Moreover, cooperation has been established and supported by the United Nations and all its agencies, the World Bank, the IMF, all EU institutions and many others. The political leadership has utilized international assistance for its domestic policy agenda.

Although Montenegro's government tries to act as a credible and reliable partner, major international actors still express doubts about its reliability. Nevertheless, foreign investors have shown strong interest, the European Union is Montenegro's main trading partner and there are noticeably high investments from Russia.

Credibility

Montenegro's political leadership cooperates with many neighboring states in the western Balkan region and complies with the rules set by regional and international organizations. According to the EU Commission's 2008 progress report: "Montenegro has participated in the work of the regional forums, including in the transformation of the Stability Pact for South-East Europe into a more regionally owned framework with the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC). Montenegro became a member of the South-East European Cooperation Initiative (SECI Centre, Bucharest) in June 2008. (...) In December 2007, Montenegro signed the agreement on police cooperation in South-Eastern Europe and the agreement on the establishment of a high-performance rail network in Southeastern Europe. In October 2007, Montenegro ratified the Agreement on the European Common Aviation Area (ECAA). Montenegro continued preparations to implement fully its obligations under the Energy Community Treaty. Montenegro is participating in the Central European Free Trade Agreement (CEFTA)."

Regional
cooperation

Montenegro's cooperation and political relations with neighboring countries are generally well-established and satisfactory. Relations with Serbia became more problematic after Montenegro recognized Kosovo's independence in October 2008.

Strategic Outlook

Although the European Union's integration policy has been a success for Montenegro, it still entails a lot of work. For example, harmonizing national legislation with the *acquis* requires coordinated and efficient cooperation within the government and parliament.

The elections of 29 March 2009 confirmed the Djukanovic government in office and reinforced its political dominance. Uncontested governmental authority will enable the political leadership to address the implications of the global economic crisis in Montenegro.

However, the ethno-political cleavage between ethnic Montenegrins and ethnic Serbs became more salient during the debates on independence and the recognition of Kosovo. If the Djukanovic government does not sufficiently accommodate the concerns of Montenegrin Serbs, so-called political entrepreneurs could seek to mobilize this community and polarize political competition over ethnic issues. Montenegro will also have to deal with problematic socioeconomic issues, such as the increasing poverty rate, the imbalance between the poor and the rich, and the inclusion of all groups in society. Furthermore, if Montenegro wants to qualify for EU membership, its government will have to improve the efficiency of public administration, to ensure an impartial judiciary and to deliver results in its efforts against corruption and organized crime.