

BTI 2016 | Montenegro Country Report

Status Index	1-10	7.48	# 20 of 129	
Political Transformation	1-10	7.85	# 21 of 129	➔
Economic Transformation	1-10	7.11	# 27 of 129	➔
Management Index	1-10	6.46	# 19 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	0.6	HDI	0.789	GDP p.c., PPP \$	14323.3
Pop. growth ¹	% p.a.	0.1	HDI rank of 187	51	Gini Index	33.2
Life expectancy	years	74.8	UN Education Index	0.774	Poverty ³	% 3.9
Urban population	%	63.8	Gender inequality ²	-	Aid per capita \$	205.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Preparations for membership in NATO and accession negotiations with the EU, crisis within the ruling coalition, and debate about the problem of misuse of public resources dominated the political agenda in Montenegro during the period under review.

Montenegro was invited to join the Membership Action Plan in December 2009, and has successfully completed the fourth MAP cycle in June 2014. Despite hopes, an invitation to join NATO was not issued at the Wales Summit. A clear message came instead – NATO has agreed to open intensified and focused talks with Montenegro, and agreed that foreign ministers will assess Montenegro’s progress by no later than the end of 2015 and decide on whether to invite Montenegro to join NATO. In the meantime, Montenegro is expected to address the remaining challenges – improve the rule of law, complete security sector reform and increase and maintain public support for membership.

Montenegro is making solid progress in its EU accession negotiations. In total, negotiations have been opened on 16 out of 33 chapters, including 23 – judiciary and fundamental rights and 24 – justice, freedom and security, and provisionally closed on two. The EU established a comprehensive set of 84 interim benchmarks for chapters 23 and 24 as a clear guidance for reforms. As a part of the EU accession process, Montenegro’s parliament adopted and amended numerous laws. Among others, these include changes to the constitution, elections and political party funding, set of laws related to the judiciary reforms, set of anti-corruption laws. In 2014, a Progress Report by the European Commission reminded Montenegro that progress under chapters 23 and 24 will need to be made in parallel with progress in negotiations overall. The EC recalled the existence of the “overall balance” clause of the negotiating frameworks and the possibility of stopping negotiations on other chapters if progress on rule of law issues lags behind. However, as stated by high EC officials, no one yet has suggested activation of the “overall balance” clause.

Throughout 2013 and 2014, friction within the governing coalition hampered the implementation of several significant governmental policies. The division between the ruling Democratic Party of Socialists (DPS) and the Social Democratic Party (SDP) became visible shortly after the October 2012 parliamentary elections, and had its highpoint during the 2013 presidential elections when the SDP didn't support the incumbent, President Filip Vujanovic. The crisis continued through the SDP's refusal to support in parliament some of the government's positions, and the SDP voting together with opposition on some of the most important issues – such as the initiation of bankruptcy proceedings against Montenegro's once dominating industrial enterprise, the Aluminum Plant Podgorica (KAP), budgetary changes and electoral reform. After failing to form a governing coalition with opposition parties in the summer of 2014, the SDP re-entered negotiations with the DPS, which brought a settlement of the crisis in late 2014.

The main political issue that marked the period under review was a heated debate on alleged misuse of public resources and competencies by the ruling party in order to ensure better election results. The problem escalated during the 2013 presidential elections, when an audio tape from a DPS meeting was leaked, disclosing high party and state officials actually discussing the system of selective employment opportunities for governing parties' supporters.

The government has struggled to maintain macroeconomic stability during the crisis, with both public and foreign debt levels increasing and a continuing high current account deficit. In October 2014, total public debt was 58.09% of GDP. The acceleration of state guaranteed that growth in the previous period had a negative impact on total debt levels. The government estimates that public debt will exceed the Maastricht Criteria in 2015, reaching 63.2% of GDP, and continue growing throughout 2016 (67%) and 2017 (69.1%).

History and Characteristics of Transformation

A tradition of independent statehood in the area of what is now modern Montenegro dates back several centuries. In 1878, the Congress of Berlin recognized Montenegro as an independent state. The history of Montenegrin independence ended in 1918, when Montenegro unconditionally joined Serbia in a controversial decision of the Podgorica Assembly, held under the auspices of the Allied forces, while the Montenegrin sovereign and government were still in exile. Soon afterwards, Montenegro became a part of the Kingdom of Serbs, Croats and Slovenes, later renamed Yugoslavia. From 1918 to 1941, and from 1946 to 1992, Montenegro was a constituent republic of Yugoslavia.

Montenegro was the only republic of Yugoslavia that decided to remain in a joint state with Serbia in the early 1990s. This policy was not only advocated by the post-communist political elite that emerged victorious in the country's first post-communism elections, but also was supported by a substantial part of Montenegrin citizens, who felt closely associated with the idea of Yugoslavia and cultural links with Serbian nation. In 1992, Montenegro and Serbia established the Federal

Republic of Yugoslavia (FRY) to succeed the Socialist Federal Republic of Yugoslavia (SFRY). While the constitution of the FRY envisaged parity between Montenegro and Serbia in federal institutions, the common state was de facto dominated by much larger Serbia, both economically and politically. Facilitated by wars and nationalist mobilization, Serbia's president, Slobodan Milosevic, was able to establish a semi-authoritarian system that included Montenegro and that kept him in power until 2000. Milosevic's regime was based on clientelistic networks within the state administration, police, military and state-dominated economy, all of which enabled him to exercise control over traditional and electronic media, skillfully falsify elections and, thereby, engender the effective fragmentation and isolation of the political opposition. These methods were also used by his partners, the DPS, which governed Montenegro following the fall of communism.

Milo Djukanovic, Prime Minister of Montenegro and one of the leaders of the DPS, broke with Milosevic in 1997 and successfully ran as president in October 1997, increasingly distancing Montenegro from Serbia and implementing reforms aimed at establishing a market economy. In the wake of the Kosovo War, in August 1999, the Montenegrin government proposed to transform the FRY into a confederation of two states. As the Milosevic regime rejected this proposal and unilaterally abolished the equal representation of Montenegro in the federal parliament, Montenegro 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, Montenegrin opposition parties and most parties in Serbia preferred to preserve a common state framework. Negotiations led to an agreement in 2002 and a constitutional charter in 2003, which defined the state union and its institutions. 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.

On 21 May 2006, the referendum was held and 55.5% of Montenegrin citizens voted for independence. Following its declaration of independence, Montenegro joined the United Nations and other major international organizations. In December 2010, the European Union granted the country candidate status, and accession negotiations with Montenegro were opened in June 2012. Montenegro is also on track to join NATO.

Behind the rather successful international recognition of Montenegrin political commitment to Euro-Atlantic integration, its society has been struggling with slow-paced changes in its political model, inefficient public institutions, a culture of legal impunity for people politically affiliated with the ruling parties, discriminatory practices in the labor market and public procurements, as well as challenges to legal security and the harmonization of judicial practices with best international standards.

As regards the social and political transformation of Montenegro, the dynamics of change are heavily influenced by the fact that a single party has effectively been in power since the fall of communism. Political control over the public and judicial sector, alongside clientelistic political and social networks, has created a culture of passivity among public institutions mandated with law enforcement. Institutional inactivity and futile political opposition opened huge space for the civil society and media sectors, which have been extremely vocal and active in identifying corruption and crime, as well as concrete misdemeanors by inefficient institutions. Respectively, support by international players elevated NGO and media pressure into the only relevant criticism of government policies, and positioned them as the frontrunners of a wave of growing public demands for changes.

Despite the beneficial effect on the internal processes of change, this approach resulted in highly adversarial effects on civil society and the media. Namely, they have increasingly assumed more and more politically partisan standpoints and eventually shifted their focus from social problems to the political parties and their related power plays. Thus, instead of sustaining an independent position outside the realm of political parties, both civil society and the media became active political protagonists, with very blurry lines of division among NGOs, media and political parties. Such a scenario eventually resulted in politicized debates as the main framework for discussing social and economic issues, which was a setback in comparison to the post-referendum period, when NGOs and the media successfully pursued a reform agenda and fact-based topics beyond typical political discourse.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force covers the entire territory of the country. Police and military forces provide security in all areas of the country and there are no organizations such as militias or guerrillas.

Question
Score

Monopoly on the
use of force
10

The legitimacy of the nation-state is rarely questioned. All the major political institutions officially state that they do not question the independence of Montenegro, and they are not a threat to its statehood. Still, the (un)fairness of the independence referendum has been occasionally brought up by some opposition leaders during the high-tension elections and political communications in 2013 and 2014.

State identity
8

Some identity issues, such as the official language and national symbols continue to play a divisive role in society. According to the constitution, Montenegrin is the official language in Montenegro, while Serbian, Bosnian, Albanian and Croatian are "in official use." In 2013, the Constitutional Court ruled that the provision of the Law on Education which defined the name of language course in schools as "Montenegrin – Serbian, Bosnian, Croatian language and literature" was unconstitutional. This provision was the result of a compromise between the government and opposition parties.

The state is largely secular, but religious dogmas have some influence on politics and decision-making.

No interference of
religious dogmas
9

The three major religious groups in the country are Orthodox Christians (72.07%) – who are divided between two opposed churches – the Serbian Orthodox Church (SPC) and the Montenegrin Orthodox Church; Muslims (19.41%) and Catholics (3.44%), while the remaining 5.4% of the population belong to other religious groups, are atheists/agnostics or did not declare their religious affiliation.

The SPC attempts to interfere in the affairs of the state and politics. The church's clergy often uses offensive rhetoric, most times on the edge of hate-speech, and seeks to influence political and democratic processes at the state level.

According to the constitution, religious communities are separated from the state and equal and free in the exercise of religious rights. The Law on the Legal Status of Religious Communities passed in 1977 provides a basic legal framework for religious life, which is outdated and not harmonized with the constitution. Adoption of a new law on religion has been announced and postponed several times since 2012. The Ministry of Human and Minority Rights formed a working group with the task to draft a Law on Freedom of Religion in June 2014, but adoption is postponed until 2015.

All necessary administrative structures, providing all basic public services, exist and operate throughout entire territory of Montenegro.

Basic
administration
10

2 | Political Participation

General, multi-party elections are held regularly, and mostly positively assessed by international observers. Still, there are serious concerns regarding the fairness of the electoral process, primarily related to electorally motivated public spending. According to a representative opinion poll conducted in February 2014, 47% of citizens do not believe that elections are free and fair. According to the same opinion poll, only 48% of citizens believe that the elections are free and fair, and those are predominantly supporters of the governing parties.

Free and fair
elections
7

A general belief is that governing political parties distribute welfare benefits and provide employment in exchange for votes. During the campaign for the 2013 presidential elections, media published an audiotape of a discussion among state officials about employment opportunities for governing parties' supporters. Although the opposition parties participated in the 2013 presidential elections, they disputed the election results on the grounds of this argument. Incumbent President Filip Vujanović won the 2013 presidential election by a narrow margin. Both Vujanović and opposition candidate Miodrag Lekić proclaimed victory before the announcement of the official results. Suspicions of the misuse of public resources continued to be a key topic in the 2014 local elections in half of Montenegrin municipalities, including the capital Podgorica.

The "Audio Recording" affair led to the establishment of a parliamentary working group with the task of starting build trust in elections through legislative changes. In 2013 and 2014, along with NGO representatives, this group deliberated amendments

to the Law on Residence Registers, Law on the Voters' List, Law on the Election of Councilors and Members of Parliament and the Law on Financing Political Parties.

In March 2014, changes to the Law on the Election of Councilors and Members of Parliament were adopted in parliament with the required two-third majority. Key changes brought by the new legislation are the introduction of the electronic identification of voters and changes in the composition of the electoral administration. The list of registered voters is now centralized and administered by the Ministry of Interior. Still, there are a number of recommendations of OSCE/ODIHR and Venice Commission that were not included in new legislation. Most important of these are the overly long residency requirements for national elections and restrictions on the right to run as an independent candidate. Also, even with the recent changes, the State Election Commission remains a partisan body, with limited capacities. Provisions on the electronic identification of voters were introduced to prevent repeated voting and voting by individuals without the right to vote. The new rules were supposed to be applied to all elections after November 1, 2014. However, the government was reluctant to implement these provisions, basing its decision on a lack of financial resources. In December 2014, elections in the municipality of Herceg Novi were held without electronic identification, which was formally against the law. Still, none of the participants in these elections challenged the electoral results.

After an earlier version of the Law on Financing of Political Subjects and Election Campaigns failed to pass the constitutionality check, a new law was adopted in December 2014. New legislation brings important improvements related to the transparency of political finance, bans on the use of public resources and meaningful control over campaign finance. Still, its application remains uncertain, as its enforcement in 2015 relies on the State Election Commission. In the subsequent years, this law is to be implemented by the Agency for the Prevention of Corruption whose establishment is anticipated in January 2016.

The amended Law on the Election of Councilors and Deputies now requires that one out of every four candidates on the electoral list is a member of the less-represented gender. It also provides that a member of parliament or councilor of the less-represented gender can be replaced only by a representative of the same gender.

The changes to Montenegro's electoral legislation did not enhance conditions for the political representation of the Romani minority. Roma are discriminated against by Montenegro's election law, as they do not benefit from affirmative action like other minorities. Namely, the election law enabled ethnic Croat representatives to be elected to parliament under favorable conditions and with a special election threshold (0.35%) estimated to be attainable due to the percentage of Croats in the population. According to the latest census results, there is yet another ethnic group in Montenegro with approximately the same share in the entire population, but without the same

privileges. This are the Roma, which, according to the latest census, make up 1.01% of the population, while Croats make up 0.97%. The NGOs CDT and CEDEM initiated a constitutionality test of this provision in the Constitutional Court in November 2014.

Democratically elected political representatives have the effective power to govern, and no individuals or groups hold any veto power.

Effective power to govern

9

Churches, business, landowners and international actors are obviously trying, with more or less success, to influence decisions, but their activity is staying within the limits of the usual behavior of interest groups. Their influence on decision-making always depends on finding common interests with governing structures.

Freedom of assembly and freedom of association are guaranteed by the constitution. The constitution prohibits political activity in state bodies and political activity by foreigners and political organizations with their headquarters abroad.

Association / assembly rights

9

The freedom of association is further protected and regulated by the Law on Non-Governmental Organizations, the Law on Political Parties, et cetera. The Law on NGOs defines two forms of NGOs: associations and foundations. Foreign NGOs can also operate in Montenegro.

According to the constitution, authorities have the prerogative to temporarily restrict the freedom of assembly in order to prevent disorder or the execution of a criminal offense, or a threat to the health, morality or security of people and property. However, basing its decisions on the 2005 Law on Public Gatherings, which is not in line with the country's constitution, the police directorate prevented a number of peaceful gatherings. In reaction to this, the Constitutional Court questioned the constitutionality of the law. This resulted in the December 2014 amendments to the Law on Public Gatherings, clarifying that public gatherings can only be temporarily restricted in cases proscribed by the law. Yet, the same amendments also introduced new restrictions on public gatherings, extending the list of public locations where gatherings are not allowed. New provisions ban public gatherings within 50 meters of hospitals, kindergartens and primary schools, protected cultural sights, as well as the buildings of parliament, the government, the president or the Constitutional Court of Montenegro. They also prohibit gatherings on highways, motorways and regional and local roads, and in parks of nature, unless such gatherings promote environmental protection. These provisions have been criticized by opposition parties and NGOs, who consider them to undermine the nature and purpose of protest gatherings addressed to public authorities. In January 2015, the opposition party Movement for Changes asked the Constitutional Court for a ruling on the constitutionality of this provision.

Montenegro has about 80 electronic, online and print media outlets.

Considering the number of citizens, the diversity in media inhibits the financial situation and sustainability of media outlets. It caused 150 employees to lose jobs in Montenegrin media in 2014. At the end of 2014, the debt of electronic media outlets to the Agency of Electronic Media reached €480,000. In 2013, this agency disconnected three TV and six radio stations from the national frequencies system. The tax administration also announced that some media outlets have debts related to taxes and contributions to employees. Print media also suffer from financial difficulties, as their sustainability solely depends on advertising budgets and major companies.

At the end of 2014, the government of Montenegro took over the debt from unpaid taxes and contributions of employees (€2.4 million) of the public broadcaster (RTCG). On top of this, the process of digitization, which should be completed in 2015, further tangles the financial insolvency of RTCG. The MediaNea company purchased the bankrupt daily newspaper Pobjeda.

The media generally work hand-in-hand with particular political parties. This tendency often prevails over professional standards and matters of public interest. Also, certain media outlets are closely tied to influential political participants, which causes significant differences in media reporting about the same events. Strong political polarization has been reflected in the media's inefficacy at creating all-inclusive self-regulating body. The Media Council for Self-Regulation (MCSR) formed by one pro-government media group (including the dailies Dnevne Novine and Pobjeda, RTCG, TV Atlas, Radio Antena M, Portal Analitika and others) is more active than the Press Council, formed by another group that opposes the government (including the dailies Vijesti and Dan, and the weekly Monitor). The MCSR publishes monitoring reports with examples of violations of the journalistic code, while daily newspapers Vijesti and Dan, and the weekly Monitor founded the Press Ombudsman.

Freedom of speech, freedom of the press, prohibition of censorship and access to information are guaranteed by constitution. However, these freedoms have been compromised by violence against journalists and attacks on media-owned properties. After threats and violence against journalists occurred, the Commission for Monitoring Activities in Cases of Threats and Violence against Journalists was founded in December 2013. It is formed of representatives from the Ministry of Interior, the Prosecutor's Office, the police, NGOs and the media. By the end of 2014, five persons were convicted of the assault on a journalist for Dan Lidija Nikčević and sentenced to 61 months in prison. However, the state authorities haven't solved the case of the explosion in front of the house of Tufik Softić, a journalist for Vijesti and Monitor. Also, the case of the blast in front of Vijesti's editorial board premises has not been solved.

Freedom of
expression

6

In 2014, a set of insulting articles about the executive director of MANS, Vanja Čalović, was published by the tabloid *Informer*. This affair provoked a lot of reactions from the international community, as well as national political actors. Publishing the insulting articles prompted the courts to repeatedly restrict the distribution of this tabloid.

Also, most parliamentary parties called for abolishing the provision of the media law that enables the authorities to prohibit the distribution for media that do not respect court resolutions. These alterations have been viewed as unconstitutional and unacceptable by the law, and contrary to the European Convention on Human Rights. It is a general opinion of the national and international communities that such legislative changes would limit freedom of the press and restore media censorship.

3 | Rule of Law

Montenegro is an independent and sovereign state with a republican form of government regulated by the division of power into legislative, executive, and judicial branches. Legislative power is exercised by the parliament, executive power by the government and judicial power by the courts. Montenegro is represented by the country's president. Constitutionality and legality are protected by the Constitutional Court. The army and the security services are subject to democratic and civil control.

Parliament's rules of procedure envisage member of parliament questions and a prime minister's hour, interpellation, vote of confidence and consultative and control parliamentary hearings as tools for exercising parliament's oversight function. However, parliament's capacity to perform its oversight and legislative functions is still weak. Due to the crisis in the governing coalition (DPS-SDP) in 2013 and 2014, the parliament voted several times against important governmental policies, such as solutions related to a bankruptcy of Montenegro's aluminum plant and bauxite mine, electoral legislation and even changes to the state budget.

The government holds executive power, and is responsible for the management of Montenegro's internal and foreign policy and the enforcement of legislation. It plays a key role in the legislative process, as the vast majority of laws are drafted by the government.

The president of Montenegro is directly elected for a five-year term of office, renewable once. The president is impeachable for any violation of the constitution.

Separation of
powers

7

The judiciary is an autonomous and independent body, according to the country's constitution. However, serious concerns still exist over the independence and efficiency of the judiciary, in terms of political influence over the work of judges, the public perception of corruption and available resources for their work and in general, extreme workload.

Independent
judiciary

7

The Montenegrin constitution was amended in 2013, specifically regarding the procedures for appointing judges. First, political influence over appointments of high-level judicial officials was slightly reduced through merit-based procedures, which are more transparent than before. It is clear that the amendments were oriented towards lessening political influence. Reforms were made in the appointment and dismissal of the president of the Supreme Court, the composition and competences of the Judicial Council, the election and dismissal of judges of the Constitutional Court, as well as the appointment and dismissal of the Supreme State Prosecutor. Still, these amendments are expected to be quite productive, in terms of driving positive changes in the judicial system as a whole.

An amendment to the constitution changed the competence of the parliament in this regard, stating that the parliament is to appoint and dismiss (in the first round, with the support of two-thirds, and in second three-fifths, of parliamentary members) judges for the Constitutional Court, the Supreme State Prosecutor and four members of the Judicial Council.

The president of the Judicial Council is now elected from among the members of the Council, and cannot be a judge or minister of justice. There are still four judges appointed or dismissed by the Conference of Judges, but now the conference must see to proportional representation in courts and judges. Another four members of the council are to be appointed or dismissed by the parliament, based upon proposals by a working group in the parliament, after a public call has been carried out. The Minister of Justice is the ninth member of the Council.

Following these constitutional reforms in July 2013, key judicial and prosecutorial officials were elected.

Positive steps have been made in trial procedures; the courts have managed to decrease the length of proceedings and to solve considerably more cases than in previous years. The Judicial Council has improved its transparency with regard to publishing information about its decisions. Problems persist regarding the independence and impartial functioning of the Judicial and Prosecutorial Councils, their limited administrative capacities and budget, and the vague criteria for appointing and promoting judges and prosecutors.

According to a survey from September 2014, published by the Center for Democracy and Human Rights (CEDEM), only 42.8% of Montenegrin citizens have confidence in the judiciary, which is the same as in 2012. According to an Ipsos survey from

March 2014, 61.1% of the Montenegrin public thinks that judges are corrupt and 57.4% perceive public prosecutors as corrupt.

In addition, in the area of judicial reform, the action plan for Chapter 23 is generally being implemented on time. In April 2014, the government adopted a new judicial reform strategy for 2014-2018, in accordance with action plan priorities.

The public perception of corruption among public sector employees is concerning, according to an Ipsos survey from March 2014 – 13.8% the respondents think that “almost all officials are involved,” 45.5% think that “most officials are involved,” and 31.7% think that a “few officials are involved,” while only 3.4% think that “scarcely any officials are involved.”

In its 2014 Progress Report, the European Commission underlined the need for urgent improvement and strengthening of control and inspection mechanisms within public administration and their cooperation with law enforcement authorities.

Several investigations of public officials have been launched, including investigations of two mayors and two former mayors. Even so, no final verdict in these high-level corruption and organized crime cases has been reached. Also, no confiscation of assets has been ordered in any of these cases.

Even though the general public has expressed a belief in connections among the executive authorities, the illegal trade in natural resources and organized crime, there is still no concrete evidence that would lead to a court process.

Beyond this, there have been several important incidents disclosing misuse of public resources, including the “Audio recording,” “Zavala,” “Košljun,” “CKB” and “Telekom” affairs. These cases have attracted interest from the international community. Proceedings are ongoing in all cases. Prosecutors have not pursued cases rigorously.

The police and the prosecutor’s office have insufficient capacity to deal with emerging challenges (e.g., financial investigations, cybercrime, money laundering).

The State Audit Institution (SAI) possesses a proactive approach to controlling regularity and effectively managing state assets and liabilities, budgets and all the financial affairs of institutions whose sources of finance are public or created through the use of state property. The SAI is efficient in preparing audit reports, documenting irregularities, providing recommendations and measures for the elimination of irregularities in the work of public entities. The 2014 annual report indicates that 15 individual audits were performed, with 231 recommendations, 39 reviews (15 positive, 20 conditional and four negative) and 19 conclusions.

Accusations of electoral fraud (vote buying, channeling state money to potential voters, party employment, et cetera) have been repeatedly made by opposition parties,

the media and NGOs in almost every election (national and local). But only in a very limited number of cases do those accusations make it to court. This is mainly due to a lack of evidence and the slowness of the judicial process.

The number of reports to the Directorate for Anti-Corruption Initiative of suspicion of corruption increased significantly in 2014. In the first half of 2014, 66 reports were received, compared to 22 reports in 2013. However, very few of these reports result in criminal charges.

Civil rights are generally observed with occasional violations that do not have a systematic profile. Legal and institutional architecture provide appropriate formal framework for the protection of civil rights and sanctioning of violations. However, issues of discrimination as well as the rights of marginalized groups remain the biggest challenges in the practical implementation of legal standards and institutional practices.

Civil rights
8

As assessed by eminent human rights groups, the legal protection provided by institutions in charge of protecting human rights – the police, prosecutors, state audits and courts – is neither efficient nor effective enough, especially when it comes to the right to a speedy trial, processing war crimes claims, protection from torture, domestic violence, hate speech and threats to sexual minorities.

Amendments to the constitution in 2013 introduced a three-member court that makes decisions regarding constitutional appeals. Its purpose is to make the constitutional appeal process faster and more efficient. A new law on the Constitutional Court is about to be adopted, which should make more efficient the constitutional appeal process, as well as procedures for testing the constitutionality and legality of legislation. Still, the effectiveness and accessibility of constitutional appeals remain questionable.

In relation to the international standard demanding absolute prohibition of torture and other mistreatment, and in particular the obligation to effectively prosecute such allegations, Human Rights Action has noted a lack of thorough investigations and a lenient court rulings in such cases, which is not up to standard.

All the cases related to assaults on journalists have not yet been effectively investigated and processed.

The Roma population in Montenegro still experiences permanent poverty and the risk of social exclusion, which is reflected in their difficulties at gaining employment, social and health protection and education, as well as their insufficient participation in political and social life. The amendments to electoral legislation did not create conditions for the political representation of Roma, due to a clear lack of political

determination that would enable this national community to exercise their electoral rights.

In 2013, two LGBT pride parades were held – in Budva and Podgorica – and both were characterized by escalations of violence and heavy presence of police. The 2014 Montenegro pride parade in Podgorica was again held under police protection, but with no street violence.

4 | Stability of Democratic Institutions

The legal framework establishes legal guarantees and institutions that create the basis for stable institutions that can guarantee democracy, rule of law and human rights.

Yet, throughout 2013 and 2014, friction within the governing coalition created many obstacles in implementing important government policies. The division between the ruling DPS and SDP became apparent shortly after the October 2012 parliamentary elections, and reached its summit during the 2013 presidential elections when the SDP didn't support the incumbent, President Filip Vujanovic, whose attempt to hold office a third time caused a number of legal and political disputes.

Tensions between the coalition partners continued when the SDP refused to support some of the government's positions in parliament, and the party subsequently aligned with the opposition on a number of important issues – such as the aluminum plant crisis, budgetary changes and electoral reform. During the May 2014 local elections, the SDP ran separately from the DPS in some municipalities, including the capital Podgorica. After failing to negotiate a local government coalition with the opposition, the SDP turned back to the DPS in late 2014. The two parties agreed to renegotiate the coalition agreement over the course of 2015. The new agreement is expected to resolve problems within the governing coalition, and to ease cooperation among institutions. The revision of the coalition agreement will affect the composition of the government and have an impact on the stability of governance.

All relevant political and social players accept democratic institutions as legitimate.

However, the legitimacy of elections was seriously questioned throughout 2013 and 2014, based on allegations that the governing Democratic Party of Socialists abused public resources to gain votes. A representative opinion survey conducted in February 2014 indicated that nearly half of Montenegro's citizens do not believe in the freedom and fairness of elections.

Performance of
democratic
institutions

8

Commitment to
democratic
institutions

8

5 | Political and Social Integration

The party system is fairly stable and socially rooted. It shows moderate fragmentation, strong polarization and moderate voter volatility. The degree of change in voting behaviors from one election to another is very low among voters for the ruling coalition. At the same time, parts of the electorate switch allegiance among opposition parties.

Party system
7

The opposition's efforts to unify had their highlight during the 2013 presidential elections. Democratic Front candidate, Miodrag Lekic, had explicit support from other opposition parties, such as Positive Montenegro and the Socialist Peoples Party. The ruling SDP strongly opposed a third term for incumbent, President Filip Vujanovic, and some SDP voters voted for Lekic. This unity brought the opposition closest to victory in last few years – Lekic lost, but with a narrow margin of around 7,500 votes. Yet, DPS voters once again demonstrated their loyalty, and the DPS candidate manage to get almost 162,000 votes without support from the party's key ally.

Disappointment about the 2014 election results, and especially about the failure to form an opposition government in Podgorica, caused a great deal of turbulence in the opposition parties. Positive Montenegro went through a split. Some of its high officials left and formed new political entity – the Civic Movement. The Democratic Front is facing the necessity of transformation, and different factions have yet to agree whether to form a looser coalition or build a more centralized entity. The Socialist People's Party also had very competitive internal elections, which revealed the existence of interior problems and disputes.

While a large number of social groups with diverse interests exists, not all these social interests are properly represented in the political system. This is mainly due to a limited number of cooperative associations and interest groups that mediate between society and the political system. The range of social interests these groups reflect and represent is fairly limited. The groups that tend to capture the widest range are primarily located within the civil sector and formally registered as non-governmental organizations. This is the most effective mechanism that connects civil society and the political system. Those interests that are not usually represented by political parties – such as LGBTQ, women, youth, Roma, subcultures, persons with disabilities, et cetera – are on the agendas of NGOs. However, since the non-governmental sector had been going through professionalization for years now, the majority of NGOs tend to lose connection with their constituencies, and mainly focus on implementing international standards and norms, which may not always work in their constituency's best interest. In addition, retraction of foreign donors is severely affecting the financial sustainability of the civil sector, which consequently pushes NGOs into becoming "catch all" organizations, focused in implementing donors'

Interest groups
7

interests and not promoting their own agendas or constituency's interest. Moreover, local specific interests are not properly represented in the capital of Montenegro – where all bargaining power is located – since local NGOs tend to be weak, without full-time and professional staff.

The voice of the labor unions has become stronger, but their work is not necessarily more efficient and effective. Many question if the unions are representing the interests of the workers, or just the interests of those who represent workers in the unions. There are two national business associations, which also play a certain role in society, and have limited influence on decision-making. However, informal networks, especially in the business sector, remain powerful and non-transparent. While there are certain social and political powers that mobilize around ethnic and nationalist interests, none aims to undermine democracy or civil society. The only organization that (only verbally) challenges values of democracy and civil society is the Serbian Orthodox Church, which often demonizes members of the LGBTQ population and sometimes offends members of other religious denominations.

In addition to all of this, the interests of the international community cannot be ignored. Representatives of international organizations have influence over a wide range of decisions – including legislation, appointments, policies and strategies – working either quietly through diplomacy or publicly in cooperation with civil society.

Approval of democratic norms and procedures is fairly high. According to the NGO CEDEM's September 2014 public opinion poll, 35.1% of respondents believe that Montenegro "took the right track," while 32.8% of citizens think that the country chose the wrong direction. In a representative household survey conducted by the European Bank for Reconstruction and Development in 2010, 69% of Montenegrins declared that democracy is preferable to any other political system.

Approval of
democracy
8

The same poll shows that 50.2% of citizens expressed trust in the president, 44.3% in the government, 40.2% in the parliament, and only 26.2% in political parties. The level of trust in democratic institutions remains lower than the level of trust in education or the health system, or in the Serbian Orthodox Church.

Around 3,300 NGOs are currently registered in Montenegro and over 40% of them are based in the country's capital. Polls show that 39.8% of citizens have trust in NGOs, while public trust in NGOs has declined since 2010.

Social capital
7

Political culture in Montenegro relies on multiethnic and multicultural traditions, so while inter-ethnic hatred is low, people continue to distrust persons belonging to other ethnic groups. Research conducted by a Montenegrin NGO in November 2013 shows that the inter-ethnic distance is the greatest towards the Roma population, as indicated by 46% of respondents. Inter-ethnic distance is 39.4% towards Albanians, and 35.6% towards Croats. This research also showed that all ethnic communities are more tolerant towards each other compared to 2004 or 2007, except for Bosnian Muslims who tend to distance themselves from other groups.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Poverty and inequality in Montenegro are pronounced and partly structurally ingrained. With a gross national income of \$7,250 per capita in 2013 (World Bank figures – Atlas method), Montenegro belongs to a group of middle-income countries. However, further progress in poverty reduction and social inclusion is needed.

Socioeconomic
barriers
7

In 2013, the absolute poverty line in Montenegro amounted €186.45, which is about €4 more than in 2012. In 2013, around 8.6% of the population had equivalent consumption below the absolute poverty line. The poverty rate in 2013 was reduced, while the depth and severity also decreased. Poverty was reduced from 11.3% in 2012 to 8.6% in 2013. The poverty gap, as an indicator of the depth of poverty decreased from 2.8% in 2012 to 2.4% in 2013. According to a MONSTAT survey, the rural population has a higher risk of poverty than the urban population. The depth and severity of poverty is higher in urban areas.

According to the UNDP Human Development Report for 2014, Montenegro is 51st out of 187 countries. The UNDP identified the RAE population as one of Montenegro's vulnerable groups. Beside the RAE, previous reports on social exclusion identified as vulnerable displaced persons and social welfare beneficiaries, pensioners, the long-term unemployed and persons with disabilities. The general conclusion is that the position of these groups is slightly improved in comparison to the previous period in terms of their inclusion in social life. However, there is a need for additional efforts in order to make their overall position more favorable.

Unemployment is a feature of disadvantaged groups. The unemployment rate of the RAE population, according to UNDP, is 44%. Also, the Human Development Report stressed that youth are vulnerable (with an unemployment rate at 36%).

According to MONSTAT research for 2013, poverty incidence was significantly higher in the northern region compared to other parts of the state.

The Gini coefficient decreased from 26.5% in 2012 to 26.2% in 2013. However, it is higher than in 2011. This coefficient shows a decline in inequality in 2013 in rural areas, compared with the previous year. The Gini coefficient for rural areas decreased from 26.3% to 23.5%. However, in 2013, there was a growth in inequality in urban areas, where the Gini coefficient increased from 25.7% to 26.8%.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	2257.1	4111.1	4417.3	4583.2
GDP growth	%	4.2	2.5	3.3	1.5
Inflation (CPI)	%	-	0.7	2.2	-0.7
Unemployment	%	19.4	19.7	19.8	-
Foreign direct investment	% of GDP	-	18.4	10.1	10.8
Export growth	%	12.0	7.5	-1.3	-2.5
Import growth	%	13.7	-3.1	-3.1	-0.8
Current account balance	\$ M	-	-952.4	-649.0	-698.7
Public debt	% of GDP	36.3	40.9	55.8	60.5
External debt	\$ M	-	1603.3	2955.7	-
Total debt service	\$ M	-	98.0	366.0	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	29.9	23.4	19.8	20.0
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	6.0	4.2	3.7	-
R&D expenditure	% of GDP	0.92	-	-	-
Military expenditure	% of GDP	-	1.8	1.5	1.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the rules for market competition are not consistent for all market participants. Reducing the informal economy is one of the imperatives of the Montenegrin government.

Market-based
competition
7

The privatization of the Montenegrin economy in previous years was intense. Tax, banking and customs reforms were implemented, followed by the development of a new capital market and the creation of a new private sector. In 2014, the government decided to continue privatization by selling shares and creating public-private partnerships.

Montenegro exhibits the characteristics of an open economy with free market competition and limited government intervention, which influenced the startup of new businesses. An improved framework for market-based competition resulted in the fact that during 2012 and 2013, respectively, there were 2,813 and 4,064 newly established companies in Montenegro.

Under conditions of a prolonged economic crisis and still-slow economic growth, as well as an intense fight against the informal economy, in conjunction with a set of urgent fiscal adjustment measures that focus on both budget expenditures and revenues, the result is an increase in public revenues in 2013 of approximately €14 million more than in 2012. In addition to better revenue collection, notable progress was achieved in improving fiscal discipline. The measures defined by the Action Plan for combating the informal economy in 2013 were realized as planned. A new Action Plan for 2014 has been adopted. The government, together with civil society, initiated a “be responsible” campaign, and thanks to activism by citizens and inspections conducted by the authorities, fines worth of more than over €1 million were issued for not providing fiscal receipts, violations of consumer rights and irregularities at beach resorts during the summer tourist season.

However, there are many significant indicators which show that rules are not equally applied to all market actors; therefore, one can conclude that a strong political impact on the market still exists. Economic power is most often indirectly related to the governing institutions, but there are bearers of economic power connected to the opposition, as well. The owners of big businesses are not officials in the ruling parties, but some have visible connections to the prime minister and his relatives and close friends.

Competition laws to prevent monopolistic structures and conduct exist, but are enforced inconsistently. A new Law on Protecting Competition was passed, which aims at harmonizing Montenegro's regulations with those of the EU in the field of competition. The law promotes regulations on competition protection through the number of new legal provisions.

Anti-monopoly
policy
8

The Law on Protecting Competition represents the main unit of the total economic and legal environment of Montenegro. Its institutional structure and legal instruments create economic and legal mechanisms, which should in the long run promote at the macro- and micro- levels the establishment of healthy relationships in Montenegro's market economy to create equal starting conditions for all businesses.

The Agency for Protection of Competition was established as a functionally independent entity in February 2013. Prior to its founding, work on competition law and policy was fully under the directorate of the Ministry of Economy. Also, in 2014 the government adopted seven bylaws regulating block exemptions.

The Law on Protecting Competition is broadly in line with the EU acquis but requires further alignment in certain respects (e.g., the definition of a dominant market position). Although Montenegro has continued to develop its administrative capacity, there is a need to further increase staff numbers, budget resources and training, and to ensure full independence in the process of decision-making. The enforcement record still needs considerable improvement, particularly as regards the economic and legal assessment of anti-trust and mergers cases.

Foreign trade is widely liberalized, with uniform, low tariffs and few non-tariff barriers. All customs tariff rates on imports have been reduced significantly in Montenegro. Montenegro also eliminated tariffs on exports and quotas on either imports or exports. Montenegro has an institutional basis for free trade with countries that are its main trading partners and with countries with which there is the greatest potential for the development of trade relations – primarily with EU countries, the countries of the region through the Central European Free Trade Agreement, as well as with Turkey and Russia.

Liberalization of
foreign trade
10

Montenegro became a full member of the World Trade Organization on 29 April 2012. Montenegro's membership in the WTO implies the obligation to continue the liberalization of the country's trade regime, providing a transparent and predictable environment for both domestic and foreign companies.

During 2013 and 2014, the gradual liberalization and reduction of tariff rates for industrial products in accordance with the 2012 Free Trade Agreement between Montenegro and the EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) continued. This agreement should fully be implemented by January 2015. In June 2014, within the framework of accession negotiations with the EU, Montenegro begun addressing issues associated with the free movement of capital and payment.

The banking system is solid and oriented toward international standards with functional banking supervision and minimum capital equity requirements. Capital markets are open to domestic and foreign capital with sufficient resilience to cope with sudden stops and capital flow reversals.

Banking system
8

The main institution in charge of supervision and oversight of the financial service sector is the Central Bank of Montenegro. The banking sector is reformed and aligned with international standards. All regulations are in accordance with the Basel Accords and European Union norms. The banking sector in Montenegro has significantly recovered, but is still vulnerable, and the central bank, takes the necessary measures (within its jurisdiction) to preserve financial stability and strengthen the financial market.

In order to further encourage and preserve monetary and financial stability the central bank is undertaking all necessary measures within its jurisdiction to increase confidence in the overall financial system, improve the stability and safety of the banking system, reduce negative impacts and threats to financial stability. In August 2014, a new commercial bank (Lovcen Banka) was launched. There are currently 12 commercial banks and six micro-finance institutions with licenses issued by the central bank. Within the central bank, there is a department for the control of banks. This department reports on each banks' financial indicators, such as balance sheets and income statements, and ensures that banks maintain a minimum share of capital equity in relation to assets, which is required. Also, banks undergo supervisory review processes, disclosing information about their economic activities. The central bank also continues to develop monetary instruments and policy reviews of reserve requirements. And in cooperation with the World Bank, the government and the bank association, the central bank will work on designing and implementing a model for restructuring bad loans. As part of measures to strengthen the financial system, special attention is given to encouraging and preserving stability in the banking system. The central bank continuously monitors and analyzes the situation in the banking system, and, when necessary, takes corrective measures to promote stronger corporate governance and risk management in banks and maintains the further implementation of internationally accepted standards and principles of business in this area.

Bank interest rates are fairly high, which is why the banking ombudsman and central bank requested a decrease in interest rates in March 2014. The results of this initiative are still pending.

However, credit risk remains the main risk for Montenegro's banking sector. In the second quarter of 2014, non-performing banks loans (NPL) represented 16.94% of total loans. Although the NPL ratio has decreased in the recent period due to a more restricted banking sector credit policy, non-performing loans are still the banking sectors' biggest problem and a significant obstacle to economic development in

Montenegro. According to central bank data, average liquid bank assets in June 2014 amounted to €67.4 million, and were 2.3% lower compared to the same period the previous year. Despite all this, the banking system of Montenegro in the first three quarters of 2014 was stable and liquid.

Securities trading is conducted only on stock exchanges established for the purpose of creating conditions to match the supply and demand of securities. The main institution in charge of overseeing the capital market is the Securities Exchange Commission of Montenegro. Established capital markets represent not only a mechanism for privatizing state-owned enterprises, but also for developing an active trading environment attractive to domestic and foreign investors. It is also expected that capital markets make company financing easier.

8 | Currency and Price Stability

Inflation and foreign exchange policies are brought in line with other economic policy goals and are institutionalized in the country's largely independent central bank. Montenegro is a dollarized economy and uses the euro as its official currency. This helps to achieve macroeconomic stability, build investors' trust and reduce transaction costs. However, this also means the central bank has only limited ability to conduct monetary policy.

In the period under review, Montenegro has faced a general fall in aggregate price levels. The Montenegrin economy is highly import-dependent, and depends on price changes on international market, especially those for food and energy. The fall in prices was driven by a large decrease in food and energy prices, weaker than expected demand and the euro's appreciation on the EU market, as well as falling wages and tight credit conditions.

The average annual inflation in Montenegro measured by the consumer prices index (CPI) in 2012 amounted 4.1%, while in 2013 was 2.2%. Despite increasing the VAT rate in July 2013, inflation remained moderate. The impact of the increased VAT rate on price levels remained marginal, as the tax increase did not apply to items benefitting from the reduced rate. In the first nine months of 2014, the inflation rate was at -0.7%. Negative annual CPI inflation in 2014 was mainly the result of a fall in the prices of food and non-alcoholic beverages. The slight inflation pressure in 2014 came from improvements in domestic demand and revisions of administratively controlled prices (electricity prices increased by 1% in August 2014).

The central bank contributes to price stability, publishing reports on price stability and delivering them to policymakers. The central bank is assessed by the relevant authorities as independent in achieving its objectives and carrying out its functions as prescribed by law.

Anti-inflation /
forex policy

9

The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes. In 2013, total public expenditure amounted €1,605.25 million or 48.25% of GDP and there was a total budget deficit €28.32 million. The budget deficit is the result of the unplanned payment of state guarantees as well as substantial disbursements, among others, for restitution and some court decisions claims. However, in 2013, the government adopted measures to increase personal income tax and the standard VAT rates and to reduce expenditures: the government froze pensions and public-sector wages and cut capital spending. The total payments of guarantees in 2013 amounted to €07.24 million or 3.22% of GDP.

Fiscal policy was mostly restrictive in 2014, focused on the further implementation of fiscal measures as well as on reducing the grey economy. At the beginning of this fiscal year, a law on payments of additional fees for SIM cards, cable television and electric meters was revoked, while the implementation of pension freeze measures was prolonged until the end of 2014. Total revenues were 0.5% higher compared to same period the previous year and slightly below plan. On the other side, the expenditures were 2.3% higher than planned but 24.8% lower compared to third quarter of 2013. Budget performance has been improved as a result of higher revenues in taxes and contributions, but also due to decreased expenditures in interests, subsidies and pensions.

In October 2014, total public debt was 58.09% of GDP. External debt amounted €1576.28 million or 79.97% of total public debt. The growth of public debt in 2014 was the result of increased current and capital expenditures funded by borrowings on the domestic and foreign capital markets. The acceleration of state guarantees growth in the previous period had a negative impact on total debt levels. The official government prognosis is that public debt will exceed the Maastricht Criteria in 2015, reaching 63.2% of GDP, and will continue growing throughout 2016 (67% of GDP) and 2017 (69.1% of GDP). Having said that, Montenegro's main economic challenge is to achieve fiscal stability and curb public debt.

9 | Private Property

Property rights and regulations on acquisitions, benefits, use and sales are well-defined, but occasionally there are problems with implementation and enforcement under the rule of law.

In the previous period, many steps were taken to improve the protection of property rights, but the institutional and legislative framework is improving slowly and a number of issues still need to be resolved. Additional efforts are required to address pending cases, in line with national legislation and the European Convention on Human Rights. The restitution process is proceeding very slowly due to a lack of

Macrostability

6

Property rights

8

administrative capacities. Displaced persons permanently resident in Montenegro still face discrimination with regard to access to land. Amendments to the law on trademarks were adopted in order to achieve closer alignment with the acquis. However, there is still considerable space for further improvement.

Private companies are viewed institutionally as the primary engines of economic production and are given appropriate legal safeguards. The privatization of state companies proceeded consistently according to market principles. In recent decades, the privatization process has been intensive and resulted in a transition of 90% of state property into private hands. Privatization has been an important source of budget revenue. Along with the privatization process, Montenegro has conducted reforms aiming to improve the overall business environment, resulting in easing the process to start a business and strong incentives for greater entrepreneurship.

State ownership of the economy is low and mainly concentrated in transportation and utilities. A small percentage of state-owned companies are in the agriculture, publishing and tourism sectors. In the period under review, state ownership of the economy was further reduced following the bankruptcy of some huge enterprises: the Aluminum Plant Podgorica (KAP) in 2013, which the state had a 29% stake in and bankruptcy of the Nikšić Bauxite Mines in 2014 (the state also held a 29% stake). The Bajo Sekulic Solana bankruptcy administration announced a new tender for the sale of all assets of both enterprises with the initial price of €190 million, while negotiations for the sale of the Simo Milosevic Healthcare Center with UK investors has already begun.

The above-mentioned bankruptcies of partially privatized enterprises led to wide-ranging political discussions and serious questioning of the success of the privatization process so far. Opposition actors claim that these failures are not the result of mistakes or market faults, but rather of corruption, and they demand legal proceedings and solutions.

10 | Welfare Regime

Social safety nets are well developed but do not adequately cover all risks for all population strata. A significant part of the population is still at risk of poverty. Social networks are well-developed, partly due to the legacy of the state socialist system. However, these systems and contribution levels are not sustainable under the new conditions of a private market economy. The number of recipients of social benefits and the level of the compensation they receive are unsustainable.

During the period under review, the state has tried to reduce risks and complete the legal framework of transfers for social assistance. In general, the system of social protection in Montenegro includes health care, pension insurance, worker's compensation insurance, disabled insurance, unemployment insurance, child support, et cetera.

Private enterprise

8

Social safety nets

7

The biggest achievement of the government in the period under review is the implementation of a Welfare Card – Social Welfare Information system, which should ensure the implementation of reforms in the social welfare system and improve planning of and control over the distribution of social welfare. The system has been tested, and shall become fully operational in early 2015.

Social transfers represented 30.1% of total budget expenditures in 2013 and 37% of total expenditures in 2014. Following the discovery of quite a few cases of abuse of maternity leave allowances and child allowances, the Ministry of Labor and Social Welfare started a campaign to stop it, which resulted in a few criminal cases and a decrease of these expenditures in comparison with previous years.

A new Strategy of Development of Social and Child Protection 2013-2017 has been adopted. A new Law on Social and Child Protection from 2013 has broadened the circle of people with the right to material grants in the domain of social and child protection to foreigners with permanent or temporary residence, in accordance with legislation that regulates the rights of foreign citizens, and as beneficiaries, homeless people and users of psychoactive substances are recognized as beneficiaries. However, the enforcement of this law in practice still has not come entirely to life, since not all the necessary bylaws have been passed.

Women and members of ethnic and religious groups have near equal access to education, public office and employment.

Equal opportunity

7

Women have a higher unemployment rate in all age groups. On average, women earn lower wages than men. In Montenegro, the gap is 16.1%, according to the research done by Foundation for the Advancement of Economics. A high unadjusted wage gap exists partially due to a higher frequency of women in low-paid occupations and sectors, some of which are traditionally “female” and into which female workers are pushed in spite of their higher educational levels vis-à-vis men.

Entitlement for the less represented gender, included in the 2011 Law on Election of Councilors and Members of Parliament, prescribes that at least 30% of candidates on ballots must be women. This law did not cause an essential increase of women’s rates of political involvement. With the intention of securing essential implementation of the entitlement, several NGOs have proposed an amendment to secure female representation in parliament at 30%. However, contrary to clear and repeated requests from civil society, a different amendment was adopted, prescribing that one in every four candidates on ballots must be women. This reluctance indicates a political resistance to a significant increase of political participation by women.

In 2014, the government adopted new Law on Foreigners which is expected to improve the position of foreign workers in the Montenegrin market and to make it easier to obtain work permits.

The Roma population in Montenegro still experiences permanent poverty and risk social exclusion, which is reflected in difficulties in obtaining employment, social and health protection and education, as well as their insufficient participation in political and social life. The amendments to electoral legislation did not create conditions for the political representation of Roma. However, educational participation among Roma is improving at all levels. More importantly, the rate of school dropouts among Roma children is decreasing, mostly due to the work of the Commission for Monitoring the Involvement in Education and Combating the Dropping Out of Roma Children. The State Employment Agency conducted research on the readiness of employers to hire Roma and the results for 2013 showed that only 19% are ready to hire Roma, which is yet an improvement from 2010, when only 10% of employers responded positively.

11 | Economic Performance

Montenegro's macroeconomic indicators include positive GDP growth rates, high unemployment levels, price decreases, an unbalanced budget, rising debt and an unpredictable current account position.

Output strength
6

After a negative GDP growth rate in 2012, in 2013 GDP increased by 3.3% and growth was expected to be 2.5% in 2014. In 2013, total GDP was €3,327.07 million. Growth of GDP in 2013 was largely driven by investments, especially in the construction sector, as well as by exports of electricity and tourism. In 2013, the number of tourist arrivals rose by 3.6% while the number of overnight stays increased by 2.8%. Tourism records a steady growth from year to year. GDP growth continues in 2014. Growth is driven by investments (mostly construction) and some recovery in private consumption.

High unemployment remains a major problem. Economic recovery and a good tourist season in 2013 brought some relief to the labor market, but only for the seasonal labor force. The total unemployment rate in 2013 was 19.5%. The long-term unemployment rate in 2014 is 66.8%, while the unemployment rate among young people (less than 24 years old) is still high and reached 58%.

In comparison with previous years, tax revenues, thanks to increasing the VAT and personal income tax rates, increased by 9.93%. As a result, the budget deficit decreased in 2013 to €128.32 million from €212.86 million in 2012. In 2014, the central government budget amounts to €48.9 million in the third quarter and stood at 1.5% of the estimated annual GDP for 2014. The primary fiscal surplus share of GDP was in line with the planned level, which is the consequence of a rise in public revenues compared to public spending, as expected. In October 2014, total public debt was 58.09% of GDP. External debt amounted €1576.28 million or 79.97% of total public debt.

The average annual inflation in Montenegro measured by the consumer prices index (CPI) in 2013 was 2.2%. Despite increasing the VAT rate in July 2013, inflation remained moderate. In the first nine months of 2014, the inflation rate was negative, amounting to -0.7%. In 2013, the total FDI amounted €323.88 million or 9.73% of GDP. In the first ten months of 2014, FDI inflow was higher by 12.39% in comparison with the same period of 2013.

12 | Sustainability

Montenegro lacks a comprehensive strategy for the protection of the environment and against climate change, which are initiatives and long-term policies necessary to meet EU expectations. In general, the institutions in charge of the development and implementation of environmental policies are established, but need to be significantly strengthened. Preparation of new Law on Environmental Protection, a key law in this area, is ongoing.

Leading environmental NGOs assess that legislation for environment protection is applied selectively and inefficiently. The biggest industrial polluters are allowed to endanger the environment and health of people. According to the Law on Integrated Prevention and Control of Environmental Pollution, the biggest polluters (the Aluminum Plant Podgorica, the Niksic Steel Mill and the Pljevlja Thermal Power Plant) failed to meet their legal obligation to obtain integrated licenses for work by 1 January 2015. Instead of prohibiting their work, legislative changes were announced to delay the deadline until 2020. The Law on Waste Management is likewise selectively enforced, another example of turning a blind eye on the worst polluters. The vast majority of municipalities disposes of waste in illegal locations, and there is no reaction from the authorities.

Education policy ensures a nationwide system of sound education and training, while research and development is deficient. Primary and secondary school enrollment rates remain high, as these segments of education are free and most job positions require at least a high school diploma. Gross enrollment rates in upper secondary education (ISCED 3) remain, at around 90%, close to the OECD average. The government has adopted strategies and action plans to improve elementary and vocational education. An external evaluation of teacher education was initiated to measure the match between educational skills and labor market needs. Montenegro finalized its own study on the requirements of the labor market and higher education. In addition, the country has advanced well in referencing its National Qualifications Framework to the European Qualifications Framework. Montenegro achieved weak results in OECD/PISA testing of 15-year-olds in language, mathematics and science. Higher education and vocational training schemes are only weakly linked to the labor market needs.

Environmental
policy
6

Education policy /
R&D
6

The strategic goal of the Government of Montenegro is to invest about 3% of GDP in research and development by 2025. However, the level of investment in research and development only slightly increased in 2013, to 0.50 % of GDP, up from 0.43% from 2012. This is still much lower than the EU average of 2.07%. There are no reliable figures available on investment in research and development by the private sector. Based on the amended strategy for scientific research activities (2012-2016), Montenegro aims to invest 1.4% of its GDP in research by 2016.

Montenegro's progress in this area has been recognized in EU negotiation talks, where two negotiation chapters – Science and research and Education and culture – were provisionally closed in 2013.

Transformation Management

I. Level of Difficulty

The structural constraints Montenegrin society has been dealing with in the past few years are the consequence of dubious and non-transparent privatization process that eroded the middle class and created a huge income gap between the rich and the poor. While the country never suffered from extreme poverty, disappearance of the middle class is showing its negative political, cultural and social consequences by severely limiting the development of Montenegrin society, predominantly in the areas of democracy and civic society.

Structural
constraints

5

A (politically) significant percentage of the population is dependent on the state in providing them with stable jobs opportunities. This has opened up a space for political clientelism, which – combined with the fact that the country has not experienced a major political change in elections since the introduction of multipartism – enforced a symbiotic relationship of the ruling party with the state. Moreover, the country's underdeveloped political culture creates a climate in which citizens are unable to make a distinction between the state and the ruling party. Another structural constraint is uneven regional development, the ultimate outcome of which is migration of educated labor forces from the north to the more developed region in the south. In this way, structural discrepancies – especially in socioeconomic (i.e., standard of living) and cultural terms (i.e., quality of living) – are becoming more apparent across regional divides.

Traditions of civil society remain at a fairly weak level, with certain positive developments. A European Commission report noted improvements in terms of cooperation between state institutions and civil society organizations, but these occur mostly on a formal level.

Civil society
traditions

5

In Yugoslavia, civil society was organized around labor unions and local community organizations. In the 1990s, civil society organizations (CSOs) were scarce, primarily established by university professors as think tanks aimed at providing political and economic analysis, as well as carrying out research and providing consultancy work and expertise. However, with the advent of foreign donors toward the end of 1990s, many international organizations opened offices in Montenegro. At the beginning of

2000s, a proper civil society started to emerge, as numerous social groups began establishing organizations and networks.

The civil sector in Montenegro still relies primarily on foreign aid donations, with only isolated successful attempts at building a constituency in the local context (e.g., the Association of Parents).

CSOs have a strong presence in the media, and despite their rhetoric, often resemble political parties. The civil sector serves as a platform for public expressions of concerns and criticism of the work of public sector. Public opinion polls show that even though public support for civil society is at a high level (almost 40% in 2014), it has declined since 2011. National and local authorities, as well as political parties, do not understand the role of civil society and still perceive opposing views as threatening.

There have been no violent incidents based on social, ethnic and religious lines, given that radical actors have failed to mobilize along existing cleavages.

Conflict intensity
2

Montenegro represents a functional multicultural society, although it is still divided around unresolved ethnic/national and religious identity issues. All possible topics for social, ethnic and religious conflicts are translated within the political and civil sphere, where political parties or non-governmental organizations deal with them through institutional channels. In 2013 and 2014, the only issue with potential for a small-scale, localized escalation of physical violence were the rights of the LGBTQ population. The threat of organized violence mainly occurs during pride parades, while LGBTQ activists are sometimes attacked outside of these events. However, during the 2014 pride parade there was no conflict, so there is some improvement in this respect.

The confrontational nature of politics remains rather low, while during election period it rises along the ethnic and cultural and, only recently, socioeconomic cleavages, which pose the strongest potential for conflict escalation in the future.

II. Management Performance

14 | Steering Capability

Question
Score

The government sets strategic priorities, but often uses them to benefit from situations evolving around short-term political and electoral benefits. Joining EU and NATO remain two of the government's most important strategic goals, but these are often represented as goals that can be achieved only with the ruling coalition in power. Also, achievement of strategic goals is sometimes used in disputes within the ruling coalition, which also speaks in favor of using these issues for short-term political benefits and party priorities. It is thus not clear to what degree these policies will remain a priority, if they interfere with the short-term goals of the government.

Prioritization
8

The government still falls short when it comes to the quality of evidence-based policy-making and evaluating strategies and actions plans. Strategies and action plans often lack measurable indicators and realistic deadlines, followed by inadequate monitoring and evaluation in preparing new strategies. This results in limited success in implementation because new strategies are not based on detailed analysis of previous strategies. The strategic planning unit in the government exists within the Secretariat-General, but it does not meet the needs of the ministries in coordinating policy measures. This is clearly shown by the differences in the ministries' capacity to implement policies in achieving strategic goals.

The most powerful actors outside the government fully support the government's EU-related strategic goals and policies. However, there is strong opposition to government's NATO integration policy, and a change in government could potentially shift priorities in the area in security and defense, and even foreign policy.

The government has had only limited success in implementing its policies. In order to harmonize Montenegrin legislation with the EU acquis, the government reforms laws but the implementation of legislation is still limited. This is in some cases caused by a lack of political will and/or by a lack of administrative and financial capacities.

Implementation
7

EU accession negotiations began in 2012 and so far, two out of 35 chapters are temporarily closed (Science and research, Education and culture). Progress is visible in many areas of the negotiation talks, but still very limited within the areas of rule of law and fundamental rights due to ineffective implementation of the measures outlined in the action plans for these chapters. Even though nine chapters were opened in 2014, these successes still remain in shadow of the issues within chapters 23 and 24 (Judiciary and fundamental rights and Justice, freedom and security).

It was expected that Montenegro would receive an invitation to join NATO in 2014 but that did not happen, mostly due to the need for further reforms (especially in the security sector and rule of law) and lack of public support (only 35% of the population supports NATO membership as of September 2014). While this has not been officially brought up by NATO officials, many analyses suggest that the Ukraine crises and NATO-Russia relations might also be the cause of the enlargement slowdown. The government received clear directions from NATO regarding what and how to improve, and progress will be evaluated by the end of 2015, when the decision as to whether to invite Montenegro will be deliberated upon again.

The government demonstrates a general ability for policy learning, but its flexibility is limited. Learning from past experiences does not seem to affect the routines and knowledge foundation on which policies are based. Although the government is formally devoted to policy learning, observation, knowledge exchange and consultancy, sometimes the same policy mistakes are repeated. The reason for this lies in the lack of mechanisms for the effective monitoring and evaluation of strategies and action plans. At the same time, the government engages in institutional knowledge exchange and consultancy with academic experts and practitioners, which have had a positive effect on the basic beliefs that guide policy formulation. Moreover, the government benefits from international cooperation, which aims to introduce good practices. To sum, there are no institutionalized mechanisms that facilitate innovation and flexibility in policy-making.

Policy learning

7

15 | Resource Efficiency

The government makes efficient use of only some available human, financial and organizational resources. The main challenges are weak economic activity and country's budget deficit that needs to be reduced.

Efficient use of assets

5

The deficit was increased by activating guarantees for loans to private companies (the Aluminum Plant Podgorica or KAP) and due to the other debts from the previous period. KAP was sold in the mid-2000s under a questionable privatization deal to Russian billionaire Oleg Deripaska's EN+ Group through a network of offshore subsidiaries. Instead of investing in the company, a slow and steady process of disinvestment and asset stripping began. The burdens of policy and management failures have been consistently displaced onto citizens, who found themselves shouldering a growing public debt. The botched privatization culminated with revelations that KAP was covertly stealing energy from the European grid. Shortly thereafter, the firm claimed bankruptcy. The result: a skyrocketing public debt as the government extended loan guarantees to the new owners. Overall, public debt is still increasing. Public debt on 31 December 2013 was €1,933.7 million or 58.0% of GDP. Internal debt was €500.7 million or 15.0% of GDP and foreign debt was €1.433 million or 43.0% of GDP.

Due to the “Audio Recording” affair, public suspicions regarding civil-service appointments grew. While there are formally competitive recruiting procedures, many believe these are not protected from political influences. Overall, the public administration is deemed to be not fully effective, as it does not adhere to criteria for professional rationality and international standards in everyday work. In addition to pressures coming from the EU, the civil sector serves as the main mechanism pushing the government to reform and modernize the public administration.

The government tries to coordinate conflicting objectives, with limited success. One of the reasons for this situation is that there is no clear center for coordination of strategic objectives and priorities on the administrative level. Even though the government has set up a system for coordination of policies that is in most cases consistent, the main challenges are measuring their effects and implementation. Some policies are often adopted without taking into account the effects they will produce on other policies, and without taking into account their potential impact (i.e., the quality of the regulatory impact assessment still varies between the creators of the legislation).

Policy
coordination
7

In the EU integration process, the Ministry of Foreign Affairs and European Integration tries to serve as a body of horizontal coordination to mediate among different ministries and agencies, but some policies are introduced simply because they are required by Brussels administration, without prior investigation as to whether they might have counterproductive effects on other policies.

Additionally, in national action plans for policy implementation, in most of the cases, goals are not measurable or, in some cases, realistic. Indicators for measuring the success of implementation in most cases are nonexistent.

The government continues to strengthen its legislative framework in the area of anti-corruption, but the impact of anti-corruption measures has so far been limited.

Anti-corruption
policy
7

The government’s 2013 – 2014 Action Plan for Fighting Corruption and Organized Crime was adopted in May 2013. Monitoring implementation of the action plan is performed by a national commission, which consists of representatives of all the relevant state authorities and bodies (parliament, the government, the judiciary, the prosecutor’s office), as well as representatives from civil society organizations. The government has adopted action plans for chapters 23 and 24 of the EU accession negotiations – Judiciary and Fundamental Rights and Justice, Freedom and Security – which contain parts dedicated to the fight against corruption.

The Law on Prevention of Corruption was adopted in December 2014. Its main innovation is the establishment of a special Agency for Prevention of Corruption in 2016, which will deal with preventing conflicts of interest, financing political parties, lobbying and protecting whistleblowers. The agency will replace the current Directorate for Anti-Corruption Commission and Commission on Prevention of

Conflict of Interest. Until now, mostly technical tasks have been carried out, adopting important decisions and laws relating to the improvement of the legal framework for fight against corruption, but that has not resulted with investigations and verdicts against governmental officials.

A Draft Law to form a Special State Prosecutor's Office is in the final stages. This law would establish the Special Prosecutor's Office as an independent body in the fight against organized crime and corruption, in place of the current Department for Fighting Organized Crime and Corruption.

When it comes to provisions against corruption in funding political parties, in May 2013, parliament formed a committee of inquiry into alleged misuse of public funds for parties' political purposes. The committee completed its work at the end of July. Parliament limited itself to a technical report, which failed to draw political conclusions. Judicial follow-up has not been completed. Political parties' reporting and accounting obligations need to be enhanced and made more transparent. Significant efforts need to be made to prevent the abuse of state resources for electoral campaigns. A new law on financing for political parties was adopted in December 2014. This law regulates methods for obtaining and providing financial resources for regular work and electoral campaigns, and ways to control funding and the financial operations of political parties, in order to achieve legality and transparency in their operations. It represent a more advanced option than previous acts, but its implementation is uncertain because the new regulations will be overseen by the State Election Commission which has limited capacity in 2015, and then, afterwards, the new and inexperienced Agency for Prevention of Corruption.

In the public procurement process, there has been some progress as well. Amendments to the Law on Public Procurement aiming at strengthening provisions to prevent corruption, including controlling conflict of interest, have been adopted. Implementation of contracts remains concerning, due to weak internal audit capacities. There is not a single case of corruption reported to state prosecutors by the State Audit Institution or the State Commission for Control of Public Procurement.

According to a Group of States Against Corruption (GRECO) report from December 2014, Montenegro successfully completed the third evaluation in which there were 14 recommendations in the areas of incrimination and the transparency of political party financing. The report recognizes that progress has been made in these areas, and especially the fulfillment of all five recommendations in harmonizing Montenegro's criminal legislation with the Criminal Law Convention against Corruption adopted by the Council of Europe. When it comes to transparency in financing political parties, from a total of nine recommendations Montenegro had previously met five, but in this report GRECO deemed the remaining four partially fulfilled. The report noted that two more recommendations are complete. GRECO

positively assessed efforts made in improving transparency, identifying sources of funding, strengthening the financial discipline of political parties through stricter accounting and audit obligations, and prescribing a wide range of sanctions when violations occur.

16 | Consensus-Building

All major political actors agree on establishing democracy and a market economy as strategic, long-term goals of transformation. Consensus on democracy is very high, as there are no political actors that promote anti-democratic ideas.

Consensus on goals
10

While all major political actors agree on democracy as a strategic, long-term goal, there is an evident division over whether to embed sociopolitical safeguards or pursue a neoliberal approach. This intensified in past years when a set of neoliberal economic policies was introduced to deal with the effects of the financial crisis. Problems with regard to state aid and the state's liability for loan guarantees to failed businesses also emerged.

While there are some powerful anti-democratic interests, reformers are able to successfully limit their influence.

Anti-democratic
actors
9

Influential actors in Montenegrin society predominantly consist of state institutions (parliament, government, ministries, agencies, courts and prosecutors offices). In addition, the media and non-governmental organizations (NGOs) play a very important role in society. There are also political parties and two labor unions. The international community plays a major role in important events and decisions, primarily through the European Commission in Montenegro, as well as representatives from some embassies.

Other influential actors include different economic lobbies (energy, tourism, construction, imports), often linked with public officials and distinguished entrepreneurs, but also with transition businessman (tycoons), who are often associated by the media with criminal groups. There are also clearly visible lobbies (construction, finances) that sometimes act from anti-reformist positions.

Probably the most significant "non-democratic" actors are representatives from religious communities, above all the Serbian Orthodox Church (SPC) in Montenegro. The church often publicly promotes attitudes on the verge of hate speech, opposing certain government policies like NATO integration or the promotion of LGBT rights, and has significant political ambitions and influence in Montenegro.

Ethnic/national identity divisions are still important in the political and cultural sphere, which is evident in many cultural policies introduced by the government, as well as in discourse employed during election campaigns. One of the key factors which prevents society from splitting along ethnic lines is the national consensus on EU integration process as a strategic goal (61% strongly support Montenegrin integration into the EU, according to CEDEM, September 2014). However, with regards to NATO integration, society is severely polarized, which brings many ethnic/national differences to the surface.

Cleavage /
conflict
management
7

The political leadership permits civil society participation: on some issues it takes into account and accommodates the interests of most civil society actors, while on others, it tends to ignore civil society actors and formulates its policy autonomously. However, the key issue is that there is no institutional mechanism to include civil society in the entire process of policy formulation, adoption and implementation. When it comes to implementation, everything remains on the level of performance monitoring. While there is a significant lack of tradition for civil society participation in political processes, the non-governmental sector is involved in agenda setting, policy formulation and performance monitoring. Other civil society actors – experts from academic and business sectors – are often included in policy formulation.

Civil society
participation
7

CSOs are still recognized as valuable government partners in specific areas, such as enabling civil society participation in the EU and Euro-Atlantic integration processes and providing services to persons with disabilities. However, a number of CSOs believe the government engages in this cooperation only to satisfy Brussels, given that CSOs are generally unable to influence decision-making processes. Foreign donor support has declined, and state funds for the sector are insufficient. Additionally, the allocation of state funds lacks transparency and clear criteria. The EU is the major funding source only for the most professional CSOs. In 2014, it became clear that lack of funding is a systemic problem, rather than a threat only particular CSOs have to deal with in order to ensure the sustainability and quality of their work. Overall, the consequence is that a number of CSOs enjoy significantly lowered political capital, which is most evident in weak influence on decision-makers.

The government adopted the Strategy for Development of CSOs (2014–2016), which is largely the same as the previous 2009-2011 strategy, and its action plan at the end of 2013. The action plan outlines concrete steps for improving the institutional framework for cooperating with CSOs at the national and local levels, CSO participation in developing and implementing policies and EU negotiation processes, and the financial sustainability of CSOs. In addition, the plan defines activities for creating a favorable environment for CSO work.

CSO representatives are also included in working groups for the EU negotiation process, the Joint Coordination Body of the European Economic and Social

Committee, and other advisory bodies established by the government. CSO representatives do not believe the government takes their recommendations seriously, as they are rarely incorporated in final documents. Rather, they believe the government seeks advice from CSOs only out of obligation. The implementation of government decrees establishing procedures for government cooperation with CSOs and the conduct of public debates did not have significant impact on advocacy in 2014. CSOs still lack timely information on activities and opportunities for participation. In addition, procedures for applying to be part of working groups in ministries require a large amount of paperwork.

The political leadership recognizes the need to deal with historical acts of injustice, but its attempts at reconciliation have encountered difficulties, since the political leadership was directly involved in the conflict-laden past. However, it actively tries to develop friendly relations with all former Yugoslav republics.

Reconciliation
7

According to a 2013 report by Human Rights Action, there is no significant progress in the processing of war crimes. Protection of the rights of war crimes victims has not been provided, while the tendency towards non-punishment is noted in the inefficient work of public prosecution and incomplete application of national and international humanitarian law by both prosecutors and the courts. Out of four prosecuted cases, a sentence has only been passed in the case of Morinj, with respect to four accused, while the rest of the defendants were acquitted. In the cases of Bukovica and “deportation,” all the defendants were acquitted. In the case of the Kaludjerski Laz Massacre, in December 2013, the court acquitted all defendants of all charges; at the time of this writing, appeal proceedings are under way. There is still no progress on preparing and publishing information related to compensation of damage to civil victims of war crimes.

17 | International Cooperation

The political leadership makes well-focused use of international assistance (EU institutions, IMF, OSCE, the World Bank, the United Nations and NATO) to implement its long-term strategy of development, utilizing international know-how and external advice toward its domestic policy agenda. International support has helped the government to articulate its aims of political and economic development, as well to make progress in implementing development steps. While the government has successfully utilized international assistance to create a roadmap of political and economic development, it lacks specifics to mitigate a number of issues, which sometimes negatively affects support.

Effective use of
support
9

A majority of international actors consider the Montenegrin government a credible and reliable partner, but some officials and international actors express doubts regarding its reliability with regards to freedom of the press, judicial reforms and fighting against corruption and against organized crime. The EU has expressed its confidence in Montenegro by opening and continuing accession negotiations. The IMF has voiced concerns about Montenegro's ability to cope with mid- and long-term fiscal risks originating from the closure of the aluminum plant, the construction of an expensive motorway, significant non-performing loans and a large current account deficit.

Credibility
8

Regional cooperation is an important foreign policy priorities. The political leadership actively promotes regional and international integration. For example, in 2013 the Montenegrin government proposed establishing a Western Balkan-6 initiative aimed at, among others things, creating a transnational police agency and a parliamentary assembly of Western Balkan members of parliament. This initiative was endorsed by the EU and became part of an enhanced cooperation initiative within its Stabilization and Association Process involving the Western Balkan countries. The government cooperates with all neighboring countries and complies with the rules set by regional and international organizations. Moreover, the political leadership sees good neighborly relations as a strategic goal. Certain bilateral issues with neighboring countries are still open, notably in the area of border demarcation. However, in 2014, Montenegro agreed on joint border demarcation with Bosnia. Montenegro has been able to maintain good relations with both Serbia and Kosovo.

Regional
cooperation
9

Strategic Outlook

The year 2015 will be crucial in Montenegro's progress towards NATO membership. NATO will assess Montenegro's progress by the end of 2015 with a view to deciding on whether to invite Montenegro to join NATO. In the meantime, Montenegro is expected to address its remaining challenges – improve the rule of law, complete security sector reform and increase and maintain public support for membership. Being invited to join means much more than just becoming a member of NATO sooner, rather than later. If NATO's expectations are not met by the end of 2015, Montenegro will be in severe danger of backsliding on democratic reforms, which might endanger its EU integration path, and also internal political and economic stability. Other potential NATO members are also observing Montenegro's progress towards membership in NATO – as a test of NATO's Open Door policy. Failure by Montenegro to meet NATO's requirements and receive an invitation would also negatively influence integration for and the reform dynamics of other states aspiring to membership. If Montenegro is invited to join NATO, the government will have to deal with the fact that a significant percentage of citizens holds negative views of NATO and opposes joining. The Montenegrin political leadership should seek the highest possible legitimization for deciding to join NATO, in order to avoid a significant social divide among its population.

Montenegro is expected to continue making progress in its EU accession negotiations. The biggest challenge to its EU approximation will be success in fulfilling the commitments set out in chapters 23 – Judiciary and fundamental rights and 24 – Justice, freedom and security. The European Commission has established a new negotiations mechanism – the “overall balance” clause – which allows for stopping negotiations on other chapters if progress on rule of law issues lags behind. Montenegro will have to make significant and measurable progress on chapters 23 and 24, in order to keep negotiations going. For 2015-2016, that means implementing a new anti-corruption legal and institutional framework, making real improvements in judiciary reform, establishing a proven track record in fighting organized crime and leveling the playing field for democratic elections.

In the coming years, it is expected that Montenegro will struggle to keep its macroeconomic stability, manage the burden of pending debts, work on consolidating public finance and create favorable conditions for foreign investments. Even the most optimistic prognoses, those coming from the government, state that public debt will exceed the Maastricht Criteria in 2015 and continue to grow throughout 2016 and 2017.