



USAID
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SERBIA AND MONTENEGRO

STRATEGY STATEMENT

The Republic of Montenegro

December 2005

Executive Summary

The USAID Serbia and Montenegro (SAM) Mission will begin implementation of a new multi-year strategy for the Republic of Montenegro in FY2006 (the Strategy) which will serve as the foundation for future programs. The proposed strategic framework described in this document is based on an extensive series of assessments and analyses by local and international experts, stakeholder meetings with central and local government representatives, civil society and other donors, and two two-day retreats with mission staff. Input was also gathered through meetings with Embassy and Washington staff, including the Interagency Country Assistance Review (ICAR) and the Pre-strategy Consultation. Strategy design also incorporated key policy frameworks and guidance embodied in USAID's *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (known as the "White Paper"), the E & E Bureau Strategic Framework, the State/USAID Strategic Plan and the US Embassy's FY 2007 Mission Performance Plan (MPP).

The Strategy addresses the Republic's development needs, while at the same time remaining in line with U.S. government (USG) foreign policy objectives. It also conforms to new Agency guidance that includes a more visionary and flexible approach to strategy design, arguably further justified in the cases of both Serbia and Montenegro, where a number of political uncertainties, including the status of Kosovo and the State Union of Serbia and Montenegro, could impact country needs as well as USG objectives. The Mission has adopted an innovative approach of strategic objectives that integrates key democracy and economic growth components to respond to this environment. In strategy design, attention was also focused on the comparative contexts and needs of both Serbia and Montenegro, and whether separate strategic frameworks were necessary. Although at different points on the road to development, Serbia and Montenegro face many of the same issues. Accordingly, although the Mission is presenting separate strategy papers for Serbia and Montenegro, the same basic framework and strategic objectives (SOs) apply to both, with differences most likely to emerge below the intermediate result (IR) level, as well as in performance targets.

Like the other transitional countries in the E&E region, Montenegro faces a wide range of developmental obstacles. The move from a centralized to a market economy requires both government and citizens to make difficult choices. Montenegro's efforts to democratize society have been largely supported by the United States and the European Union (EU) through critical financial and technical assistance since October 1997. Although Montenegro is more politically and economically stable than it has been in over a decade, much remains to be done. The legislative and institutional frameworks needed for moving toward a consolidated democratic system are not yet complete. The profound division of society over the issue of redefining or terminating the relationship between Montenegro and Serbia, systemic deficiencies, corruption, political patronage and nepotism continue to constrain the reform process. The resolution of Montenegro's state status should lead to a realignment of the political scene in the long term; however, in the short-term the scheduled parliamentary elections are expected to maintain the current ruling coalition in power with a comfortable majority to govern for the coming years.

While the Government of Montenegro (GOM) must address the task of passing remaining legislation to address social, economic, and political problems, it must increase its institutional capacity to more effectively and efficiently implement those laws that have already been adopted at both republic and local government levels. It should be noted that the resolution of Montenegro's state status will also enable the government to take risks that it has been unwilling to take until now for fear of alienating voters. Thus, the economic reform process could be accelerated; the required layoffs in the state administration and state companies could be implemented; and, other unpopular and painful reforms would have the potential to be addressed. USAID Montenegro's democracy and governance activities under this strategy will significantly focus on providing assistance to the GOM in order to consolidate democratic reforms to date, while economic assistance activities will focus on both stabilizing and improving the economic environment in Montenegro.

This Strategy addresses this challenging development context and derives from an overall vision of a democratic, prosperous Montenegro (and Serbia), moving toward Euro-Atlantic

integration. Key themes include: improved governance accountable to constituents and responsive to the needs of the private sector that, in turn, improves conditions for a market economy; more targeted assistance to municipalities and sectors to foster private sector growth; and increased political stability through strengthened democratic processes and structures, as well as more specific interventions in vulnerable areas. Given the crucial economic and democratic components embedded in each of these themes, an integrated approach that combines these elements in program design, implementation and measurement will have a higher aggregate impact. Integration of strategic elements reflects the philosophy that democratic and economic reforms are not only critical to an overall successful transformation in Montenegro but also inextricably linked to achieving successes in each reform area; democratic processes are an essential component of Montenegro's economic growth and stability, and economic growth is essential to create the conditions for a continuing stable democracy. Reform in the social sector is necessary; however, given the relative priority of economic and democratic challenges and the scarcity of resources to impact reform, it will not be a priority theme under the Strategy. The Strategy has three SOs:

- **Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened.** This SO concentrates on work at the republic level, strengthening policy and legal frameworks and implementation of those frameworks. A key component of the SO is improved governance, with better balance and delegations of authorities, cohesive policies and accountability to the public.
- **Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities.** This SO captures the local dynamic for private sector growth by improving the business climate and the capacity of key sectors and businesses to compete in the market.
- **Strategic Objective 2.11: Risk of Political Instability Reduced.** This SO will focus on the support of key democratic structures and processes at all levels Republic-wide to increase political stability. It will also improve conditions in specific, vulnerable areas, by increasing economic opportunities, civic participation and community interventions.

Key cross-cutting areas recognized in this strategy are: gender, youth, anti-corruption, human and institutional capacity development, job creation, media/public information, and cross-border integration.

I. U.S. Interests in Montenegro

As the social, political, and geographic crossroads between Western and Eastern Europe, Serbia and Montenegro occupies the key strategic juncture in the Balkans. After a decade of military and civilian involvement in seeking peace in Southeastern Europe, the United States, along with other actors such as the European Union (EU), has an enormous stake in stabilizing the region. The fate of democratic institutions and processes in the wake of the NATO intervention will be viewed internationally as a measure of NATO effectiveness. Consequently, a stable democratic polity and growing market economy oriented toward Europe is of vital U.S. foreign policy interest.

II. Assistance Environment

Between 2001-2004, international assistance in the amount of \$466 million was given by donors to the Republic of Montenegro, on grant or soft loan terms¹. The USG has been the major donor in Montenegro, but more recently, as USG assistance levels have decreased significantly and other donor assistance such as that provided by the World Bank and EAR has increased, policy and structural conditionality has become more focused on specific sectors (e.g., health, education, pension, tourism), with the exception of budget support, which focuses on broader policy conditionality.

The GOM has shown a strong commitment to reform, officially adopting its Economic Reform Agenda (ERA) in March 2003 (updating it in April 2005) and its Poverty Reduction Strategy Paper (PRSP) in November 2003. The implementation of activities in both documents has been mainstreamed into the ongoing activities of line ministries and other stakeholders at both the national and local levels. The ERA remains the key tool used by the Prime Minister and his cabinet to drive and track their broad-ranging economic and institutional reform process, in close coordination with international donors, using it to systematically review and discuss progress and to develop concrete solutions to the inevitable impasses that arise.

The Feasibility Study regarding opening negotiations on a Stabilization and Association Agreement (SAA) between Serbia and Montenegro and the EU was approved in April 2005. The SAA will lay the foundation for Montenegro's entrance into an EU accession process. A European Partnership Agreement, and an Action Plan, setting out priority reforms towards accession have been drawn up. This process will further reinforce Montenegro's reform accomplishments to date. Uncertainties following from the recent negative votes on the EU Constitution, however, may slow down the EU accession process and in turn reduce the value of integration as one of the main "carrots" in continuing to drive the Republic's reform process.

A. Social Environment

*Demographics*²: Montenegro has about one-sixth the area of Serbia and a population of 620,145, less than one tenth of Serbia's. The majority of the population is made up of citizens who identify themselves as either Montenegrins or Serbs, with a number of other ethnicities represented³. While Montenegro has demonstrated itself to be relatively tolerant of its minorities, some representatives of ethnic minorities complain about discrimination and these issues periodically rise to the surface. Many of those who identify themselves as Serb live in the north and center, while most of the Albanian population lives in Ulcinj and in Miliesia-Tuzi area in the south. The distinction between Montenegrin and Serb may prove critical in the upcoming referendum.

*Gender*⁴: Montenegrin society is considered to be patriarchal, and domestic violence is a significant problem, though exact statistics are unknown. Although women make up slightly more than half of the population the female employment rate is significantly lower than for men. Only 1.0 percent of Montenegrin women are business/company owners, and the percentage of women in government is small⁵. In light of this, Montenegro has undertaken initial steps to implement gender mechanisms, including drafting a law on gender equality. It remains to be seen how strong an impact this will have.

*Youth*⁶: Youth, defined as aged between 15-24, make up 15.8 percent of the Montenegrin population, but accounted for 22 percent of the registered unemployed in December 2004. Young people have been especially affected by conflicts in the region. They have been left with an inefficient educational system, have an extremely difficult time finding work and lack a positive vision for the future. Strategies to empower young people are critical to the republic's future, but effective youth policies are still lacking at the central and local level.

*Poverty*⁷: The 2003 PRSP reported an absolute poverty rate in Montenegro of 12.2 percent, with more than one-third of the population classified as economically vulnerable. There is significant regional variation in poverty, with the majority of poor households located in the north. Widening income inequality and growing regional disparities are likely to pose a challenge to poverty reduction in Montenegro. In this environment of scarcity, competition within and between groups could become more severe.

*Education*⁸: Enrollment rates in Montenegro are not a significant problem; but despite high public spending on education, the curricula, textbooks and supporting supplies and equipment are deficient, the infrastructure is in poor repair, the publicly-financed system is financially unsustainable, administratively inefficient, and inadequate in its coverage of vulnerable groups. The outdated education system and its lack of flexibility to adapt to the changing needs of the market and society is broadly recognized as an impediment for the development of a dynamic, entrepreneurial, adaptable and well educated/trained labor force. The GoM is cognizant of these deficiencies and is starting implementation of a new Republic-wide education strategy. Initial efforts include information technology emphasis in high schools and universities, an integrated primary education program and rationalization of school infrastructure based on enrolment demand.

*Health*⁹: Private health care is not well developed or incorporated into the national health system. The quality of public care is often poor, services are not patient-centered, equipment and buildings are in bad condition and there is a lack of audit or independent monitoring. Healthcare for women and growing drug problems among youth are issues of particular concern. Spending on the health sector has declined significantly in the past 10 years. In 2004, the Ministry of Health in Montenegro adopted a new Republic-wide health strategy, focused on patient centered and preventive primary health care; World Bank funding is assisting the start up of these reforms.

Environment: Montenegro has explicitly acknowledged the importance of the environment for its future development (e.g. tourism) by declaring Montenegro an "Ecological State" in the Constitution. While some important elements of a national system are in place, it still has a number of deficiencies, e.g., lack of publicly available, valid data and poor information exchange; poor implementation and compliance with laws and regulations; lack of clarity for responsibilities divided among numerous ministries and agencies; weak hazardous waste management and inadequate management practices for key natural resources (e.g. forests and water) and biodiversity; lack of clear policy to address industrial pollution; and shortage of skilled human resources. As stated in the updated Government ERA, a new approach is needed to complete key legislation and harmonize laws with EU standards and to put in place an efficient environmental management system at both the Republic and local levels. The GoM coordinates an environment donor group in which the EU, UNDP, and World Bank are the most active donors.

B. Political/Democratic Environment

Status of the Republic: The Montenegrin political scene has demonstrated significant resilience since the departure of Milosevic. The Djukanovic government, in place since 1997, has promoted a reform-oriented agenda. The Republic has withstood a 16 month boycott by the opposition, the March 2004 ethnic violence in Kosovo, and the continuing political instability in Serbia. However, in 2002, given concerns that Montenegrin independence might have destabilizing consequences in the region, EU-led efforts culminated in the signing of an agreement by both Serbia and Montenegro to remain in a loose union. The population remains sharply divided over whether Montenegro should become independent and most events are overshadowed by the upcoming referendum on independence, scheduled for

spring 2006. The referendum process currently lacks an open and free political environment that would enable people to make a choice based on informative political dialogue.

Political Parties: The unresolved issue of state status prevents the natural development of political parties. Political parties are competing more with each other within their blocs (i.e., they are competing for leadership of their respective bloc) rather than fighting for a determined policy course, an ideology, or the interests of a defined group of people. The dominance of a single party has further reduced the vitality of a democratic political party process with representation of constituent interests. Competing parties are not playing a sufficient role in national and local parliaments/governance. In a number of municipalities, partisan conflict has been mitigated as government and opposition parties are working together on a range of common goals to build local communities, highlighting an area of opportunity that should be pursued.

Civil Society: The GOM has adopted a liberal NGO law and has worked to include civil society organizations in the reform process. However, while there are a handful of relatively effective NGOs and the sector in general is developing, most NGOs are still limited by weak organizational capacity and ability to fundraise. The overwhelming majority of NGOs are still not sustainable, and all but a few NGOs would collapse if donor support suddenly were to disappear. The Law on Local Self Government requires municipalities to incorporate NGOs in decision-making but little progress has been made to date to implement these provisions. Overall, the capacity of NGOs – in particular their ability to articulate a clear vision or blueprint, and their aptitude to engage in genuine advocacy or watchdog activities relevant and meaningful to their communities -- remains extremely limited.

Media: Media in Montenegro have made some progress toward operating as a market-oriented free press but the quality of journalism and professional standards remain low. The private sector is over-crowded and the number of electronic media in particular has reached saturation level. While independent media still faces serious challenges, the GOM has adopted innovative independent media legislation establishing a public broadcaster and a regulatory agency. A frequency tender has been completed and a regulatory agency has awarded frequencies to 40 radio and 16 television broadcasters under the first public tender for frequency allocations. However, support for speeding up the implementation process of media legislation is still needed including further transformation of public broadcaster; support for the implementation of Access to Information Law and further decriminalization of libel.

Legal reform: In spite of significant judicial reform legislation, the judiciary remains fragile and inefficient, the reforms all too often being donor-driven, with a lack of stakeholder commitment. The legal framework in support of an independent and impartial judiciary is in place and while initial implementation has commenced, it will require time and sustained political will before it is properly established and enforced. Although there have been concrete improvements in recent years in the commercial law regime, many citizens still do not believe they can get a fair hearing on contractual and property rights issues from the courts. In addition the Montenegrin judicial system is beset with increasingly heavy and complex caseloads, and a shortage of material and human resources investment to support an emerging market economy. Furthermore, increased transparency and accountability require a view of enforcement that moves beyond a narrowly focused criminal mindset. Also, public-private dialogue and partnerships must be established so as to decrease the public's tolerance for corruption and weak governance.

Local governance: Montenegro has made some progress in local governance reform with the passage of the Law on Local Self Government and Law on Direct Election of Mayors which clearly articulate principles of democratic governance. The voters in six of twenty-one municipalities have, for the first time, directly elected their mayors. However, citizen participation in the processes of local government decision-making and vehicles for enabling their contribution are weak. Local government assemblies are large and unwieldy, their operations often hampered by political conflict, and democratic practices in this and structures of local government are under developed.

C. *Economic Environment*

Macro-Economic: Montenegro has maintained solid progress toward sound fiscal management through an overhaul of the tax regime and tax administration, implementation of Treasury systems at the national and municipal levels, increase in public expenditure efficiency and control, and first-stage reforms of an unsustainable social insurance scheme. The financial sector is increasingly well-regulated according to Basel core principles, off-shore banks have been eliminated, and the monopoly payments system was fully dismantled. The banking system has been largely restructured and recent strong deposit growth suggests public confidence in the sector is increasing, while an effective anti-money laundering agency has been put in place and development of a competitive securities market continues.

Work remains to be done in a number of areas. While GDP has recovered to 90 percent of the 1989 level¹⁰, unemployment (adjusted for the gray market) is about 17 percent. Employment still remains heavily oriented toward the public sector, both in public administration and in the economic sector. Recently and soon-to-be completed privatizations in telecoms, metallurgy and banking can be expected to have a positive impact on productivity but perhaps not employment. The key remaining large-scale privatization of the power sector will pose special challenges for Montenegro over the next five years (e.g., regulatory and related to regional linkages). Most of the remaining state-owned enterprises have been ravaged by weak management, regulatory burdens, lack of capital, and the still relatively restrictive and inflexible labor regime. Montenegro continues to have a relatively high current account deficit, although the gap appears to be more than made up by unrecorded financing flows. The Republic is disadvantaged by its small internal market and difficulties of access for trade. Although it has passed pillar one pension reform and is planning soon to pass pillar three legislation, it still needs to resolve issues of long-term funding balance.

Private Sector Growth: Montenegro has made significant progress in recent years. The GOM passed and has begun to implement a number of key pieces of legislation that continue to reduce barriers to starting and conducting business, with additional important laws in the final stages of passage. The development of effective business associations has expanded the private sector's involvement in the reform process, and recent expansion of local business service providers and leasing activities by banks and other companies provides a solid private sector foundation for further enterprise growth. Nevertheless, private sector growth remains slow and unemployment and underemployment high. Remittances remain important to vulnerable households and to local economies, especially in northern Montenegro. In Albanian-Montenegrin communities, north and south, (especially Plav), high remittances are a disincentive to populations actively seeking employment and to improving mobilization and management of local resources. Lack of local production contributes to a high dependence on imports and its consequent trade imbalance. Despite improvements in regulation, administrative rules still allow for rent seeking and long delays in completing basic licensing and other tasks and new entrants also fear that entrenched players will receive preferential treatment from regulatory and tax bodies. The combination of these extractive regulatory practices still drives entrepreneurs into the gray economy where they remain outside the tax regime.

International Integration: Montenegro has put in place effective trade legislation consistent with the liberalized global trade regime represented by the WTO. In late 2004 the EU informed the WTO Secretariat that it would not object to separate accession processes for Serbia and Montenegro and separate applications were accepted by the WTO in February 2005.

Slow pace of decentralization: In late 2003 Montenegro passed core local government laws enabling political, administrative and financial decentralization, although some key implementing regulations have not yet been adopted which has slowed implementation. Division of responsibilities between municipalities and Republic level agencies remains unclear as do property issues, and Republic and local leadership are only beginning to understand newly assigned responsibilities. Municipalities have significantly increased responsibilities for raising and managing their own revenues, however institutional systems and practices for proper budgeting, own-source revenue billing, collection enforcement and

expenditure control remain weak. Local economic development in municipalities is challenged by: outdated urban plans; cumbersome local tax and fee structures; poor management and maintenance of critical public services, which constrains access to financing for improvements; and little private sector role in municipal services delivery. The limited capacity to provide essential services to citizens and businesses constrains local economic growth.

III. Proposed Strategic Framework

A. Rationale

In developing the Strategy, key considerations included Montenegro's relative position in the transition process, its development history, and the up-coming referendum with respect to the status of Montenegro as a national polity. All these elements have strategic importance to the economic and political stability of Montenegro as well as its relationship to Serbia. These resulted in a focus on market economy promotion, with strong attention paid to improved governance and implementation of economic reforms, as well private sector growth. This work will be complemented by assistance to improve core democracy structures and also conditions in specific vulnerable areas. These areas of focus mutually reinforce one another and should place Montenegro on a sustainable path of economic and democratic development. Given the integral value of democracy and economic elements within and across these assistance themes the Mission has adopted Strategic Objectives which combine democracy and economic components. The Strategy also reflects key values, as well as cross-cutting areas of importance, that will be incorporated into program design, implementation and measurement.

The ethnic and religious tensions that contributed significantly to the break up of Yugoslavia still pose a risk of future violence and highlight the importance of placing value in programs that will utilize opportunities to lower ethnic tensions. In addition, since the principles of democracy and of an open market orientation are relatively new in Montenegro and still not embedded, each SO will support those principles in a manner to induce long-term acceptance. A number of other important cross-cutting issues have impact across the Mission's Strategic Objectives and will either be incorporated into activity design or implemented as stand-alone projects, to support results in all three SOs. These include:

- *Gender:* Gender considerations must be ensured at all levels so that reforms and their consequences affect men and women equitably – from political participation to access to finance to legal protection.
- *Youth:* A strong youth focus across program areas is warranted by their key role in social stability, their particularly high unemployment status, and their value to the future of Montenegro.
- *Anti-corruption:* The need for anti-corruption initiatives permeates both Republic and local government levels and all branches of government as well as the economic sphere, playing a particularly central role in boosting public trust in institutions and stimulating confidence from the broader public as well as investors.
- *Public information/media:* It is critical to establish more effective communication between the government and citizens to explain the need for changes, generate support for reforms, and encourage open debate. The media presents an ideal vehicle for facilitating this exchange – and at the same time building its own professional capacity.
- *Human and institutional capacity development:* A focus on human capacity and institutional development underscores the importance of improving the capacity building for a wide range of actors whose strength and vitality are key to the strategy's success, including key government and NGO institutions, as well as sectors of the workforce.
- *Job creation:* Job creation is a critical ingredient to improving Montenegro's prosperity and stability, and represents a key concern of most citizens. Opportunities to maximize employment will be a strong theme across all programs.
- *Cross-border:* Cross-border activities serve to encourage the development of strong economic linkages between communities and/or countries and also alleviate tensions among different populations.

The Mission also intends to optimize resources and impact of programs through alliances with non-traditional partners by utilizing the Global Development Alliance model, Development Credit Authorities and Public-Private Partnerships, to the greatest extent possible.

Although the Strategy was designed to be flexible, the success of the program rests on several critical assumptions:

- Regional stability does not decline into violent conflict;
- Kosovo final status does not destabilize neighboring areas; and
- The result of the Montenegro referendum does not destabilize relationships between Serbia and Montenegro.

B. Strategic Objectives and Areas of Program Emphasis

The start date for all SOs is 2006. The Mission will monitor progress closely to ensure that work under the SOs remains relevant and will review the SOs by 2010 so it may revise or replace them while at least two years of program implementation are anticipated. Assuming that the current environment remains the same, SOs 1.31 and 2.11 will each receive approximately 25 percent of the Mission's annual budget, while SO 1.32 will receive approximately 50 percent.

Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened

Montenegro has made significant progress in creating a legal and policy framework for economic growth. However, important gaps remain and the sustainability of the reform process is threatened by weak institutional capacity to take needed changes to the next step. The Mission's first SO will focus on three areas of intervention: first it will continue to build on USAID's previous economic policy and legal reform work. This will be accomplished through activities focused on deepening structural reforms and improving the legislative process. Since the framework is only a first step, the second focus will be on actual implementation and enforcement actions to ensure a dynamic and meaningful reform process. Finally, specific work will also be undertaken to help improve governance, and the balance and exercise of authorities. The expected results of this SO would be heightened investor confidence in the rules and behavior of the key institutions affecting economic growth and investments in Montenegro. A more cohesive, accountable and responsive government should also lead to more domestic confidence and stronger support for continued democracy and economic reforms.

In continuing to work on an economic policy and legal framework, there will be attention to Euro-Atlantic integration requirements, and also ensuring a process that allows citizens and government institutions to play their rightful roles. Activities to strengthen executive institutions responsible for implementing structural reforms will include elements to reduce opportunities for corruption and to increase consistency and accountability. A key element in improving the legislative process will be strengthening the capacity of the judiciary and parliament, as well as ensuring improved public participation and monitoring. This will also be crucial to building security and trust in the reformed economic system and the rule of law. Given the importance of local government authorities as an important element of private sector growth, as well as a means to ensure more responsiveness to minorities, assistance to promote devolution of authority and resources to local government will also be a likely component under the SO. This SO will be a strong complement to both SOs 1.32 and 2.11, as it creates the conditions necessary at the republic level to foster private sector growth and to support democratic processes and institutions.

Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities

The disruptions of the 1990's caused severe hardship and substantially set back Montenegro's economic development. Along with loss of markets and the exodus of many skilled workers, the infrastructure system has deteriorated, technology is outdated and the capacity of the remaining workforce has been reduced due to a weakening educational system. The SO will focus on two key targeted avenues of support: improving the local

environment that will enable businesses to grow and prosper; and strengthening the capacity of businesses to enter and participate in the market. To ensure a larger and more immediate impact this objective advances enterprise growth in targeted sectors and municipalities where potential for growth has been identified; this will also provide a model for adoption by other sectors and municipalities. The expected results of this SO would be an increase in the number of new businesses and jobs, as well as increased domestic and market share for Montenegrin companies in regional and international markets (in select areas and municipalities). In the longer term these improvements, coupled with SO 1.31's improved economic and governance conditions, should lead to sustainable job growth.

The SO will build on USAID's results under the previous strategy by working with strong municipalities to implement policies that help businesses thrive. Local governments have an important role to play in facilitating private sector growth but lack capability to provide support. Identifying and addressing priority needs will require advancing cooperation among local government, the business community and civil society organizations. Activities will support local governments in increasing their technical capacity to provide and maintain basic public services and infrastructure, lessening business constraints that impede investment, and setting up targeted incentive systems. Assistance in facilitating financing for needed infrastructure will explore alliances. In complement to the work under SO1.31 for devolved resources and authorities, support will be provided to help municipalities exercise these authorities. On the other side of the equation, the SO will focus on increased efficiency and productivity of enterprises. As Montenegro's economy is small, the emphasis will be on micro and small firms as well as the medium sized enterprises that are more likely to have an aggregate impact on the Republic's economy and job creation. In order to improve competitiveness, enterprises need better tools, including market information, business skills and access to finance. Programs will work to reverse previous trends by increasing the skills of the private sector as well as access to and use of market information. Further gains in competitiveness will come from improved compliance with international standards and certifications as well as proper use of modern technologies. Assistance will be provided to strengthen business associations so that they can provide necessary services to their members and also enhance advocacy on critical private sector issues. Real access to credit will be supported by providing skills to enterprises to assist them in securing loans.

Strategic Objective 2.11: Risk of political instability reduced

The violent break-up of Yugoslavia and the NATO intervention over Kosovo led to widespread decline in living standards. USAID activities under this SO will address conditions in specific vulnerable areas, as well as systemic weaknesses that inhibit stability throughout the Republic. The SO envisages primarily a two-track approach to interventions, with a third rapid response mechanism available in the event of actual conflict. The first will be aimed at improving economic security in vulnerable areas, to not only reduce poverty but also ensure that improvements are addressed fairly throughout the population and are sustainable. The second will target crucial democratic structures and processes at all levels republic-wide to create continued support for democratic reforms, as well as a stronger check to the dangers of single party dominance. SO 2.11 will also include a third intervention mechanism to respond quickly to a crisis situation anywhere in the Republic. The results of success in SO 2.11 would include civil society with more confidence and engagement in the political process through strengthened NGO advocacy, improved information, and better representation by political parties. In vulnerable areas, improvement in living conditions and heightened community integration and participation in local social, political and economic processes is expected. SO 2.11 complements key governance elements under SO 1.31, and results should also be enhanced by improved economic conditions resulting from SOs 1.31 and 1.32.

Programs addressing vulnerable areas will be introduced primarily but not solely in Northern Montenegro, with municipalities selected on the basis of factors such as poverty, unemployment and economic decline. These will look to improving economic opportunities, increasing the responsiveness of local government to citizen needs, and empowering citizens to take an active role in creating positive change in their own lives. Working with small and particularly micro enterprises under this scenario will alleviate poverty and reduce risk by improving conditions in the local economy. Trade reaching beyond vulnerable areas will also be considered to reduce isolation, facilitate more concrete exchanges and improve the

incentives for cooperation. Activities throughout the Republic will work to strengthen civil society advocacy, enhance the capacity of the media to transmit crucial information to citizens, and also to strengthen the ability of democratic parties to represent constituent interests in political processes. Attention will be paid to key upcoming political events concerning the status of Kosovo and the State Union to heighten advocacy efforts for peaceful transitions regardless of outcome, work more closely with the media to increase professional reporting and to monitor conditions to be better prepared to address increasing tensions and, in the worst case, to rapidly respond to conflict.

Endnotes:

¹ The proposed strategy will complement and support other donor programs being implemented by the WB, EAR, EBRD, IFC, UNDP and bilateral organizations such as GTZ, KfW and DFID.

² Montenegrin Statistical office- MONSTAT- 2003 population Census

³ Montenegrin (43.1 percent), Serb (31.99 percent), Bosniak (7.8 percent), Albanian (5.0 percent), Muslim (3.9 percent), undeclared (4.3 percent). Other nationalities are all under 1 percent. Refugees and IDPs make up 4.0 percent of population.

⁴ Republican Statistics Office-MONSTAT, 2004 Gender Equality Office Survey

⁵ The Parliament has a total of 75 MPs, of which nine are women (12 percent). There are 15 ministers in the government, of which only two are women.

⁶ Employment Bureau of the Republic of Montenegro, USAID- Gender assessment report for Montenegro- February 2005

⁷ PRSP, 2003

⁸ World Bank – Montenegro education project

⁹ Source: Health Profile, DFID Health Systems Resource Centre, 2003

¹⁰ About 1.5 billion euros in 2004, according to the Central Bank of Montenegro- Chief Economic Report for 2004
