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2015 REPORT**

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## 1. INTRODUCTION<sup>1</sup>

### 1.1. Context

The European Council granted the status of candidate country to Montenegro in December 2010. Accession negotiations were opened in June 2012<sup>2</sup>. The Stabilisation and Association Agreement between Montenegro and the EU entered into force in May 2010. In addition to EU accession, Montenegro's key foreign policy priority during the reporting period was securing an invitation to join NATO. Both priorities are linked by the focus on the rule of law: progress in this area is a key condition for both processes.

Eight negotiating chapters were opened during the reporting period. Closing benchmarks were set by the EU for the opened chapters, providing guidance for future steps in meeting the obligations of EU membership. Montenegro has made good progress towards meeting opening benchmarks for chapters such as Agriculture and rural development, Energy, Employment and social policy, and Regional policy and preparation for structural instruments. Particular attention needs to be paid now to fulfilling the opening benchmarks in chapters like Competition policy and Environment and climate change, which are challenging for Montenegro.

### 1.2. Summary of the report

As regards the **political criteria**, the new electoral legislation, adopted in 2014, needs to be fully implemented, including on the electronic identification of voters. There has been no political follow-up to the alleged abuse of public funds for party political purposes ("audio recordings affair").

Some opposition parties embarked on a boycott of parliament in September. A series of protests were also organised outside parliament. These eventually led to confrontation between the police and protesters, resulting in injuries and damage to property. It is expected that all incidents of violence and allegations of excessive use of force during these events will be duly investigated. At the same time, all political parties should re-engage in a constructive political dialogue in the parliament.

Some progress was made in improving cooperation between the government and civil society organisations, especially concerning the latter's participation in the accession process, where civil society continued to play an active role. Conditions conducive to voluntary work, civic activism and social entrepreneurship need to be created.

With regard to public administration reform, Montenegro is moderately prepared. However, its results in ensuring merit-based recruitment and tackling politicisation are uneven; this should be ensured at all levels, including for senior positions. On public financial management, Montenegro needs to bring its accounting standards into line with international standards and put in place a strong internal control framework and improve legal compliance.

The judicial system is moderately prepared. Important steps were taken to align the legal framework with European standards, increasing professionalism and independence. The

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<sup>1</sup> This report covers the period from October 2014 to September 2015. It is based on input from a variety of sources, including contributions from the government of Montenegro, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

<sup>2</sup> To-date, 20 negotiating chapters have been opened, of which two have been provisionally closed.

emphasis now should be on implementation. In 2014, the backlog of pending cases was not significantly reduced. Codes of ethics for judges and prosecutors are aligned with the relevant European and international standards. A judicial reform strategy (2014-2018) and an accompanying action plan are in place. The full implementation of the new system of recruitment, professional assessment and promotion is now required.

In terms of the fight against corruption, Montenegro has achieved some level of preparation. However, the track record on effective investigation, prosecution and final convictions in corruption cases, in particular regarding high-level corruption, remains limited. In the fight against organised crime, the country has some level of preparation. Further efforts are needed, in particular to investigate wider criminal networks and to counter money laundering.

Further progress in the accession negotiations overall will also depend on progress on the rule of law: the latter will also have to be demonstrated, and assessed, on the basis of credible track records in the fight against corruption and organised crime.

The legal framework for the protection of human rights is broadly in line with European standards, but problems remain with implementation. Montenegro has achieved some level of preparation in the area of freedom of expression. However, concerns remain: There were instances of attacks against media practitioners and property during the reporting period, albeit fewer than in previous years. Some cases of violence against the media remain to be resolved, including the most serious case, that of the murder of an editor-in-chief in 2004. Lack of solid professional and ethical standards, accompanied by lack of efficient self-regulation, does not advance media freedom.

Montenegro continued to play a constructive role in regional cooperation and made important steps in finding mutually acceptable solutions to bilateral issues with neighbours, including the signing of border agreements with Bosnia and Herzegovina and Kosovo\* in August.

As regards the **economic criteria**, Montenegro is moderately prepared in developing a functioning market economy. Some progress was made in pursuing fiscal consolidation and improving the business environment. The economy recovered in 2013 from the double-dip recession of 2009 and 2012. After a mild slowdown in 2014, economic growth is gaining momentum again, boosted by investments. While the construction of the Bar-Boljare highway, together with other investments in energy, transport and tourism, will support economic growth, the cost of the highway risks challenging fiscal sustainability. Montenegro should make efforts to reduce its public debt. Banks are confronted with a persistently high level of NPLs, problems of debt recovery and low profitability due to the small size of the market, resulting in scarce and expensive credit. In spite of a small improvement, labour market performance remains unsatisfactory with a persistently high unemployment rate, currently 18%.

Montenegro is moderately prepared in its capacity to cope with competitive pressure and market forces within the Union. However, for industrial and agricultural products, Montenegro still suffers from low competitiveness, which should be improved. Major reforms are still needed to strengthen the country's physical infrastructure and human capital, and to ensure a predictable and supportive regulatory environment.

As regards its **ability to take on the obligations of membership**, Montenegro is moderately prepared for most *acquis* chapters although the level of alignment does vary. Concerning public procurement Montenegro is moderately prepared. More work is needed to prevent

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\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

corruption occurring during the procurement cycle. On financial control, Montenegro is also moderately prepared but significant efforts are needed to implement public internal financial control (PIFC) at all levels of public administration and in state-owned enterprises. On statistics, Montenegro has achieved some level of preparation: significant efforts are needed, especially to ensure the alignment of macro-economic and business statistics with EU standards.

Montenegro is at an early stage of preparation on, *inter alia*, environment and climate change. Aligning with the *acquis* and strengthening the administrative capacity remains a substantial challenge for Montenegro.

## **2. POLITICAL CRITERIA**

### **2.1. Democracy**

#### **Elections**

Montenegro's new electoral legislation, adopted in 2014, needs to be fully implemented and all future elections need to take place in accordance with the new laws. The State Election Commission's budget has been increased, but this institution needs to be further strengthened. The judicial follow-up on the alleged misuse of public funds for party political purposes remains to be completed and political responsibility ensured.

In October 2014, parliament appointed the members of the State Election Commission (SEC). In 2015, the SEC's budget was significantly increased but this institution needs to be further strengthened. Recruitment has been completed.

The electoral legislation adopted in 2014 has not been fully implemented, including new rules on the electronic identification of voters and updating of the single voters' list. The ad hoc parliamentary committee monitoring the implementation of legislation for building confidence in the election process needs to be established.

In December, parliament adopted a new law on the financing of political parties and election campaigns, after the Constitutional Court had previously annulled some of the old law's provisions. The new law means that Montenegro has made progress on meeting its outstanding recommendations made by GRECO (Group of States against Corruption) and the OSCE Office for Democratic Institutions and Human Rights.

Some progress has been made on the judicial follow-up to the 'audio recordings affair' of 2012, involving the alleged misuse of public funds for party political purposes. In February, the High Court in Bijelo Polje revised the September 2014 decision of the Pljevlja basic court, handing down stiffer sentences for the Director of the Centre for Social Work and an employee of that institution. Ten people previously acquitted for lack of evidence underwent a retrial, which resulted in suspended six-month prison sentences. Most criminal reports submitted to the prosecution over to the audio recordings affair have been dismissed. To date, there has been no political follow-up.

In May, five people were convicted by the Podgorica basic court for buying ID cards on behalf of the ruling Democratic Party of Socialists of Montenegro (DPS) prior to the May 2014 Podgorica local elections. One of the defendants was sentenced to five months' imprisonment and the others received suspended sentences. Six people were acquitted of all charges. The investigation failed to shed light on who ordered the buying of ID cards.

In October 2014, the Constitutional Court ruled that certain provisions of the law on the election of local councillors and MPs were unconstitutional. The provisions in question

stipulated that parliamentary parties, unlike extra-parliamentary ones, did not have to collect signatures in support of their electoral lists.

## Parliament

Montenegro's parliament has a newly-adopted Code of Ethics intended to strengthen the overall anti-corruption framework and public trust in parliament. Work in these two areas must continue. Parliament continues to function in a transparent manner, but there is still no procedure for acting on citizens' petitions. Oversight and legislative capacity need to improve. All political parties should show responsibility and re-engage in a constructive dialogue, with parliament as the key forum for political debate.

In December, parliament adopted its Code of Ethics. The Code draws on general ethical principles, establishes rules of conduct in carrying out parliamentary duties and promotes transparency. The right to file complaints is currently limited to MPs and parliament entities but should be extended to include citizens, the media and other external stakeholders. There is also room for improvement in a number of other areas, including on the MPs' obligation to declare private interests, the statute of limitations and the range of penalties applied.

In September 2015, opposition parties embarked on a boycott of parliament. They also organised a series of protests outside parliament, calling for the resignation of the government and new elections. These protests eventually led to confrontation between the police and protesters, resulting in injuries and damage to property. It is expected that all incidents of violence and allegations of excessive use of force during these events will be duly investigated. At the same time all political parties should re-engage in a constructive political dialogue in the parliament.

Parliament's capacity to follow up on conclusions and recommendations adopted in **oversight** hearings remains limited.

Parliament continued to display a high level of **transparency**. During the reporting period, it continued to reply to all access to information requests. Procedures for acting on citizens' petitions are not yet in place. **Administrative and expert capacity** need to improve further. Parliament should, as a matter of priority, ensure that their premises are accessible to persons with disabilities.

## Governance

Coordination of institutions involved in the EU accession process was strengthened, but there is room for further improvement. Transparency and stakeholder inclusiveness must be further strengthened. Public finances at local level should be consolidated and the budgetary positions, transparency, efficiency and accountability of units of local self-government strengthened.

In addition to EU accession, Montenegro's key foreign policy priority during the reporting period was securing an invitation to join NATO. Both priorities are linked by the focus on the rule of law: progress in this area is a key condition for both processes.

Coordination among institutions involved in the accession process has improved. As regards **transparency**, the Open Government Partnership operational team was dissolved due to irregularities in its appointment, and re-established. The e-petitions platform continues to exist, but is underused. The capacity and independence of regulatory authorities should be strengthened, while stakeholder inclusion and consultation should be further enhanced. Despite some improvements related to the Ombudsman's resourcing, the capacity to effectively handle complaints remains limited.

In December, parliament adopted amendments to the law on the financing of **local self-government**, giving the recently-established municipalities of Petnjica and Gusinje access to additional funds. A considerable number of units of local self-government have been struggling with high municipal debts and are not financially self-sufficient. In February, the government approved the restructuring of tax arrears for 14 municipalities.

In January, the government adopted the 2015-2018 strategy for the professional development of local civil servants and state employees and its 2015-2016 action plan. To date, 19 out of 23 units of local self-government have adopted action plans to combat corruption.

### **Civil society**

Some progress was made in improving cooperation between the government and civil society organisations, especially concerning the latter's participation in the accession process, where civil society continued to play an active role. However, more transparency is needed in government procedures for cooperation with and consultation of civil society organisations (CSOs). It is a matter of concern that some civil society activists have been targeted on a personal basis by local media. Conditions conducive to voluntary work, civic activism and social entrepreneurship need to be created.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. This also means providing opportunities for meaningful consultations, and legal space and material means for its development. In Montenegro, despite some positive examples, there is still room for improvement on this. Civil society representatives have on various occasions voiced their dissatisfaction with their level of involvement in policy-making.

Relations between CSOs and the government have occasionally been overly adversarial and characterised by distrust, especially on the political situation, the rule of law and fundamental rights. Instances of government bodies undertaking unlawful surveillance of CSOs and using administrative intimidation and legal threats have been reported and proven with court verdicts. It is a matter of concern that some civil society activists have been repeatedly targeted on a personal basis by local media through smear campaigns.

Greater transparency is needed in government procedures for cooperation with and consultation of CSOs, especially in legislative drafting. The new Council for the development of non-governmental organisations has been operational since 2014. Its main tasks include monitoring the strategy for developing CSOs and the relevant sections of the action plan on Chapter 23. So far, the record of implementation of the strategy has been uneven; amendments to the law on NGOs remain pending.

Montenegro needs to establish a sustainable system of public funding for CSOs and an appropriate institutional framework. It also needs an institutional culture that facilitates grassroots activities by civil society, through free concessions of public spaces and other forms of support. The current system of public funding has so far proven inefficient, a fact acknowledged by the State Audit Institution. Moreover, the law on gaming, currently the only source of public financing for CSOs, is not being implemented properly and the amount allocated to CSOs' projects is decreasing.

Conditions need to be created that are conducive to voluntary work and social entrepreneurship. This involves not only legislation but also bringing about an overall change of society's approach to volunteerism and civic activism.



## 2.2. Public administration reform

Montenegro is **moderately prepared** with the reform of its public administration. It made **some progress** over the past year, mainly on service delivery to citizens and businesses and public financial management. However, while Montenegro made some progress under its 2011-2016 public administration reform (PAR) strategy, it did not achieve all its objectives. Delays with rationalisation of the public sector are also an issue of concern.

In the coming year, Montenegro should in particular:

→ adopt a new 2016-2020 PAR strategy and a multiannual public financial management reform programme;

→ ensure full implementation of the law on civil servants and state employees, and adhere to the principles of merit, de-politicisation and transparency in recruitment, appraisals and dismissals at all levels, including for senior positions;

→ prepare for the implementation of the new law on general administrative procedures, and carry out a parallel review and alignment (as necessary) of all other relevant legislation; and

→ ensure that adopted measures to rationalise public administration are implemented, while ensuring the necessary capacity and skills for European integration.

### Public service and human resources management

Montenegro's legal framework on public service is in place. The principles of **merit-based recruitment, promotion and dismissal** are regulated by the law on civil servants and state employees, and are broadly in line with international standards. However, the track record in ensuring merit-based recruitments is uneven at all levels, including for senior positions.

Montenegro needs to further strengthen the capacity of its **Human Resources Management Authority (HRMA)** so that it can monitor and coordinate human resources units in an effective manner. The central personnel records need to be further updated, following the joint efforts of the Ministry of Finance and the HRMA already calling on institutions to do so. Disciplinary procedures are regulated in the law on civil servants and state employees, to avoid arbitrary decisions.

The current public sector **remuneration system** lacks transparency, and the principle of equal pay for equal work is not fully respected. Although the law on wages of civil servants and state employees lays down some rules on the basic and variable portion of salaries, a large proportion is discretionary and can be allocated by senior management. The payment of bonuses also lacks transparency. A law on public sector salaries, designed to increase transparency and fiscal accountability, is currently in preparation.

The HRMA is responsible for designing and delivering training programmes according to an annual training plan. However the legal right of public servants for continuous **professional development** is not fully respected. Rather, the amount of trainings has been decreasing over the past three years. Performance appraisals are carried out only in a limited number of institutions, often in a rather formalistic way.

**Integrity in public service** has increased since the adoption of the law on civil servants and state employees in 2013. A new anti-corruption agency is due to be in place on 1 January 2016. It will monitor conflicts of interest and asset declarations and provide protection for whistle-blowers.

### Policy development and coordination

Montenegro has the legal framework and institutional structures in place to provide the basis for a good **policy-making system**, including for European integration. There is clear division of responsibilities among those ministries with coordination responsibilities, especially the General Secretariat of the government, the Ministry of Foreign Affairs and European Integration and the Ministry of Finance, and other ministries. However, the medium-term planning system is not fully developed. Specifically, the government has weak capacity to scrutinise draft policies and judge if they meet previous commitments. Sectoral strategies are developed incoherently and often lack costing or a link to the medium-term expenditure framework, therefore putting at risk their future implementation.

**Inclusive and evidence-based policy and legislative development** is only partially ensured. Beside the lack of any specific legal requirements for it, ministries have a relatively low number of civil servants working on policy analysis and development. Ministries rather focus on the implementation of policies. This also detracts from institutions' capacity to carry out legal drafting, including for the EU *acquis*. Both inter-ministerial and public consultations are regulated, but there are major weaknesses in implementation. Public consultations are not systematically organised. When they do take place, they do not necessarily include all the relevant stakeholders and often come too late in the process. Legislative and policy proposals are supposed to include regulatory impact assessments. There is evidence that this is taking place, but some of analyses do not provide sufficient detail or only focus on fiscal impacts.

The broad publication of government monitoring reports allows **public scrutiny of government work**. The government reports are however more focused on providing information on outputs than on results and outcomes achieved with government policies.

### Accountability of the administration

The overall organisation of Montenegro's state administration does not ensure effective **lines of accountability**. The accountability of agencies towards parent institutions over financial and operational reporting varies considerably, which makes efficient monitoring problematic. Also lines of accountability within institutions are weak, and responsibilities are typically not delegated to middle management. Moreover, managerial accountability is not systematically implemented (see Chapter 32 – *Financial control*).

Rationalisation of the state administration has been one of the key priorities of the current public administration reform strategy, but the number of state employees actually rose in 2014, mostly (but not solely) at local level. However, since any new recruitment in local self-government is to be subject to approval by the Ministry of Finance, there may be a leaner and fiscally tighter public sector in Montenegro in the future, which in parallel ensures the necessary capacity and skills for European Integration.

Montenegro has put in place the appropriate internal and external oversight mechanisms to ensure the **citizens' right to good administration**. The total number of the Ombudsman's recommendations is low although the implementation rate of these recommendations is high. The **right to access public information** is regulated in the law on free access to public information, but in practice the state administration is not yet very responsive or proactive on this point. The Agency for Personal Data Protection and Access to Information is in place since 2013, but does not have sufficient capacity to deal with the increasing number of complaints it is receiving. Administrative silence is a major issue, causing nearly 50 % of complaints from the public.

The **right to administrative justice** is regulated in the law on administrative procedures. However, there are weaknesses in implementation, especially due to administrative silence.

Furthermore, Montenegro has a high number of special procedures, and therefore a lack of transparency in administrative appeals and judicial reviews. Administrative litigation procedures are short, but since cases are often returned to the state administration for further consideration, many of these end up back in court. Montenegro does not have a specific law on public liability to ensure **the right to seek compensation**. Instead, this subject is covered by several pieces of legislation that are not easily understandable to the public.

#### Public financial management

Montenegro has carried out some reforms of its public finances. Significant additional work is needed for example in putting in place multiannual financial planning; in gradually moving to policy-based budgeting; in improving financial forecasting, management and control of commitments; in managing assets; and in preventing tax evasion. Montenegro also needs to improve legal compliance. A comprehensive **public financial management reform programme** is being finalised to address the identified weaknesses. It should put in place a relevant and credible framework and provide an action plan that will realistically sequence and link reforms in different areas.

**Budget transparency** needs to be further improved. The annual budget is available to the public, but monthly reports on revenues, expenditure and borrowing provide only aggregate information. There is no transparency over how different institutions have spent their budget and no explanations are provided on variations during the year. Parliament's capacity for budget oversight needs to be strengthened and it needs sufficient time for processing budgetary information

#### Service delivery to citizens and businesses

Montenegro committed itself to achieving a **user-oriented administration** in its 2011-2016 public administration reform strategy and in its e-government strategy. Public satisfaction with government services is, however, not yet regularly measured. Equal access to public services, including to e-services, is largely ensured. A central government portal provides access to almost 80 e-services from 25 public institutions, but many provide only basic services, such as information and templates, not full electronic procedures. A 2014 law on e-government sets specific deadlines for developing e-services and interoperability. In summer 2015 the government adopted a decree on its operation and content management.

The new law on general administrative procedures was adopted in December and will enter into force in July 2016. Whereas it is a major step forward in **simplification of administrative procedures**, considerable work is still needed both on training of civil servants on its application and on ensuring consistency with special procedures. Nearly 150 special procedures will need to be either abolished or brought into line with the new law.

#### Strategic framework of public administration reform

A public administration reform (PAR) strategy is in place for 2011-2016. The current action plan expires at the end of 2015. In June, Montenegro adopted an analysis of the impact of the strategy. Weaknesses identified include objectives that were not linked with performance targets and an action plan that only focused on output-level indicators, not outcomes or impacts. Such weaknesses need be addressed under Montenegro forthcoming 2016-2020 PAR strategy, planned to be adopted before the end of 2015. **Political support** is ensured as PAR is identified as a priority in most government planning documents up to and including prime ministerial level. The political and administrative monitoring and reporting framework is in place, with the Ministry of Interior in charge of coordination. The new strategy's **financial sustainability** needs to be ensured in the 2016 budget and the medium-term expenditure framework.

## 2.3. Rule of law

### Functioning of the judiciary

Montenegro's judicial system is **moderately prepared**. During the reporting period Montenegro made **some progress** in this field. Good progress has been made on strengthening the legislative framework to increase the independence, accountability and professionalism of the judiciary, but rules are not fully applied in practice. Courts are overall managing to cope with the influx of cases, but measures to reduce the number of cases pending and the total length of proceedings need to continue.

In the coming year, Montenegro should pay particular attention to:

- strengthening the independence and professionalism of the judiciary by fully implementing the new recruitment, professional appraisal and promotion systems;
- strengthening the accountability of the judiciary by developing a track record of implementation of codes of ethics and of the new disciplinary systems for judges and prosecutors;
- strengthening the capacity of the Judicial and Prosecutorial Councils, including in strategic planning for budget and human resources.

#### Strategic documents

Montenegro's action plan for Chapter 23 outlines comprehensive reforms in the area of the judiciary. It is monitored by the Chapter 23 inter-institutional working group, which includes representatives of civil society.

In addition, a **judicial reform strategy** for the period 2014-2018 and accompanying **action plan** are in place. The strategy reflects and complements the main reform priorities identified and addressed by the action plan for Chapter 23. A mechanism for monitoring the implementation of the strategy is in place.

#### Management bodies

The **Judicial Council and the Prosecutorial Council** are the key bodies in charge of managing the judicial system, including the appointment and promotion of judges and prosecutors and handling disciplinary measures against them. Their composition and appointment procedures are broadly in line with European standards. However, some concerns remain about political influence on the work of these bodies.

The Judicial Council has a consolidated administrative structure. However, its secretariat does not have sufficient office space and is finding it difficult to recruit additional qualified administrative staff. Since July the secretariat for the Prosecutorial Council has its own secretariat but recruitment of staff remains to be completed. The budget allocated to the Judicial Council does not sufficiently cover its IT spending needs.

While access to Judicial Council decisions has significantly improved and the Council's meetings are generally open to the public, the operation of the Prosecutorial Council still lacks transparency. Both Councils lack strategic planning on budget and human resources.

#### Independence and impartiality

The main principles guaranteeing judicial independence, including the principle of the **immovability** of judges, are set out in Montenegro's Constitution and reflected in its legislation. The constitutional amendments introduced in 2013 strengthened the independence of the judiciary by reducing political influence on the appointment of high-level judicial and prosecutorial officials.

Judges and prosecutors have tenure until retirement. The power to dismiss judges and prosecutors lies with the Judicial and Prosecutorial Councils respectively. Judges and prosecutors enjoy functional immunity, with the exception of crimes committed in the performance of official duties. However, the **internal independence** of individual judges may be undermined by the Supreme Court's possibility to adopt legal positions of principle and by the supervisory powers of higher courts vis-à-vis lower courts. Under the Criminal Code, undue interference in the work of judicial officials is punishable by imprisonment. So far there has been no case where these provisions have been applied.

The principle of **random allocation** of cases is guaranteed by the law on courts and implemented automatically through PRIS, the judicial information system, although for very small courts there are certain limitations. The procedure of assigning cases to judges overnight rather than as soon as they are submitted does not entirely exclude manipulation. Failure to seek judicial disqualification in cases where it is mandatory constitutes grounds for disciplinary action. Rules for **withdrawal of allocated cases** are stipulated in the law on courts.

#### Accountability

**Codes of ethics** for judges and prosecutors are aligned with the relevant European and international standards and linked to mechanisms for complaints from members of the public. Compliance with the codes is monitored by specialised bodies within the Judicial and Prosecutorial Councils.

In February 2015, new systems of **disciplinary accountability** were introduced for judges and prosecutors. Specialised bodies within the Judicial and Prosecutorial Councils are responsible for disciplinary proceedings. However, the numbers of reported and established violations of the Codes of Ethics and of disciplinary and dismissal proceedings are limited. Most complaints submitted by members of the public refer to the substance of decisions.

Like all public officials, judges and prosecutors have an obligation to **declare their assets** on an annual basis and to report on possible **conflicts of interest**.

#### Professionalism and competence

The power to **recruit, appoint, transfer, promote and dismiss** judges and prosecutors lies with the Judicial Council and the Prosecutorial Council respectively.

New legislation adopted in February 2015 introduces a single, countrywide recruitment system for judges and prosecutors, and a new system of promotion based on periodic professional assessment. The new systems are designed to be transparent, merit-based and seek to apply objective criteria. Full implementation of the new systems is pending.

#### Quality of justice

The **Judicial Training Centre** provides initial and continuous training to judges, prosecutors and legal advisers. For 2015, it has been allocated its own budget line but is still dependent on donor support for certain specialised training courses. Montenegro has observer status in the European Judicial Training Network (EJTN).

PRIS, the **judicial information system**, is used by all courts for tracking cases, for some aspects of case management and for communication with parties. PRIS also collects comprehensive statistical data, which feed into annual reports on the performance of courts. However, the system has security gaps and is not running reliably outside Podgorica, partly due to slow network connections. It is also not backed by a clear institutional framework and remains under-developed with regard to the prosecution service. Final court decisions are

publicly accessible online. The law on courts provides for mechanisms to ensure consistency of jurisprudence. However, they risk undermining the internal independence of individual judges.

The judiciary's current **budget** of EUR 27.1 million (EUR 40 per capita) amounts to 0.78 % of GDP but is insufficient. The number of judges and prosecutors in Montenegro is relatively high in relation to the size of the population. Spending on salaries limits the scope for other expenses such as necessary investment or free legal aid.

**Alternative dispute resolution** is available through court settlement, arbitration and mediation. Overall, its impact remains low.

### Efficiency

In 2014 the **clearance rate**, i.e. the ratio of solved cases to new cases filed, was almost 100 % (2013: 98.5 %). However, overall, in 2014 courts solved 16.4 % fewer cases than in the previous year, and the total number of pending cases at the end of the year (37 111) remained more or less constant. The **backlog** of cases older than three years pending before all courts has further decreased and amounted to 3192 at the end of 2014 (4089 at the end of 2013).

In 2014, the **disposition time**, i.e. the average time from filing the case to a decision, was 242 days for first instance proceedings in civil cases and 261 days for commercial cases. The overall length of proceedings from initiation to final judgment remains a cause for concern.

### **Fight against corruption**

Montenegro has achieved **some level of preparation** in the fight against corruption. Corruption remains prevalent in many areas and continues to be a serious problem. **Some progress** was made in the past year thanks to the strengthening of the legislative and institutional framework but work on this needs to be completed. All institutions should demonstrate a more proactive attitude in fulfilling their mandate. Montenegro's track record on effective investigation, prosecution and final convictions in corruption cases, in particular regarding high-level corruption, remains limited.

In addressing the shortcomings outlined below, in the coming year Montenegro should pay particular attention to:

- establishing a fully operational anti-corruption agency by 1 January 2016;
- establishing track records in combating corruption, in particular in high-level cases and increasing the capacity to carry out financial investigations;
- improving track records in the prevention of corruption, including effective penalties for irregularities.

### Track record

**Results on investigation, prosecution and convictions** in corruption cases are limited to low and medium-level corruption. A high rate of investigations into reported corruption-related offences never results in indictments. So far there have been no final convictions for high-level corruption. In two cases former mayors have been convicted at first instance but trials are ongoing. Several investigations are ongoing, but a number of high-profile cases have never been subject to serious investigation. The political authorities should ensure that law enforcement bodies are fully empowered to act effectively and impartially when investigating corruption allegations. In cases involving low and medium-level corruption, courts frequently apply sentences below the minimum penalties laid down in the Criminal Code.

**Financial investigations** are not yet systematically used in cases of corruption. In no corruption case has the **confiscation of assets** been ordered. As regards **political influence** on law enforcement and judicial officials, some statements by members of the executive and the legislative branch may be interpreted as interference in the independent functioning of the judicial system.

Also in the areas of control of conflict of interest, asset declarations as well as financing of political parties and electoral campaigns Montenegro is yet to achieve significant results. Penalties have not been effectively applied and as a result are not serving as a deterrent. The practice of misdemeanour bodies to issue very low sanctions, in most cases below the statutory minimum, counteracts effective enforcement of prevention of corruption rules.

The Commission for the prevention of **conflicts of interest** has continuously increased the number of **asset declarations** it cross-checks against data held by other institutions. The number of irregularities identified has increased, but until very recently there was no appropriate follow-up. While the Commission has processed a number of cases of incompatibility of functions, its decisions on conflicts of interest so far are limited to requests filed by the public officials concerned to receive an opinion. The Commission does publish data from the asset declarations of public officials.

Alleged irregularities in the area of **political party and electoral campaign financing** (abuse of state funds for political party purposes) have not been appropriately followed up by the State Electoral Commission.

As regards **free access to information**, in 2014 public institutions who received such requests rejected roughly 25 % of them. However, the appeals body, the Agency for Personal Data Protection and Free Access to Information upheld most complaints. Court decisions on access to information are not effectively enforced.

On the basis of amendments to the Criminal Code in July 2013 making dismissal of **whistle-blowers** a criminal offence, criminal charges have been brought against 17 persons. In two cases preliminary investigations are ongoing; in all other cases charges were dismissed.

#### Institutional framework

On the **prevention of corruption**, in December 2014 parliament adopted the legislative basis for establishing an independent anti-corruption agency with administrative investigation powers, to be operational as of 1 January 2016. The existing supervising institutions are not on the whole taking a proactive approach and their administrative capacity has not been strengthened as required. Codes of ethics are in place for legislative, judicial and executive authorities and integrity plans have been adopted in 77 (out of 102) public bodies.

On **law enforcement**, the institutional and operational capacity of prosecutors, judges and police to fight corruption is insufficient. The prosecution service has the lead in criminal investigations. However, in practice, cooperation between the police and the prosecution in pre-trial investigations remains to be improved. The capacity to carry out financial investigations needs to be improved.

The special prosecution division within the Supreme State Prosecutor's Office lacked direct access to relevant databases and specialised expertise. A new Special Prosecutor's Office for the fight against corruption, organised crime, war crimes, terrorism and money laundering became operational in July but the recruitment of special prosecutors and specialised experts has not been completed.

The fight against corruption is being hampered by frequent changes to the relevant legislation and the annulment of verdicts on appeal, mostly on technicalities. The vast majority of

corruption allegations submitted to the state prosecution come from members of the public, NGOs and private companies. Only very few cases are submitted by the police and hardly any complaints result from administrative control and auditing bodies.

#### Legal framework

Passive and active corruption are punishable offences under the Criminal Code, which lays down sentences for them ranging from three months to 15 years. Montenegro is a party to the main international instruments against corruption, including the **UN Convention against corruption** and the relevant Council of Europe conventions. Illicit enrichment has not been made a criminal offence.

The legislative framework was significantly strengthened through the adoption of a comprehensive package of laws in December 2014, which also included the legal basis for the future anti-corruption agency.

#### Strategic framework

The **action plan for Chapter 23** outlines comprehensive reforms on the prevention and combat of corruption. Its implementation is monitored through the Chapter 23 inter-institutional working group, which also includes representatives of civil society. Sectoral action plans are in place for some areas particularly vulnerable to corruption but in practice their impact has been limited.

#### **Fight against organised crime**

Montenegro has achieved **some level of preparation** in the fight against organised crime. **Some progress** was made in the past year, notably on strengthening the legal and institutional framework and operational capacity for the prevention of money laundering and terrorist financing. Regional and international cooperation has been smooth, and a number of joint operations were conducted. However, further work is needed in this area. Montenegro's track record on organised crime needs to be consolidated. In particular, the number of final convictions for organised crime and the number of seizures and confiscations of criminal assets are low. The number of suspicious transactions detected also remains low.

In the coming year, Montenegro should pay particular attention to:

- improving its track record in the fight against organised crime, including dismantling criminal networks and ensuring quality confiscation of criminal assets;
- stepping up intelligence-led investigation on anti-money laundering and financial cases, and on cases of trafficking in human beings;
- ensuring stronger, proactive inter-agency cooperation among the recently-established institutions (the Special Prosecutor's Office and the new specialised police units), the Administration for Prevention of Money Laundering and Terrorist Financing, the Central Bank, the tax authorities and the customs administration.

#### Track record

Despite some new cases in the area of drugs, arms trafficking, cybercrime and migrant smuggling, Montenegro's track record has shown little progress on complex crimes such as trafficking in human beings and money laundering. In various cases, there has been little effort to investigate wider criminal networks. The number of final convictions for organised crime remained low with no major changes to the trend in the last few years.



Following the 2014 seizure of 250 kg of cocaine from a cargo ship in the port of Bar, the investigation into the case has not identified the network that organised this **drug trafficking** operation. Apart from this large amount, there were no other drug seizures in Bar, despite sizeable container traffic, including from southern America. So far there have been no cases of criminal assets seized for drug trafficking, despite Montenegro being a transit country.

**Trafficking in human beings** remains a concern. Despite progress on the legal and institutional aspects, Montenegro has achieved limited results, both in terms of victims identified and cases prosecuted. Despite Montenegro remaining a transit country towards Western Europe and remaining vulnerable to both domestic and regional trafficking, only few criminal cases have been launched and four victims identified.

The system in place to combat **money laundering** remains weak and lacks strong coordination mechanisms between the various players in the chain. Two new indictments on money laundering were brought in 2014; one trial is still ongoing, while the second case resulted in an acquittal. While Montenegro's anti-money laundering agency is fulfilling its mandate, including through a new policy on penalties, other institutions, including the Central Bank, need to step up systematic checks on other reporting entities. This problem is reflected in the low number of suspicious transactions reported in the country in comparison with the amount of cash transactions. Financial investigations and the **seizure and confiscation of assets** are also used in a limited number of cases only, due to lack of know-how.

For a number of years, large quantities of cigarettes have been declared transiting through the Port of Bar destined to third countries. Recently, an increase of the quantity of cigarettes has been observed, including to certain destinations located in third countries considered as suspect.

#### Institutional and operational capacity

Since 2013 Montenegro has in place a system of prosecutorial-led investigations. Practical problems in coordination and exchange throughout the law enforcement and judicial chain are not yet entirely resolved. This is one of the major shortcomings affecting results.

The rules governing the organisation of the police are derived from the law on internal affairs. The changes made in early 2015, following the legislative amendments described below, aim at better cooperation between the public prosecution service and the police by establishing a 'double-hatted' special unit. The head of the special unit, once appointed, will report to the Chief of Police and to the Special Prosecutor. The unit is not yet operational.

In addition, four **specialised police units** have been created, focusing on trafficking in human beings, cybercrime, financial investigations and the fight against terrorism. These changes are expected to improve Montenegro's track record. As part of the reorganisation of the police, the resources dedicated to the fight against organised crime have substantially increased. However, the operational capacity of the new units needs to be improved, both through capacity-building activities and by providing new technical equipment. Inter-agency cooperation needs to be improved. An operational agreement with **EUROPOL** is in place.

The Montenegrin authorities need to look for and identify victims of trafficking in human beings in a proactive manner (e.g. using their inspection services), increase outreach to relevant bodies such as asylum centres, and tackle crimes related to trafficking in human beings. The new police unit dealing with trafficking in human beings needs to be adequately trained. The shelter for victims of trafficking in human beings requires internal reorganisation and better planning ahead, taking into account the low number of victims hosted.

## Legal framework

In recent years, Montenegro's legal system went through waves of reform to improve its performance in curbing organised crime, while at the same time aligning the national framework with EU and international standards. The Criminal Code was amended in 2013 to incorporate new provisions related to trafficking in human beings, cybercrime, anti-money laundering and the financing of terrorism. A new law on anti-money laundering, adopted in 2014, aimed at incorporating the EU's Fourth Directive and the standards of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). A law establishing the Special Prosecutor's Office (with a mandate on organised crime, corruption and war crimes) was adopted in February 2015; a new law on the seizure and confiscation of assets was adopted in September 2015.

The creation of a Special Prosecutor's Office centralised powers on organised crime and paved the way for the creation of specialised bodies, including in the police. Amendments to the law on internal affairs were adopted in 2014 to reorganise the police in line with the need to address modern forms of organised crime. The amendments aim at eliminating possible political influence in police work and ensuring that procedural safeguards are in place. For the implementation of these legal provisions, see the section on *Institutional and operational capacity* above.

The overall criminal justice reform and the police reorganisation should increase the Montenegrin authorities' capacity to fight serious and organised crime and improve its focus on specific areas of the phenomenon. This must now be followed by appropriate training for staff and a solid track record on implementation, including better cooperation between judicial and law enforcement authorities. Future amendments to the law on internal affairs should, in particular, focus on the single entry point and on transparent and merit-based recruitment to increase the professionalism of the police.

## Strategic framework

Montenegro drew up a national serious and organised crime threat assessment (SOCTA) in 2014, based on intelligence-led policing. It is currently implemented and a mid-term assessment was developed in June 2015. However, this key strategic framework has not translated into the dismantling of any of the organised crime groups identified by SOCTA.

In May Montenegro adopted a 2015-2018 action plan on fighting money laundering and terrorism financing. In January, the government adopted a 2015 action plan to implement its strategy for the fight against trafficking in human beings.

Montenegro has remained active at international and regional level; the Joint Centre for Police Cooperation in Trebinje (bringing together Montenegro, Serbia and Bosnia and Herzegovina) is operational and a Montenegrin liaison officer has been posted there. Montenegro is working to establish interconnectivity with the national IT system of the police. The operational agreement with Europol was signed in September 2014 and a police liaison officer was appointed in April. The agreement needs to be fully implemented.

## **Fight against terrorism**

Montenegro has been affected by the phenomenon of foreign terrorist fighters and radicalisation. The country has amended its Criminal Code, criminalising the phenomenon of foreign terrorist fighters in line with the relevant UN Security Council Resolution. An inter-ministerial group has been established to monitor the situation and implement actions to prevent possible terrorist threats. An action plan on fighting money laundering and terrorism financing has been adopted and cooperation with international partners has intensified. The

phenomenon of foreign terrorist fighters needs a dedicated approach by the intelligence and law enforcement community and a coherent judicial policy towards offenders.

## 2.4. Human rights and protection of minorities

### Overall situation

Montenegro is gradually shifting its focus from incorporating EU standards into its legal framework to improving its institutional framework and support activities that make the protection and enforcement of human rights possible. The amendments to the Law on the Ombudsman enabled the latter to recruit more qualified staff. The law on gender equality, and that on fighting discrimination against persons with disabilities, were amended to align more closely with European standards. Full alignment with the *acquis* regarding sanctions has not been achieved. The Roma minority remains the most vulnerable and discriminated community in various areas of life.

Shortcomings particularly affect the following areas:

- Human rights institutions remain weak. The Ombudsman and the Ministry of Human Rights and Minorities need to be reinforced, following the reform of the anti-discrimination framework. Staff knowledge on international and European human rights law and standards, and their ability to supervise the spending of funds, remains insufficient. Poor transparency and control of the funds for minorities must be urgently addressed.
- Lack of a uniform approach and low levels of penalties in the area of human rights violations create legal uncertainty.
- Impunity is still an issue in connection with abuses in prisons and pre-trial facilities. Judges and law enforcement officials' knowledge of European standards and case law needs to be increased.

In line with the new reporting methodology, a detailed analysis of freedom of expression as a pilot area follows below. For a detailed analysis of developments on other human rights and the protection of minorities, *see Chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment*.

### Freedom of expression

Montenegro has achieved **some level of preparation** in the area of freedom of expression. **No progress** was made in the past year.

Defamation has been decriminalised and guidelines issued to the prosecution concerning penalties. However, Montenegro still needs to achieve an overall alignment with the case law of the European Court of Human Rights. Recently, several vehicles belonging to journalists were damaged. A number of physical attacks and threats of attacks have taken place in the past, including some high-profile incidents. In addressing the shortcomings outlined below, Montenegro should pay particular attention to:

- solving older cases of violence against media, including the 2004 murder case, identifying not only the material perpetrators but also those behind the attacks and implementing recommendations issued by the ad hoc media commission set up to monitor attacks;
- ensuring the independence of the public service broadcaster RTCG;
- providing guidance to the judiciary on aligning decisions with European Court of Human

### Intimidation of journalists

In Montenegro there is no systematic trend of attacks against journalists resulting in threats to life or serious injuries. However, threats and attacks have occurred in the past, including high-profile incidents targeting investigative journalists. The most serious case was the murder of an editor-in-chief in 2004; to-date there is no information on the motive or the people behind the crime.

An ad hoc, and rather low-profile, commission was set up by the government in 2013 to monitor investigations into cases of violence against journalists. It is composed of media, civil society organisations and state representatives and has had its mandate extended until the end of 2015. In 2014, it issued recommendations on prioritising cases and accelerating the resolution of prominent cases. These recommendations have not been fully followed up by the government, most notably on reinstating a reward for witnesses in older cases and identifying flaws in the investigations of the attacks. The effectiveness of police protection granted to a journalist and to the property of one media outlet, following the request of another journalist to discontinue the service, needs to be carefully assessed with a view to improving it.

### Legislative environment<sup>3</sup>

Defamation was decriminalised in 2012 and contributed to the decrease in the number of lawsuits against the media. To help judges in setting standards for penalties, the Supreme Court has issued guidelines that reference European Court of Human Rights case law. Challenges remain in their implementation.

Amendments to the law on electronic media aimed at further alignment with the *acquis* have yet to be adopted.

### Implementation of legislation/institutions<sup>4</sup>

An ongoing smear campaign, mostly by one tabloid newspaper, targeting prominent civil society activists and some politicians, shows that the authorities are not properly implementing the media law and that self-regulation, re-established in 2012, is not working. Its effectiveness is hampered by the fact that it is split in different forms, reflecting divisions within the media community. The lack of a uniform approach to penalties in this area suggests that European Court of Human Rights case law is not sufficiently known, despite the guidelines issued by the Supreme Court in 2012.

### Public service broadcaster<sup>5</sup>

Amendments to the law on public broadcasting services, providing more financial independence and sustainability to the public broadcaster RTCG (*Radio i televizija Crne Gore*), are yet to be adopted. Under the proposed model, RTCG would receive a fixed amount of 0.3 % of GDP annually, which is about EUR 2 million more than its current budget. Montenegro needs to prioritise the editorial independence of RTCG, since a well-functioning and truly independent public service media represents a key aspect of media pluralism.

### Economic factors

Rules governing the transparency of **media ownership**, including media concentration, are set out in the law on electronic media. There are concerns about transparency and non-

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<sup>3</sup> See also chapter 10

<sup>4</sup> See also chapter 10

<sup>5</sup> See also chapter 10

discrimination in state **advertising**. Some major private media outlets are at risk of failure due to high tax debts. The precarious economic situation of journalists puts them at risk of editorial interference and possible self-censorship. The fact that many media outlets are not financially sustainable has a negative impact on the quality of reporting and professionalism.

#### Professional organisations/professional conditions

Journalists are jointly represented in Montenegro's media trade union. However, the media community remains highly divided overall. Membership of the Media Self-Regulatory Council is not representative of the entire media community. Dialogue on improving ethical standards in reporting, facilitated by the OSCE, should continue. According to the media trade union, journalists are poorly paid and their jobs are not secure. In the past three years, at least 500 journalists lost their jobs, while three TV stations and one newspaper closed due to poor financial performance.

### **2.5. Regional issues and international obligations**

There were no developments in Montenegro's cooperation with the International Criminal Tribunal for the former Yugoslavia. For the handling of domestic war crimes cases, see Chapter 23 — *Judiciary and fundamental rights*.

Montenegro still maintains a 2007 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. In doing so, it is not complying with the EU common positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Montenegro needs to align with the EU position as part of its accession negotiations.

Montenegro has continued to cooperate closely with Bosnia and Herzegovina, Croatia and Serbia under the **Sarajevo Declaration Process**, which aims at sustainable solutions for some 74 000 people who became refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. At the same time, all countries need to further step up efforts to deliver on the implementation of the agreed housing solutions. In Montenegro, the first delivery of the 344 housing solutions approved so far is expected for mid-2016. The authorities are putting in place complementary sustainability measures for the housing solutions planned.

The unresolved fate of **missing persons** resulting from the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. As of February 2015, a total of 10 880 people were still missing according to the International Committee of the Red Cross. Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. The number of cases in Montenegro, 61, is low but all efforts should be made to ensure identification as soon as possible

**Regional cooperation and good neighbourly relations** form an essential part of Montenegro's process of moving towards the EU. Montenegro has continued to actively participate in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement and the Energy Community Treaty. Montenegro continues to actively support the Coalition for Reconciliation Commission (RECOM) and the Igman Initiative on regional reconciliation.

Fresh impetus has been given to regional cooperation through the '**Berlin process**' and the Western Balkan six initiative, intensifying cooperation among the Western Balkan countries and with the EU, notably regarding our **connectivity agenda**. In April, the Western Balkan six countries reached an agreement on the core transport network and in June 2015 on extending three Trans-European Transport Networks core corridors to the Western Balkans.

They also identified the priority projects along sections of these corridors to be implemented by 2020. To ensure sustainability and also achieve short term results, the countries agreed to implement before the next summit in Paris a number of 'soft' measures such as aligning and simplifying border crossing procedures, road safety and maintenance schemes.

Montenegro continues to maintain good **bilateral relations with other enlargement countries and neighbouring EU Member States**. Border demarcation agreements with Bosnia and Herzegovina and with Kosovo were signed in the margins of the Vienna Summit in August. The delimitation of borders with Croatia and Serbia remains pending. A bilateral convention on regional cooperation under Article 15 of the Stabilisation and Association Agreement was concluded with Albania in May and negotiations have been launched for a similar agreement with Bosnia and Herzegovina.

Relations with **Albania** continue to be good. An economic cooperation agreement was signed in February. Albania continues to support Montenegro's NATO accession process. The economic cooperation agreement was ratified in April. In January, Montenegro lodged a diplomatic demarche with Albania on the display of the 'Greater Albania' flag at the residence of the Albanian Prime Minister. The incident was, however, followed by two high-level visits, which took place in the next few months.

With **Bosnia-Herzegovina** an agreement on consular protection and visa issues entered into force in May and the border agreement signed in August (*see above*).

In September 2014, Montenegro and the **former Yugoslav Republic of Macedonia** signed an agreement on the mutual recognition of driving licences. In February, the two countries signed a protocol housing their diplomatic and consular offices at the same site in Paris, France. The joint committee on EU affairs met in March in Skopje.

Relations with **Serbia** remained good. The Speaker of the Serbian parliament visited Podgorica in October 2014. The Prime Ministers met at the '16+1' SEE-China summit in Belgrade in December. The Serbian Minister of Foreign Affairs visited Montenegro in February in his capacity as OSCE Chairperson-in-Office. A protocol on cooperation on European integration was signed in July. There were no developments on issues related to citizenship rights in the two countries.

Relations between Montenegro and **Kosovo** remained good. There were no developments concerning the constitutional recognition of the Montenegrin minority in Kosovo. In July, Montenegro ratified the agreement on police cooperation. A joint commission on border demarcation concluded its work in June 2015 and Ministers signed the border agreement during the August Western Balkans Summit (Vienna), now pending parliamentary approval by both

Cooperation between Montenegro and **Turkey** continued, including through the Joint Commission for Economic Cooperation. In October 2014, the two countries signed an agreement on cooperation in military training. In December, Montenegro and Turkey signed an agreement on cooperation on health and medical sciences. The agreements on mutual assistance on customs issues and on social security were ratified.

Joint work on finding a solution for the border demarcation between Montenegro and **Croatia** is ongoing. In 2014, the two countries signed agreements on study programmes on military engineering and leadership, and on the training of Montenegro cadets in Croatia.

In January, Montenegro adopted a decision to open a consulate in Trieste, **Italy**. A cooperation agreement in the area of health and medical sciences was signed in October. A memorandum on cooperation in the fight against corruption was signed in July.

### 3. ECONOMIC CRITERIA

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	40	39
GDP growth (%)	3.3	1.4*
Unemployment rate (female; male) (%)	19.5 (18.8; 20.1)	18 (18.2; 17.8)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	65.1 (58.3; 71.9)	67.6 (60.7; 74.5)
Current account balance (% of GDP)	-14.6*	-15.4*
Foreign direct investment (FDI) (% of GDP)	9.7*	10.3*

Source: Eurostat, \*National Statistics Agency

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

The monitoring of these economic criteria should be seen in the context of the increased importance of economic governance in the enlargement process. In order to enhance their economic governance, in 2015 the enlargement countries were invited to prepare Economic Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework, together with key structural reforms aimed at supporting the framework and boosting competitiveness. The ERPs were the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey in the Economic and Financial Dialogue meeting on 12 May 2015.

#### 3.1. The existence of a functioning market economy

**Montenegro is moderately prepared in developing a functioning market economy. Some progress** was made in addressing some economic challenges, in particular on fiscal consolidation and the business environment. The economy recovered in 2013 from the double-dip recession of 2009 and 2012. After a mild slowdown in 2014, economic growth is gaining momentum again, boosted by investments.

The construction of the Smokovac-Mateševo priority section of the Bar-Boljare highway as well as ongoing investments in energy, transport and tourism will support economic growth. However, challenges to macroeconomic stability remain. The cost of the highway risks challenging fiscal sustainability. Banks are confronted with problems of debt resolution and low profitability resulting in scarce and expensive credit. Further efforts are necessary to reduce the structurally high unemployment.

In line with the 2015 ERP recommendations and in order to support long-term growth, Montenegro should pay particular attention to:

- sustaining its commitment to fiscal discipline and revising its public debt management strategy to reduce the public debt and to improve the sustainability of public finances;
- addressing the high burden of non-performing loans (NPL) and improving the efficiency of contract enforcement;

→ amending labour legislation to introduce further market flexibility and better target active labour market policies as well as further improving the business environment.

### *Economic policy essentials*

**The government remained committed to pursuing market-based reforms, attracting FDI, and developing the private sector.** In January 2015, Montenegro submitted its first Economic Reform Programme (ERP), covering the period 2015-2017. The ERP partially complied with the targeted policy guidance adopted by the Joint Ministerial dialogue of 6 May 2014.

A number of major reforms still need to be implemented, including the ERP recommendations set out below. These include sustaining the commitment to fiscal discipline, implementing the voluntary bank loan restructuring programme, improving the business environment, and actively pursuing the reform of education to align it with labour market conditions.

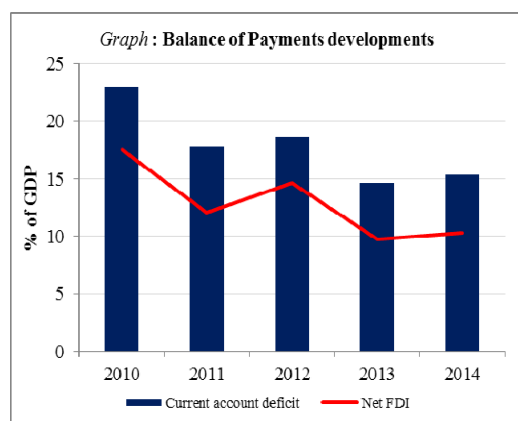
**ERP recommendation 1:** "Sustain the commitment to fiscal discipline, establish a credible track record on the basis of the new rules-based fiscal framework and revise the public debt management strategy to bring the public debt into a downwards trajectory in line with the ERP medium-term framework. In this context, municipalities are also called to contribute by strengthening their own budgetary position. In order to improve transparency, develop the necessary administrative capacity to implement the European System of Accounts (ESA 2010)."

### *Macroeconomic stability*

**The fast recovery after each recession episode is indicative of the Montenegrin economy's resilience to shocks.** After suffering two recessions in 2009 and 2012, the economy recovered strongly in 2013, but moderated its pace in 2014. The economy has started to pick up speed again in 2015 boosted by a surge in public works and private investments, particularly in the transport, energy and tourism sectors. However, consumer spending and domestic investments have remained subdued, also due to banks' tight credit conditions, high unemployment and lower wages. The recessions marginally reduced the average per-capita income to 39% of the EU28 average in 2014, compared to 40% in 2013.



**There has been no significant improvement in Montenegro's trade deficit in the last four years.** After a substantial decline in 2009, and a somewhat stronger export performance in 2010 and 2011, the trade deficit has since remained flat (at 40 % of GDP). The current account deficit widened in 2014 to 15.4 % of GDP and to 16.1 % of GDP in the four quarters to June 2015 on the back of a higher trade deficit and lower transfers from abroad. Net financial inflows consisted mainly of foreign direct investments (FDI), which remain above 10 % of GDP.



**The labour market situation improved in 2014, but high unemployment is still a concern.** The number of workers increased by 7.1 % compared



with the previous year, and registrations with the employment agency also grew (by 4.7 %). This was in part due to efforts to reduce undeclared work. However, employment and activity rates have remained low, at 55.6 % and 67.6 % respectively, and are markedly lower for women.

After having been stagnant at above 19 % for five consecutive years, the average unemployment rate fell to 18.0 % in 2014 and to 17.7 % in the second quarter of 2015. However, regional differences are huge. The average unemployment rate in the coastal region was 6.7 %, in sharp contrast with the figure of 13.4 % in the central region and 39 % in the north. Youth unemployment (15-24 years old) remained high at 35.8 %. Two-thirds of the unemployed were without a job for more than two years.

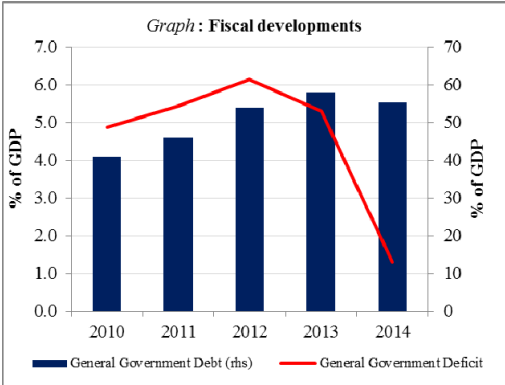
**ERP recommendation 4:** "Amend labour legislation to introduce further market flexibility. Reinforce sanctions to discourage undeclared work. Better target active policies for workers at risk of losing their employments and enhance labour market participation in view of an ageing population."

**Inflation has been largely driven by global commodity prices.** In 2014, lower import prices for energy and food coupled with falling wages contributed to a fall in prices. As a result, the average consumer price inflation contracted by 0.5 % in 2014, compared with a moderate increase of 1.8 % a year before. Overall, prices grew by 1.1 % on average in the first seven months of 2015, driven by food prices and despite a further decline in oil prices.

**The economic crisis put a significant burden on public finances through declining revenues and further increases in mandatory expenditures.** Over the last few years the country has recorded large budget deficits of around 5 % of GDP. As a major concern, total public debt has practically doubled since 2008 to reach 60.3 % of GDP in June 2015. A process of fiscal consolidation, supported by tax increases and expenditure restraint, brought the budget deficit to 1.3 % of GDP in 2014. Improvements were largely concentrated on the revenue side, expanding to 46 % of GDP, up from 43 % a year before, following increases in excise duties, vehicle registration fees, insurance taxes and real estate tax rates, as well as the introduction of incentives to facilitate repayment of tax arrears and tightening

**ERP recommendation 2:** "Consider additional reforms for attaining long-term sustainability of the budget, such as the introduction of further restriction for early retirement and the consideration of options for individual participation into the old-age pension system on a mandatory basis, as well as the implementation of a common policy for public sector wages in the context of rationalisation and modernisation of the public sector."

sanctions against tax debtors. On the expenditure side, freezes on pensions and public sector wages were enacted. Total spending stands at 47.3 % of GDP compared with 47.7 % a year before.



The 2015 budget provides for a substantial increase in capital spending to 9.2 % of GDP, most of it intended for the construction of the highway. With this increase, the budget deficit is planned to rise to 5.3 % of GDP. The Law on Budget and Fiscal Responsibility introduced upper limits for the budget deficit of 3 % of GDP and public debt of 60 % of GDP, to be effective as of 2015. However, investment projects of national importance (such as the highway) are excluded from the deficit calculation. In the first half of 2015, the headline

deficit reached 6 % of GDP, due to substantial capital spending resulting from the start of the

highway construction, calling for continued fiscal discipline in particular on current spending. In September 2015, the government raised the limit for state guarantees to allow municipalities to clear arrears to the tax administration and suppliers.

**Montenegro's institutional public finance framework requires additional reforms.** The new fiscal policy aims to ensure the sustainability of public finances, while introducing a tax shift and incentives in favour of investment. However, its efficiency needs to be tested. The budget is also designed to boost capital spending to finance the construction of the highway. While supporting economic growth, this project will also entail significant fiscal risks. Montenegro will need to make a sustained commitment to fiscal discipline to rebuild fiscal buffers, including expenditure-side reforms and a sound public debt management strategy.

*Interplay of market forces*

**The privatisation process is quite advanced** and just a few firms remain in the privatisation programme for 2015. The final instalment for the sale of KAP's aluminium smelter was made in August 2015 (see also chapter 8 – Competition policy). The same investor also procured the bankrupt Nikšić bauxite mine. However, high production costs threaten the revival of the aluminium industry. There is also litigation ongoing with one of the former owners. Discrepancies in the ruling coalition over the concession of long-term leases for tourism resorts failed to secure a sufficient majority in Parliament. In June 2015, the commercial court launched a bankruptcy procedure for the Adriatic shipyard Bijela in order to facilitate the sale and restructuring of the company. In 2015, the management of the bankrupt saltworks Bajo Sekulic was temporarily given to the public enterprise National Parks of Montenegro.

*Market entry and exit*

**The recovery of the economy is also reflected in the growing number of new companies.** In 2014 there were 3,179 new companies established, 91 % of which as limited liability firms. The cost of setting up new businesses was reduced through the introduction of lower fees for public utility connections on building land, and tax exemptions for companies in strategic sectors (i.e. tourism, energy and food production). However, there is still room for further improvement for starting a business, in particular by streamlining administrative procedures. Scarce and expensive bank loans, in particular for small and medium enterprises (SMEs), also hinder enterprise creation and operation. To support investments, Montenegro should further simplify the regulatory environment, facilitate the issuing of construction permits and improve its land registration system, in accordance with ERP recommendation 7.

*Legal system*

**Licensing, contract enforcement, access to credit and cumbersome tax administration procedures are the main obstacles for the business community.** Progress has been made on reducing the number of documents needed for customs procedures through the establishment of a centralised electronic registry and by exempting companies from providing printed documents. In the context of e-Government, 300 government sites have so far been connected to a single communications network and begun to provide services to corporate users. However, full interoperability has not been achieved. Electronic registration of companies, and its extension to all regional tax administration offices, remains to be completed. The number of enforcement cases in the courts has been significantly reduced since the introduction of a bailiff system in April 2014.

<p><b>ERP recommendation 7:</b> "Further improve the business environment by ensuring the timely implementation of the so-called "regulatory guillotine" (simplification) project, enhancing the functioning of one-stop shops at municipal level for the issuing of construction permits and the quality of the land registry."</p>
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Amendments to the Law on Enforcement and Securing of Claims replaced three-judge panels with decisions by individual judge, speeding up court enforcement proceedings and foreclosure of collateral. The number and the value of commercial disputes successfully resolved tripled in 2014, reaching a total of 869 cases.

#### *Financial sector development*

**The recovery of the banking system remained unfinished given the need for further balance sheet adjustments.** The Greek crisis did not have any significant effect on Montenegro's financial sector as none of the 14 banks operate with majority Greek capital. Banks' deposits have recovered to pre-crisis levels, but the recovery of credit is slower and more uneven. In June 2015, the stock of loans remained 15 % below its 2009 level. Although financial results remained positive and capital was reinforced, banks confront problems with debt resolution and low profitability related to high overhead costs and scale inefficiencies that add to high risk premiums. As a result, the decline in the interest rate on loans has been marginal, averaging 8.93 % in July 2015 compared to 9.55 % a year before. In July 2015, the Central Bank of Montenegro (CBCG) approved a decision on maximum interest rates on new loans in order to facilitate their reimbursement and thus reduce credit risk. However, given the weak profitability of banks, this measure could instead result in further restriction of lending.

In July 2015, the non-performing loans (NPL) ratio remained high at 16.4 % of total loans. Credit risk remained concentrated, with three banks totalling 63 % of the NPL stock. This challenge is addressed in the Law on Voluntary Financial Restructuring of Debts to Financial Institutions, known as the 'Podgorica Approach'. Adopted in April 2015, it provides a framework for voluntary out-of-court proceedings for restructuring the debts of economically viable companies. In August 2015, the parliament adopted the law for conversion of Swiss franc loans into euro. The measure concerns indexed loans totalling some € 30 million of one bank, which has challenged the measure at the constitutional court. To improve their balance sheets, some subsidiaries sold part of their troubled loans to parent banks but also to factoring companies set up by the latter, bringing up the need for a regulatory framework for effective supervision of these companies too, as also underlined by ERP recommendation 3.

**ERP recommendation 3:** "Implement the planned voluntary financial restructuring programme (the so-called "Podgorica approach") to address the high burden of non-performing loans on bank balance sheets from a flow perspective. In order to address the NPL stock issue, improve deadlines and efficiency of contract enforcement. Introduce effective supervision of factoring companies to improve the transparency of the financial system."

**The size of the non-banking sector remained modest.** In 2014, the turnover of Montenegro's Stock Exchange reached 3.2 % of GDP, the highest level in the last five years, thanks to trading –for the first time– in corporate bonds, and in government coupon bonds on the secondary market. Yet, the number of financial instruments remained limited. In 2014, the value of insurance and leasing contracts totalled 2.0 % and 3.4 % of GDP respectively.

### **3.2 The capacity to cope with competitive pressure and market forces within the Union**

**Montenegro is moderately prepared in its capacity to cope with competitive pressure and market forces within the Union.** Some progress was made, particularly on launching several infrastructure and tourism investment projects and some further improvement of the business environment.

Montenegro's economy suffers from low competitiveness, especially as regards industrial and agricultural products. Montenegro should improve its export capacities by gradually bringing

market standards for its products and industries in line with EU standards. Competitiveness will also improve as a result of investments in energy, transport and tourism. Major reforms still need to be implemented to strengthen the country's physical infrastructure and human capital, to further improve the business environment, and to ensure a predictable and supportive regulatory environment.

In line with the ERP recommendations and in order to support long-term growth, Montenegro should pay particular attention to:

- actively continuing education reform in order to increase the quality of education, by teaching basic and transversal skills and focusing on learning outcomes;
- aligning with EU food safety, sanitary and phytosanitary standards in order to receive accreditation for exporting agricultural and food products to the EU;
- strengthening its transport development strategy.

### *Human and physical capital*

**The persisting challenge of skills mismatches requires more effective active labour market policy measures and a higher quality education system that is responsive to labour market needs.** Funds for active labour market programmes have remained limited and mainly focused on young graduates and seasonal workers. There is low labour mobility between regions, including during the peak tourist season. Efforts to promote lifelong learning and ensure a higher quality of education at all levels are ongoing, but have yet to yield clear results. (See chapters 19 – *Social Policy and Employment*, and 26 – *Education and Culture*).

**ERP recommendation 5:** "Actively continue education reform with a view to better aligning education and skills with labour market needs, and strengthening cooperation between education and business."

**Montenegro made further progress on some major infrastructure projects.** In 2014, the value of investments in fixed assets rose by 5 % to some 15 % of GDP, of which 56 % in construction and 37 % in equipment. In 2015, works started on the highway and the building of three large seaside tourism resorts continued. The power system network is gradually improving and several investments are in progress, including the interconnection cable with Italy, two wind-farms, and several small hydropower plants. However, the decision for construction of a second block in the thermal plant Pljevlja was delayed, and the construction of large hydropower plants stalled. While infrastructure investment increased in recent years, Montenegro is advised to bring its transport development strategy in line with the regional agenda on connectivity, as per ERP recommendation 6. As regards the requirement to establish a planning and funding mechanism, Montenegro set up a National Investment Committee for the development of a single sector pipeline for priority infrastructure projects.

**ERP recommendation 6:** "Strengthen the transport development strategy ensuring alignment with the regional agenda on connectivity, with a particular focus on the core investment priorities (core network), and establish a credible planning and funding mechanism in the form of a single sector pipeline."

Montenegro's innovation and research capacity remained limited. Funds for research and development (R&D) programmes have increased by more than 30 % in 2014, although gross expenditure on R&D remained very modest (around 0.38 % of GDP). In July 2015 construction work started on the science and technology park in Nikšić with the aim of

connecting science and business sectors. The centre will comprise laboratories of biochemistry and industrial design.

#### *Sectoral and enterprise structure*

**The structure of the economy has changed little over the past five years.** Services remain the main engine of the Montenegrin economy, producing more than 70 % of gross value added, while industry accounts for 11 % (with 6 % coming from utilities), agriculture 8 % and construction 4 %. The manufacturing sector is being transformed after several years of being dominated by metals production. Other industries -like pharmaceuticals- are gaining in importance, but the production of competitive high value-added products is very limited.

**Industry and construction performance recovered in 2015, while the more resilient tourist industry expanded further.** After registering negative output in five out of the seven years since the outbreak of the economic crisis, industrial production expanded by 12.9 % y-o-y in the first seven months of 2015. However, production was dominated by low value-added industrial products. In the first half of 2015, the value of construction works increased by 9.7 % y-o-y, compared to 2.0 % growth in the whole 2014. In the first seven months of 2015, tourism surged 21.3 % y-o-y, fuelling a number of sectors of the economy like transport, accommodation, telecommunications, retail trade and restaurants.

The vast majority of companies (around 23,000) are small, with some 200 classified as medium-sized and 100 as large. Access to finance remains a particular challenge for SMEs. Public sector support for SMEs has been limited and mainly relies on Investment and Development Fund (IDF) loan support, which in 2014 totalled €71 million and additional € 31 million in the first half of 2015. The Employment Agency also provided loans totalling € 260,000 in 2014 and € 15,000 in the first half of 2015, to finance new job creation. It is important that Montenegro follows up on the ERP reform measures intended to strengthen SMEs. Further controls on excise goods (in particular tobacco) and labour inspections are necessary to reduce the large informal economy.

#### *State influence on competitiveness*

**Subsidies have been significantly reduced following the liquidation of the former aluminium conglomerate.** The government provided some EUR 460 million in state aid to companies in the 2007-2014 period. The support was more pronounced in the years following the recessions, when substantial state guarantees were activated. The government maintained a favourable investment policy including a flat tax regime with low tax rates, and the possibility to transfer profits, dividends and interest earnings without restrictions. In 2015, in an effort to further encourage the key sectors of the Montenegrin economy, tax exemptions were introduced for the building of new facilities in tourism, energy and food. However, Montenegro should avoid specific measures aimed at only some businesses as these could potentially distort the market and create problems over state aid (see *chapter 8 – Competition, chapter 16 - Taxation*). The 2015 general government budget provided for a modest allocation of state aid (0.6 % of GDP for subsidies plus 0.3 % of GDP for state guarantees).

#### *Economic integration with the EU*

**The Central European Free Trade Agreement (CEFTA) countries and the EU remain Montenegro's main trading partners.** In 2014, merchandise exports to the EU represented 36 % of Montenegro's total sales abroad compared with 46 % to CEFTA. Yet, the EU was the major source of goods imports, accounting for 46 % of total imports as compared with 38 % from CEFTA. In services and foreign investment, Russia remained Montenegro's single most important partner, accounting for 30 % of tourism stays and 25 % of FDI inflows (mostly real estate). However, investments from Russia declined in 2014 by 10 % compared with the

previous year. In 2014, the EU accounted for 20 % of tourism and 39 % of foreign investment, the latter rising by 6 % y-o-y.

Trade openness in Montenegro is high (101.2 %), reflecting the strong dependency on goods imports and services exports. However, exported goods consist predominantly of low added value products, and only a few companies trade internationally. To address this issue, the government launched a direct support scheme for SMEs' harmonisation with international standards of business. In line with ERP recommendation 8, Montenegro needs to make more progress on its alignment with EU product and quality standards so that it can access relevant EU markets.

**ERP recommendation 8:** "Make further progress with a comprehensive and strategic approach in the field of EU food safety and sanitary and phytosanitary standards to receive accreditation for exporting agricultural and food products to the EU. Efforts in this direction should commence with those products where preparations are advanced and where Montenegro sees the biggest export potential."

## 4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

### 4.1. Chapter 1: Free movement of goods

*The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules the principle of the free movement of goods prevents these creating unjustified barriers to trade.*

Montenegro is **moderately prepared** for the free movement of goods. **Good progress** was made, particularly on its strategic and legislative framework.

In the coming year, Montenegro should in particular:

→ strengthen the capacity and increase the resources allocated to the relevant horizontal bodies.

→ implement its plan for legislative alignment on the free movement of goods.

As regards **general principles**, in October 2014 **Montenegro adopted its** strategy to implement the *acquis* under the free movement of goods chapter and a five-year action plan, and submitted an updated draft action plan for compliance with Articles 34-36 of the Treaty on the Functioning of the European Union (TFEU) to the Commission in summer. The capacity, coordination role and competence of the Department for Quality Infrastructure have been strengthened, though as yet no legal basis is in place setting out its role in the system of government. Resources remain insufficient, which endangers the implementation of the new strategy on free movement of goods.

On **horizontal measures**, some progress was achieved: on **standardisation**, the 2010-2018 strategy and 2015 action plan were adopted in November 2014. The Institute for Standardisation of Montenegro (ISME) adopted 1 133 Montenegrin standards. In December, ISME and the European Telecommunication Standards Institute signed a memorandum of understanding recognising ISME as a national standards organisation and meeting a precondition for transposition of standards in telecommunications. However, ISME's capacity and resources remain at critical level, which risks undermining its ability to keep up the necessary pace of change on standardisation.

The number of accredited **conformity assessment** bodies increased to 24. Two more are in the process of being accredited, but their overall number remains low.

On **accreditation**, in November Montenegro adopted its 2015-2018 strategy for accreditation and 2015 action plan. In July amendments to the law on accreditation were adopted by the government to strengthen the cross-border accreditation policy, However, the Accreditation Body of Montenegro (ATCG)'s limited financial resources put the implementation of the strategy at risk, impede it in raising of public awareness of the benefits of accreditation and prevent it from participating in the activities of the European Cooperation for Accreditation.

On **metrology**, the Croatian Accreditation Agency and ATCG have accredited three further calibration laboratories: one on time and frequency, one on pressure and one on electrical quantity, bringing the total number to six.

On **market surveillance**, the law on general product safety was adopted in October 2014. Amendments to the law on inspections were adopted in February, while in April the government adopted a decree determining which product groups would be subject to market supervision, and another establishing the coordination body for market surveillance.

On **product safety**, in 2014 2 873 inspections were performed in the reporting period, which identified 131 dangerous products types (12 045 items, 5 939 of which permanently taken of the market). Five further inspection services were integrated into the Administration for Inspection Affairs in February. However, the Administration's budget remains insufficient.

On **'Old Approach' product legislation**, 18 rulebooks were adopted, including on pharmaceuticals, textile, footwear, and crystal glass. In January, the government adopted its 2015-2018 national strategy for managing chemicals and its related action plan. Some steps have been taken to ensure partial alignment with the provisions of REACH, however administrative capacity necessary to implement REACH also needs strengthening.

For the **'New and Global Approach' product legislation**, 11 rulebooks were adopted, including on toy safety and on electromagnetic compatibility, though some were not yet fully aligned to the *acquis*.

On **procedural measures**, the law on weapons was adopted in February.

#### **4.2. Chapter 2: Freedom of movement for workers**

*Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.*

Preparations in this area are still at an **early stage**. **No progress** was made on freedom of movement for workers.

On **access to the labour market**, the new law on foreigners was adopted in December. It imposes additional limitations on the employment of foreigners in Montenegro and needs to be brought in line with the *acquis*. Its enforcement was put on hold due to administrative constraints.

On the **coordination of social security systems**, negotiations with Bosnia-Herzegovina, Bulgaria and Romania on a bilateral agreement on social security are ongoing.

#### **4.3. Chapter 3: Right of establishment and freedom to provide services**

*EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.*

Montenegro is **moderately prepared** in these fields. **Some progress** was made on the right of establishment and freedom to provide services. In the coming year, Montenegro should, in particular:

→ continue preparations to align its legislation on the mutual recognition of professional qualifications with the *acquis* and to align with the Services Directive.

On the **right of establishment**, electronic company registration is not yet fully available and has yet to be extended to all regional tax administration offices. Following the decision to reduce municipal fees for construction permits, local one-stop shops for issuing construction permits need to be established.

On the **freedom to provide cross-border services**, preparations for alignment with the Services Directive continued, most notably by completing the process of screening national legislation. The final internal screening report has been prepared and the action plan for transposition of the Services Directive was adopted in June.

There were no further legislative activities in the area of **postal services**. The postal service (*Posta Crne Gore*) remained in the 2015 privatisation plan, which proposes a public-partnership model for it.

On **mutual recognition of professional qualifications**, Montenegro started implementing its national plan to develop qualifications for regulated professions and its 2013-2018 action plan.

#### 4.4. Chapter 4: Free movement of capital

*In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.*

Montenegro is **moderately prepared** in this area. **Some progress** was made on payment systems.

There were no developments on **capital movements and payments**.

To further harmonise national legislation on **payment systems** with the *acquis*, in November the Central Bank adopted a number of rules implementing the new law on payment operations. The rules entered into force together with the law in January.

On the **fight against money laundering**, activities implemented under the previous strategy included the training of state employees in 2014; the focus now needs to shift to reporting entities. The IT system of the financial intelligence unit was upgraded. Although reforms are progressing, Montenegro still needs to put in place a solid prevention system for anti-money laundering. A new law, adopted in 2014, seeks to incorporate the EU Fourth Directive and the standards of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

#### 4.5. Chapter 5: Public procurement

*EU rules ensure public sector procurement of goods and services in any Member State is open to all EU companies on the basis of non-discrimination.*

Montenegro is **moderately prepared** on public procurement, which is an area particularly vulnerable to corruption. **Good progress** was achieved with the adoption of amendments to the public procurement law at the end of 2014. However, more work is needed to prevent corruption occurring during the procurement cycle. Alignment with the *acquis* on concessions is at an early stage. More work is needed to strengthen implementation and enforcement capacity at all levels.

In the coming year Montenegro should in particular:



- start to implement a new strategy to develop its public procurement system to ensure that it works effectively, efficiently, and transparently;
- further strengthen the implementation and enforcement capacity of its public procurement system at all levels, including on e-procurement, the monitoring of contracts and supervision and reporting on procurement procedures;
- implement a legal alignment plan to ensure full harmonisation with the 2014 EU procurement directives, especially on concessions.

### Institutional set-up and legal alignment

The institutional and **legal framework** on public procurement is broadly aligned with the *acquis*, apart from on concessions, where alignment with the EU Directive has yet to be achieved.

Good progress was achieved at the end of 2014 with the adoption of amendments to the public procurement law. The amendments brought the law closer to EU rules on defence and security procurement and improved the efficiency of procurement processes. Montenegro now needs to address remaining gaps and ensure full alignment with the 2014 EU directives on public procurement, including in particular the Directive on Concessions.

In June 2015, Montenegro became a full member of the WTO Agreement on Government Procurement. Montenegro will need to ensure that bilateral agreements concluded with non-EU countries do not unduly restrict competition and fully comply with the EU *acquis* and related TFEU provisions on public procurement.

Montenegro's 2011-2016 **strategy** to develop the public procurement system is being implemented. A regular reporting mechanism has been set up and is functioning well. A new strategy is expected to focus on reaching full alignment with the *acquis* and to set out how Montenegro will ensure that it has strong implementation capacity at all levels.

Montenegro's **Public Procurement Administration** (PPA) is responsible for implementing the law on public procurement and monitoring and implementing the 2011-2016 public procurement development strategy. The PPA is an independent state body.

### Implementation and enforcement capacity

Montenegro's **public procurement market** as a percentage of gross domestic product (GDP) stood at 9.6 % in 2014. This represents a slight increase compared with 2013, both in the value and in the number of contracts. The use of less transparent procurement procedures stood at 9 % in 2014, a level similar to previous years.

Better **monitoring** of contract awards and contract implementation is needed. While the 2014 amendments to the procurement law gave the public inspection service more powers in this area, it still does not have sufficient capacity to deal with this issue. Meanwhile, better internal auditing within contracting authorities remains crucial for improving monitoring and verifying contract implementation (*see also Chapter 32 — Financial control*).

Contracting authorities' **capacities to manage public procurement processes** improved. The planning, preparation and implementation of public procurement are generally in line with transparency and efficiency principles. However, public procurement suffers from an overly formalistic approach and the prevalence of price as the only award criterion. Montenegro needs to invest in better data management to trace the complete procurement cycle and make the system more user-friendly.

The PPA's capacity to promote and enforce public procurement rules and monitor the procurement market improved. However, the PPA needs to invest more in assessing the performance of the procurement processes, the risk of irregularities and the factors that reduce the competitiveness and efficiency of public procurement. The PPA's resources remain insufficient to address this task effectively. The 2014 amendments to the public procurement law tightened the liability of contracting authorities and stipulate the level of fines for infringements committed.

A public procurement certification and training programme is operational. So far, approximately 48% of the procurement officers employed are certified. The training programmes need to focus more on procurement planning and contract management. The number of contracting authorities was reduced from 698 to 621 in 2014; given the size of the country, this reduction should continue. Montenegro has not set up a centralised procurement body and joint procurement is carried out on an ad hoc basis only. A shift to full e-procurement is needed and framework contracts need to be used more systematically.

A regulatory and institutional framework is in place on **integrity and conflict of interest** mechanisms in public procurement. The framework also includes a number of improvements adopted at the end of 2014, which now need to be applied effectively. Montenegro also needs to set up a risk assessment methodology to better identify potential integrity problems. The number of integrity-related reports remains low, while surveys of public opinion show that public procurement continues to be perceived as a significant source of corruption.

#### Efficient remedies system

**The right to legal remedy** is stipulated in the Constitution and the law on public procurement. The legislation on review procedures is broadly in line with the relevant EU *acquis* and general EU Treaty principles. The remedies system includes administrative review by the State Commission for the Control of Public Procurement (PPC), which is an independent administrative body, reporting annually to parliament. The Concessions Commission is responsible for remedies for awarding concessions, but this area is not yet aligned with the *acquis*. The decisions of the PPC and the Concessions Commission are final, but can be challenged before the Administrative Court of Montenegro.

In 2014, the PPC upheld 53 % of appeals submitted and cancelled 388 procurement procedures, a level similar to the previous year. The number of PPC decisions rose for the third consecutive year. In 2014, it rose by 5 % compared with 2013, indicating increasing **implementation capacity**. There was also a 5 % fall in the number of Administrative Court rulings annulling decisions of the PPC. However, the 43 % rejection rate for 2014 remains significant; this partially derived from discrepancies between rules on public procurement and administrative procedure, which are undermining the effectiveness of the remedies system. Montenegro also needs to improve the transparency of PPC rulings by upgrading its register of decisions and introducing user-friendly online search functions. The PPC secretariat is understaffed at present, particularly considering the steady increase in the number of appeals.

#### 4.6. Chapter 6: Company law

*The EU has common rules on the formation, registration, and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.*

Montenegro is **moderately prepared** on company law. **Some progress** was made on legislative alignment.

National legislation on **company law** is largely in line with the *acquis*. Work on legislative alignment continues, in particular on transparency, and takeover bids. Alignment in the area of cross-border mergers must also be assured. Montenegro is developing online electronic company registration to facilitate its business environment, but it is not yet fully operational.

Progress was made on **corporate accounting and auditing** through the signature in May of the contract under the World Bank project for the setting up and operation of a public audit oversight body and a related system of quality assurance. Results are expected by mid-2016. Montenegro is advancing with draft legislation to comply with the most recent EU legislation on accounting and auditing. This work remains to be completed.

#### 4.7. Chapter 7: Intellectual property law

*The EU has harmonised rules for the legal protection of copyright and related rights. This covers, for instance, computer programs, broadcasting and trademarks, designs, biotechnological inventions and pharmaceuticals.*

Montenegro is **well advanced** on intellectual property law. **Some progress** was made in intellectual property. Legislation on intellectual property rights (IPR) is largely in line with the *acquis*. However, insufficient IT and human resources at the IPO have to be addressed.

In the coming year, Montenegro should in particular:

- further strengthen coordination of all intellectual property rights-related bodies through formal cooperation and effective enforcement mechanisms;
- improve its track record on investigations, prosecutions and judicial treatment of violations.

There were no new developments on **copyright and neighbouring rights**. Copyright legislation is currently being reviewed with the law on the protection of topographies for semiconductor products.

On **industrial property rights**, the new law on patents was adopted in July. The trademark classification online database became operational in October 2014.

The IT infrastructure of the Intellectual Property Office (IPO) remains weak.

On **enforcement**, a coordination body for all IPR-active institutions has not yet been established. Training for all IPR-related institutions intensified during the reporting period. The enforcement track record of Montenegro's customs administration and market inspectorate is good. However, criminal prosecution remains unsatisfactory.

The new law on courts abolished the Commercial Court in Bijelo Polje, leaving the Commercial Court in Podgorica the only one of its kind in Montenegro. Jurisdiction in all IPR-related disputes has been transferred to this court as the court of first instance.

A number of activities were undertaken to raise awareness on IPR matters among the general public.

#### 4.8. Chapter 8: Competition policy

*EU rules protect free competition. They include anti-trust rules against restrictive agreements between companies and abuse of dominant position. EU rules also prevent governments from granting state aid which distorts competition.*

Montenegro is **moderately prepared** on competition policy. **Some progress** was made in this field. Nonetheless, state aid remains an issue of concern, particularly the notification and compatibility of new legislation and aid to large investment projects and the KAP aluminium plant. Administrative capacity needs to improve, both on antitrust and state aid. In the coming year, Montenegro should in particular:

→ complete the alignment of the state aid control law with the *acquis* on state aid procedural rules;

→ ensure the operational independence of its state aid authority.

On **antitrust and mergers**, three bylaws regulating block exemptions were adopted by the government in December. All secondary legislation pertaining to the law on protection of competition has now been adopted. However, the first three years of implementation of the law have shown some shortcomings in procedures and penalties

Despite the 28 % increase in the 2015 budget of the Agency for the Protection of Competition (APC), its administrative capacity remains insufficient. The APC's enforcement record has improved, particularly on antitrust policy, but must be further strengthened. The APC closed four antitrust cases. Two of the four decisions were challenged before the Administrative Court, which upheld the decisions. The APC decision to conduct its first dawn raid was also challenged before the Administrative Court, but the court confirmed its legality. The work of the APC is also becoming more transparent.

The decisions of the Administrative Court are improving. However, the fact that fines can only be imposed through misdemeanour courts remains an issue of concern.

On **state aid**, Montenegro brought its legislation closer to EU law, although, the law on state aid control still needs to be brought in line with the *acquis* and with Montenegro's state aid obligations under the Stabilisation and Association Agreement (SAA) on procedural rules. Montenegro has also improved the quality of state aid reporting and day-to-day operations. An action plan with a clear timetable for the alignment of the remaining aid schemes incompatible with the SAA has been sent to the European Commission.

The independence of the SACC (State Aid Control Commission) and the State Aid Control Unit (SACU) is an issue of concern. The legal provisions on the establishment of the SACC, which allow representatives of the main grantors of state aid to be selected as SACC members, create potential for conflicts of interest. Although the administrative capacity of the SACU is gradually improving, it is still operating with limited staff. The current enforcement record does not demonstrate that the SACC's has the necessary credibility, powers and resources for the full application of state aid rules. The SACC is rarely notified on legal initiatives with potential state aid impact, even in landmark cases such as the construction of the Bar-Boljare highway, or on exemptions from tax and custom duties. To remedy this, the government amended in June its rules of procedure, obliging all authorities to consult the SACC on their draft legislation prior to submission to the government. In 2014, the SACC launched only one case on its own initiative -- on the law on postal services. The State aid authority still needs to ensure effective enforcement of State aid rules, notably through an increased number of ex post investigations on unlawful aid. Montenegro still needs to

demonstrate that the resolution of the KAP bankruptcy proceedings complies with State aid rules.

Some progress has been made on **liberalisation**. The current legislation governing services of general economic interest has been screened to set up a state aid inventory.

#### 4.9. Chapter 9: Financial services

*EU rules aim at ensuring fair competition between and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on authorisation, operation and supervision of these institutions.*

Montenegro is **moderately prepared** in the area of financial services. **Some progress** was made in this field.

On **banks and financial conglomerates**, in October 2014 the Central Bank passed a set of implementing decisions relating to the law on consumer credit. In November, amendments to the decision on minimal standards for management of credit risk in banks were adopted. The Central Bank amended its decision on the method of calculation and disclosure of effective interest rates on loans and deposits in order to bring it into line with the EU *acquis*.

On **insurance and occupational pensions**, the law on bankruptcy and liquidation of insurance undertakings needs to be adopted.

On **financial market infrastructure**, the system of settlement cycles on the second business day was introduced in January. Rules on registration of issuers of securities with the Securities and Exchange Commission were adopted.

On **securities markets and investment services**, the Securities and Exchange Commission adopted secondary legislation implementing the law on investment funds and improving the way of doing business in the capital market.

#### 4.10. Chapter 10: Information society and media

*The EU supports the good functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.*

Montenegro is **moderately prepared** in the area of information society and media. **Some progress** was made in the last year. The independence of the Agency for Electronic Communications and Postal Services (EKIP) and the Agency for Electronic Media continues to be undermined, albeit to a lesser extent than previously.

In the coming year, Montenegro should in particular:

→ ensure the independence of the public broadcaster through appropriate financial resources.

On **electronic communications and information and communications technologies**, the digital switchover was completed in 2015. The Ministry of Telecommunications and Information Society and EKIP adopted 18 new regulations. As for ex ante market regulation, EKIP launched the second round of market analysis and started implementing a methodology on accounting separation and cost accounting. Under the current legal provisions, which are to expire in January 2016, EKIP is still required to transfer any budget surplus to the state budget. Parliament continues to have the authority to dismiss the entire EKIP Council if it does not approve EKIP's financial report. A decision on the appeal re-launched by EKIP was dismissed by the Constitutional Court in April.

The agreement of September 2014, signed by Montenegro, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, and Serbia on reducing the prices of mobile roaming services, came into force in July 2015.

On **information society services**, the ‘wireless Montenegro’ project is currently providing free public wireless internet access to around 300 000 users in specific locations and its services are being further expanded.

On **audio-visual policy**, the Agency for Electronic Media still transfers all budget surpluses to the state budget (until January 2016) and submits its financial and technical reports to parliament for approval. This continues to limit the Agency’s independence.

The Agency for Electronic Media launched two calls for tender to allocate radio frequencies for digital terrestrial broadcasting. Amendments to the law on public broadcasting services aimed at increasing the independence and financial sustainability of the public broadcaster RTCG have not yet been adopted. RTCG lacks the appropriate financial resources to meet its public broadcasting and digitalisation obligations.

#### **4.11. Chapter 11: Agriculture and rural development**

*The Common Agricultural Policy supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.*

Montenegro has **some level of preparation** in the area of agriculture and rural development. However, there has been **good progress**. The Instrument for Pre-accession Assistance for Rural Development (IPARD II) programme was adopted by the Commission in July. The government adopted in June its national strategy for agriculture and rural development and an action plan for alignment with the *acquis*.

In the coming year, Montenegro should in particular:

- implement the action plan for *acquis* alignment on agriculture and rural development;
- ensure that the operating structures are ready for IPARD II entrustment of budget implementation tasks.

On **horizontal issues**, in June the government adopted its 2015-2020 agriculture and rural development strategy and an action plan for transposing, implementing and enforcing the *acquis*. This is crucial for monitoring *acquis* alignment, both on legislative development and on implementation across the agriculture and rural development sectors.

Direct support measures will need to be brought in line with the *acquis*. Montenegro is in the process of establishing a farm register and a land parcel identification system. These form part of the overall integrated and administrative control system (IACS) needed to manage and control funding under the common agricultural policy. For the system to work properly, Montenegro will have to build capacity and ensure that the different bodies involved have clear and well-coordinated responsibilities.

On **common market organisation**, the law on wine, aligning legislation to the *acquis*, has still to be adopted by parliament. The law on olive growing and olive oil, adopted in 2014, will require further fine-tuning to bring it fully in line with the *acquis*.

On **rural development**, the European Commission adopted in July the 2015-2020 programming document for IPARD II. Preparations for the management and control of rural development funds under the programme have also continued. There has been some progress

in increasing the capacity of the operating structure (the Paying Agency and the Managing Authority of the Ministry of Agriculture and Rural Development) to manage IPARD II funds.

On **quality policy**, although Montenegrin legislation is to a large extent aligned with the *acquis*, attention should be paid to its implementation. A control body authorised for the tasks of verification and control of compliance with quality schemes needs to be established. On **organic farming**, a rulebook on detailed rules for plant and livestock production was adopted.

#### **4.12. Chapter 12: Food safety, veterinary and phytosanitary policy**

*EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seed, plant protection material, harmful organisms and animal nutrition.*

Montenegro has **some level of preparation** in this chapter. **Some progress** has been made on food safety, veterinary and phytosanitary policy, including through the adoption of a strategy for alignment with the *acquis* and a number of framework laws.

In the coming year, Montenegro should in particular:

- improve its administrative capacity, in particular for inspection services and laboratories;
- continue upgrading food establishments.

On **general food safety**, in September the government adopted the strategy for transposing and implementing the *acquis*. Montenegro is making progress on aligning its framework laws with the *acquis*. The revised law on food safety has been adopted in September 2015.

On **veterinary policy**, amendments to the laws on the identification and registration of animals, the veterinary law, the law on protection of animal welfare and the law on livestock breeding have been adopted. Implementing legislation was also adopted.

The 2014 programme for mandatory animal health protection measures was implemented and the 2015 programme was adopted and published in March. Extension of the animal identification and registration system to pigs and establishment of the monitoring system for live bivalve molluscs are on track. The multiannual programme for the eradication of rabies continued with the implementation of the seventh and eighth vaccination campaigns in October 2014 and April 2015. Capacity building for veterinary services continued.

With regard to the **placing on the market of food, feed and animal by-products**, assessments (based on the *acquis*) of food establishments and establishments handling animal by-products are progressing well.

On **food safety rules**, the 2014 programme of phytosanitary measures was implemented, particularly for pesticide residues, nitrate and cadmium in plant foods and control testing of seed production, plant genetic resources and **genetically-modified organisms**. The 2015 programme of phytosanitary measures has been drawn up. The implementation of the action plan for the eradication and control of red palm weevil has started.

There were no developments on **specific rules for feed**.

On **phytosanitary policy**, amendments to the law on agricultural plant seeds, planting material and plant health protection have been adopted, as well as a number of rulebooks on phytosanitary measures. The law on forestry reproductive material has been adopted in September 2015.

#### 4.13. Chapter 13: Fisheries

*The Common Fisheries Policy protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for aquaculture as well as support for fisheries and coastal communities.*

Preparations remain at an **early stage**. There was **good progress** on fisheries. In June Montenegro adopted its 2015-2020 strategy and action plan for fisheries.

In the coming year, Montenegro should in particular:

→ implement the action plan (for transposing, implementing and enforcing the EU *acquis*).

The 2015-2020 strategy and action plan for fisheries were adopted in June. Amendments to the law on marine fishery and mariculture have been adopted.

On **resource management**, a survey of the demersal and pelagic resources of the Montenegrin coast was performed by the Institute for Marine Biology and the report submitted to the Ministry of Agriculture in December. A socioeconomic study of Montenegro's fisheries sector was presented to the General Fisheries Commission for the Mediterranean. The monitoring of invasive species continued, resulting in the discovery of one new fish species.

There were no developments on **fleet management**.

On **inspection and control**, fisheries inspection capacity remains very limited. Substantial efforts are needed to ensure the systematic processing of data from logbooks, adequate registration of catches and landings, the use of sales notes and systematic cross-checking between catch composition and logbook records.

There were no developments on **structural actions, market policy, state aid or international agreements** on fisheries.

#### 4.14. Chapter 14: Transport policy

*The EU has common rules for technical and safety standards, security, social standards, state aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.*

Montenegro is **moderately prepared** on transport policy. There has been **some progress** in this area. However, more work is needed to implement the rail and maritime safety *acquis* effectively and to strengthen the financial and technical capacity of the national accident investigation body for air, maritime and rail transport.

On **road transport**, in March Montenegro adopted an action plan to implement its 2015 road safety strategy and programme for the reconstruction and maintenance of state roads, for which EUR 45.20 million were allocated for 2015. Montenegro has to continue aligning with the social and safety *acquis* in this area and develop enforcement capacity, in particular for roadworthiness tests and roadside checks of commercial vehicles. Montenegro adopted rulebooks on transport of hazardous substances. No progress was made on intelligent transport systems.

On **rail transport**, new rulebooks were adopted on the certification and licensing of train drivers, on safety certificates management systems, railway infrastructure managers and carriers, and on assessing the interoperability of components and vehicles. More work is needed to implement and enforce newly-adopted legislation on railway safety and interoperability. In accordance with the network statement of Montenegro's rail infrastructure



manager for 2015, track access charges in Montenegro for all types of trains are EUR 3 (including VAT) per train km.

On **air transport**, Montenegro further aligned with the *acquis* over the rights of disabled and reduced mobility persons and the rules on compensation and assistance to passengers in case of delays or cancellation. Montenegro adopted several rulebooks further aligning with *acquis* on traffic and airport management. The ‘One-stop-security’ project, managed by the European Civil Aviation Agency, was successfully completed in December.

On **maritime transport**, in December parliament ratified the 1974 Athens Convention relating to the carriage of passengers and their luggage by sea and the 2006 Geneva Maritime Labour Convention. In July, parliament ratified the Paris Memorandum of Understanding on Port State Control.

No progress was made on inland waterways or intermodal transport.

#### 4.15. Chapter 15: Energy

*EU energy policy covers competition and state aids, equal access to resources, the internal energy market, energy efficiency, nuclear energy and nuclear safety and radiation protection.*

Montenegro is **moderately prepared** in the area of energy. **Some progress** was made in this area, including on preparations for aligning legislation with the third Energy Package, and on renewable energy and energy efficiency. In the coming year, Montenegro should in particular:  
→ adopt its new energy law to complete alignment with the third Energy Package and move to the implementation stage.

Progress was made in the area of **security of supply**. In April, the government adopted the action plan on mandatory oil stocks in line with the *acquis*. However, the current levels of stocks are close to zero.

As regards the **internal energy market**, Montenegro has not yet adopted its new law on energy, which is intended to align national legislation with the third Energy Package. Power distribution activities have not been separated from the supply function within the Montenegrin Electric Power Company (EPCG). There has been no progress on developing a gas market in Montenegro. The electricity market was formally fully opened for households on 1 January 2015, but no new providers have entered the market. In July, Montenegro ratified the Energy Charter Treaty.

On **renewable energy**, in December the government adopted the 10-year renewable energy action plan to meet its national target of 33 % of gross final energy consumption being provided by energy from renewable sources by 2020. Construction work continued on small hydropower plants on eight rivers. Works on one wind power plant were launched in May and a construction permit was obtained for a second. Investments in renewable energy infrastructure need to fully respect the relevant environmental legislation. On **energy efficiency** parliament adopted the law on the efficient use of energy in December. This intends to incorporate the main provisions of the EU *acquis* in this area. Initial steps were taken to regulate sustainable energy use, in particular in the transport sector.

On **nuclear energy, nuclear safety and radiation protection**, in October 2014 the government adopted and submitted to the International Atomic Energy Agency its second national report on the implementation of obligations under the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management. The law on the ratification of the Convention on Nuclear Safety entered into force in July.

#### 4.16. Chapter 16: Taxation

*EU rules on taxation cover value-added tax and excise duties as well as aspects of taxing income from savings of individuals and of corporate taxes. They also deal with cooperation between tax administrations, including information exchange to prevent tax evasion.*

Montenegro is **moderately prepared** in the area of taxation. **Some progress** was made in this field. In the coming year, Montenegro should in particular:

→ continue its efforts on reinforcing its administrative capacity and, in particular, the IT support for the Tax administration.

On **indirect taxation**, in January 2015 Montenegro transferred the competence on excises from the tax administration to the customs administration. Value added tax (VAT) rates were amended to further align with the VAT Directive. *Inter alia*, the new rules also ensure full alignment with the *acquis* on the exemption from VAT and excise duty for goods imported by persons travelling from third countries. A rulebook concerning the refund of excise duty on mineral oil was adopted, relevant to *acquis* requirements. Having repealed its excise duties on coffee on 1 January 2015, which had a discriminatory component, in February Montenegro introduced a new tax on raw and roasted coffee. On **direct taxation**, the tax rate on gross personal income over EUR 720 per month was reduced.

The law on tax administration was amended in February, to improve the collection of taxes and other duties, particularly where a taxpayer fails to settle their tax obligations. The amendments also introduced the fiduciary transfer of property ownership as a new means of ensuring tax collection, and several tax laws were amended, including on property tax and on the use of tobacco products. The amendments were also designed to define tax inspection measures and the amount of fines for tax violations in more detail.

The 2015-2017 Economic Reform Programme (ERP) includes measures increasing excise duties, and a tax on games of chance. Montenegro introduced tax incentives to boost certain sectors, such as high-level tourism and construction, including exemptions from tax and customs duties for construction works on the Bar-Boljare highway (also foreseen in the ERP). Measures aimed only at some businesses, which are difficult to administer and could potentially distort the market, should be avoided.

On **operational capacity and computerisation**, a comprehensive analysis and documentation of IT interoperability systems (automatic exchange of information among revenue administrations and other institutions) was carried out, and the testing phase of the interoperability architecture has started. The 2014-2019 Business Strategy for the tax administration was adopted in November. The IT Department of the tax administration introduced a new tax accounting subsystem, designed to eliminate deficiencies of the Tax Administration's information system, in line with audit recommendations. The agreement for Montenegro to participate in the Fiscalis 2020 programme was concluded.

#### 4.17. Chapter 17: Economic and monetary policy

*EU rules require the independence of central banks and prohibit them directly financing the public sector. Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.*

Montenegro is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made on alignment with the *acquis*. In addition, the public sector's privileged access to financial institutions has been partially adjusted.

In the coming year, Montenegro should in particular:

→ adopt and start implementing an action plan for alignment with the *acquis*.

On monetary policy, Montenegro's present use of the euro, which was decided by the Montenegrin authorities under exceptional circumstances, is fully distinct from membership of the euro area. Montenegro does not have standard **monetary policy** tools at its disposal, as it uses the euro as legal tender. This leaves fiscal policy as the main macro-economic policy instrument.

In December, the Central Bank adopted amendments to the decision on bank reserve requirements, decreasing the upper limit for bank reserves to be held in treasury bills issued by the government. However, full alignment with the *acquis* is yet to be achieved.

On **economic policy**, in January the government adopted its first Economic Reform Programme (ERP), covering the period 2015-2017. There is room for further improvement of the authorities' capacity for economic policy formulation and coordination.

In 2014, Montenegro introduced numerical fiscal rules, which represent partial alignment with the directive on requirements for budgetary frameworks. The first-time application of these numerical fiscal rules for the 2015 budget is going to stress test the quality of public finances and budgetary planning. The adopted 2015 budget has an excessive deficit above the 3 % limit, partially due to the costs of the Bar-Boljare highway project. A strategy for the implementation of the 2010 methodology of the European System of Accounts standards (ESA 2010) in public finance statistics, also a requirement of the directive, was adopted in April.

In 2014, Montenegro submitted fiscal notifications for the first time; these now need to be gradually aligned with the EU requirements.

#### **4.18. Chapter 18: Statistics**

*EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.*

Montenegro has achieved **some level of preparation** in the area of statistics. **Some progress** was made in the past year, notably on harmonising its statistical methodology with EU standards and by adopting, in April 2015, a strategy for implementing the European System of Accounts (ESA) 2010 methodology in its public finance statistics.

However, significant efforts are needed, especially to ensure the alignment of macro-economic and business statistics with EU standards.

In addressing the shortcomings outlined below, in the coming year Montenegro should in particular:

→ considerably strengthen the human and financial resources of the Statistical Office of Montenegro (Monstat);

→ further align its statistics with ESA 2010, including government finance statistics.

On **statistical infrastructure**, the legal framework is in line with the European statistics Code of Practice. The Statistical Office of Montenegro (Monstat) is the main producer and overall coordinator of statistics. Its professional independence is enshrined in law and its management was strengthened by the appointment of a deputy director in April. However, its administrative capacity is still limited due to insufficient resources: only 105 of 200 available posts have been filled and its financial resources were reduced during the reporting period and the premises of the office are not adequate.

Monstat has signed 12 memoranda of understanding with administrative data providers, including 4 in the reporting period. Cooperation between producers of official statistics continued to improve. The main classifications (NACE Rev. 2, ISCO-08 and NUTS) are in compliance with the EU *acquis*, while three additional ones (CPA, GEONOM and ISCED 2011) were implemented during the reporting period.

Data transmission to **Eurostat** continued, and additional areas were included, but further improvement is still needed. The use of administrative sources should be increased. Monstat uses three statistical registers: the business register, the territorial units register, and the statistical farm register, which are partly aligned with the EU *acquis*.

Continued efforts will be needed to align **Macro-economic statistics** with the ESA 2010. Monstat currently compiles annual and quarterly gross domestic product (GDP) data in current and constant prices, and in April 2015 it published for the first time quarterly GDP based on the expenditure-approach in current and constant prices. Monstat does not yet compile quarterly sector accounts. Considerable efforts are needed to develop government finance statistics, financial accounts and supply and use tables. The Central Bank compiles statistics on the balance of payments but these are not yet aligned with the EU *acquis*. Foreign direct investment statistics are partially in line with the EU *acquis*. The harmonised index of consumer prices (HICP) as well as purchasing power parities (PPP) are mostly aligned. The excessive deficit procedure (EDP) tables were submitted for the first time in October 2014, but are only partially aligned with ESA 2010. In April, the government adopted a strategy for implementing ESA 2010 methodology in public finance statistics.

On structural **business statistics** and short-term business statistics, further quality improvements, the introduction of kind-of-activity units and an increased coverage of variables are necessary. The Business Register represents a good basis for statistical production and sampling, but needs more frequent updates and better coverage of small businesses. PRODCOM (list of products of the European Community) is aligned to a large extent, but more efforts are needed to ensure the full harmonisation of foreign affiliates' statistics (FATS) with the EU *acquis*. Tourism statistics are also partially compliant: statistics on air transport, maritime transport and traffic by ports are not aligned with the EU *acquis*. Research and development data are in line with the EU *acquis*.

In **social statistics**, a pilot survey of income and living conditions was launched and data was sent to Eurostat in November 2014. Initial steps were taken to implement the European system of integrated social protection statistics (ESSPROS). Labour market statistics are broadly aligned with the EU *acquis*, but the labour cost index and the structure of earnings data still need to be produced. Crime statistics also need to be aligned.

**Agricultural statistics** are partially aligned with the EU *acquis*. A pilot survey on vineyards was launched in November 2014. Supply balance sheets, economic accounts for agriculture, the agricultural price index and the agriculture labour input need to be introduced. **Energy statistics** are fully compliant for annual data and partially compliant for monthly data. Energy price statistics are fully compliant. In **environment statistics**, waste and water statistics are partially compliant. Statistics on environmental protection expenditure and material flow balances are not yet produced.

#### 4.19. Chapter 19: Social policy and employment

*EU rules in the social field include minimum standards for labour law, equality, health and safety at work and anti-discrimination. They also promote social dialogue at European level.*

Montenegro has achieved **some level of preparation** in the area of social policy and employment. There was **some progress** in this area, mainly on employment and social inclusion. More work is needed to ensure legislative alignment with the *acquis*. The critical labour market situation remains a key issue.

In the coming year, Montenegro should in particular:

→ increase the active labour market measures on the employability of young people, the long-term unemployed and people from vulnerable groups.

→ strengthen capacity at all levels to lead and implement employment and social reforms.

→ strengthen cooperation with social partners and NGOs.

On **labour law**, amendments to the Regulation on subsidies for employing certain categories of unemployed persons were adopted in December to sustain further employability. The labour law is being revised to further align legislation with the *acquis*.

On **health and safety at work**, five rulebooks were adopted. Health and safety inspections identified irregularities on employee training, the malfunctioning of funds for work and medical examinations for employees. The law on health and safety at work will need to be fully aligned with EU *acquis*.

On **social dialogue**, a memorandum of understanding was signed in April between the government, social partners and the International Labour Organisation (ILO) on the 2015-2017 programme on decent work. A new law on strikes entered into force. Social dialogue needs to be improved, in particular in the private sector. The social council needs to be consulted for new regulations related to social partner competence. The government's decision to limit the participation of civil society organisations in the drafting of new legislation is a matter of concern.

On **employment policy**, the 2015 action plan was adopted in December to implement the 2012-2015 national strategy for employment and human resource development. The employment and social reform programme (ESRP) was adopted in July. In February, the government adopted a decision on measures and activities to support implementation of labour market reforms set out in the 2015-2017 ERP. Montenegro also signed the agreement for participation in the EU Programme for Employment and Social Innovation (EaSI) 2014-2020. The 2015 action plan for combating the grey economy was adopted in April. Efforts continued to reduce undeclared work. Reliable data and statistics remain an issue, particularly for labour market analysis.

As regards preparations for the **European Social Fund (ESF)**, Montenegro is currently implementing its first operational programme for human resources development as a precursor to the ESF. (See also Chapter 22 — *Regional policy and coordination of structural instruments*).

On **social inclusion**, the 2015 and 2016 action plans implementing the 2013-2017 strategy to develop a social and child protection system were adopted in April. An Institute for Social and Child Protection was established. However, adoption of significant secondary legislation has been delayed, including guidelines for accreditation of professionals and programmes for social services. In February, the government adopted the 2015 action plan and the 2014 report on implementing the 2012-2016 strategy for Roma and Egyptians.

Around half of Montenegro's municipalities have drawn up local social inclusion plans. However, administrative and fiscal decentralisation of social services needs to be improved and sufficient staff ensured. A national system to set and monitor compliance with standards for the quality and accessibility of health and social services should be in place. An increase in alternatives to institutionalisation, such as foster care, could be noticed. However, the plan to transform the "Mladost" institution in Bijela, adopted in July, is a matter of concern. Community-based services providing an alternative to institutionalisation need to be further expanded for persons with disabilities and those with mental health problems, children older persons and the homeless. Public buildings' accessibility for persons with disabilities remains critical. The Fund for professional rehabilitation and employment of persons with disabilities should be sufficiently protected against misuse.

On **social protection**, the process for introducing the social card/social welfare information system continues. Secondary legislation regulating the financing and costing of social services needs to be developed urgently and a new department set up. The law on pensions and disability insurance was further amended; *inter alia*, introducing more favourable conditions for pension rights in certain cases. The pension system should be made more sustainable and adequate, including through further measures restricting early retirement, and options for funded pension schemes based on mandatory savings.

The overall legislative framework on **anti-discrimination** has made some progress in alignment with the *acquis* but requires further alignment, notably regarding sanctions which are not dissuasive enough as the fines are very low. The implementation of the legislation has been hindered by a number of factors, including lack of awareness. (See also Chapter 23 — *Judiciary and fundamental rights*).

On **equal opportunities**, support for single parents is very limited in terms of financial aid and services available. Women remain underrepresented in the labour market and gender-based statistical indicators are still not available. The new law on social and child protection reduces state contributions for financial assistance for women on maternity leave. These could further contribute to discriminatory practices affecting the employment of young women and it could also discourage employment of women of reproductive age. The impact of this law on the position of women in the labour market should be properly assessed (See also Chapter 23 — *Judiciary and fundamental rights*).

#### 4.20. Chapter 20: Enterprise and industrial policy

*EU industrial policy enhances competitiveness, facilitates structural change and encourages an enterprise friendly environment that stimulates small and medium sized enterprises.*

Montenegro is **moderately prepared** on enterprise and industrial policy. **Some progress** was made in this field. However, the lack of administrative capacity, coupled with fragmented strategies, continues to impede the effectiveness of enterprise and industrial policy instruments.

In the coming year, Montenegro should in particular:

→ adopt and start implementing an industrial competitiveness policy;

→ strengthen non-financial and financial public-sector support for small and medium-sized enterprises (SMEs) and bolster authorities' administrative capacity.

On **enterprise and industrial policy principles**, Montenegro has started to develop an industrial competitiveness policy and an inter-ministerial working group has been set up to ensure sector coordination. The first results of the ongoing Small Business Act assessment indicate that Montenegro progressed in entrepreneurial learning and institutional framework.

Administrative procedures for issuing permits and licences remain costly and time-consuming.

On **enterprise and industrial policy instruments**, the Ministry of Economy launched a programme to help regional and local companies to export their products and become more competitive through alignment with international quality standards. The ministry also continued to implement a support programme for less-developed municipalities in the north. Montenegro also participates in the EU's COSME competitiveness programme. The value of financial support provided by the Investment and Development Fund (IDF) almost doubled in 2014. The IDF will also implement the EIB's EUR 70 million credit line to support SMEs, improve the overall business infrastructure and boost energy sector and environmental protection projects. Despite this increase, non-financial and financial public-sector support for SMEs and authorities' administrative capacity needs to be further strengthened.

On **sector policies**, the government adopted the multiannual framework action plan for the 2014-2018 strategy for the development of the manufacturing industry. Until now there were no comprehensive strategies to support industry and manufacturing, which represent 15 % of the economy.

#### **4.21. Chapter 21: Trans-European networks**

*The EU promotes trans-European networks in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.*

Montenegro is <b>moderately prepared</b> in the area of trans-European networks. <b>Some progress</b> was made in the past year.
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On **transport networks**, Montenegro continued to participate in the South East Europe Transport Observatory (SEETO). The country played an active role in the Western Balkans 6 connectivity agenda by endorsing the agreement on the regional core transport network in Brussels in April, and the further agreement (in Riga in June) on the core network corridors and on the list of projects to be implemented by 2020 (in Vienna in August). The alignment of the Mediterranean core corridor (former Route 1) in Montenegro was modified to include the section from Bar to the Albanian border. The government took further steps in constructing the priority Smokovac-Mateševo section of the Bar-Boljare highway project (extension of Orient East-Med core corridor in the Western Balkans). Works were launched in May. However, the environmental impact assessment and the construction permit have not been issued yet.

Montenegro has set up a National Investment Committee to improve the preparation and prioritisation of infrastructure investments.

On **Trans-European Energy Networks**, the construction of the undersea interconnection cable with Italy continues. Preparation works for the construction of the Lastva transformation substation have started. A feasibility study for the Serbia-Montenegro-Bosnia and Herzegovina 400 kV interconnection was completed in February. The transmission line has been identified as a project of Energy Community common interest and will complement the undersea interconnection cable between Montenegro and Italy.

#### 4.22. Chapter 22: Regional policy and coordination of structural instruments

*The EU funds regional development in the Member States. Implementation is the responsibility of the Member States that must have adequate administrative capacity to ensure the good handling and sound financial management of the projects.*

Montenegro is **moderately prepared** regarding regional policy and coordination of structural instruments. **Good progress** was made on putting the financial management and control systems into operation. However, the trend in planning and procurement needs to be strengthened and project preparation and strategic planning capabilities need to improve.

In the coming year, Montenegro should in particular:

→ start implementing the action plan for meeting requirements for the use of EU structural and investment funds.

→ accelerate the procurement for EU co-financed projects.

On the **legislative framework**, the financing agreements between Montenegro and the European Commission on the 2012-2013 Operational Programme for Regional Development (component III) and the 2012-2013 Operational Programme for Human Resources Development (component IV) entered into force in December. Montenegro ratified the Framework Agreement with the European Commission on the arrangements for implementation of EU financial assistance under the Instrument for Pre-accession Assistance (IPA II). The agreement entered into force in June. Montenegro has adopted an action plan for meeting the requirements deriving from the future use of EU structural and investment funds.

No further developments were made on the **institutional framework**. **Administrative capacity** has been strengthened by five new appointments to the operating structure for component III. In addition, a new head of the operating structure for regional development has been appointed. However, further capacity strengthening remains necessary.

On **programming**, Montenegro prepared a Sectoral Operational Programme for Education, Employment and Social Policies 2015-2017, following-up on the 2012-2013 Human Resources Development programme. On **monitoring and evaluation**, sectoral monitoring committees for IPA components III and IV were organised in December 2014 and June 2015.

On **financial management, control and audit**, in December the National Authorising Officer published guidelines for issuing statements of assurance for 2014 operations under components III and IV. Amendments to the manuals of procedure were adopted in November 2014 in line with the audit findings and recommendations, with further amendments adopted in January 2015. The accounting software was certified for compliance with international standards and the upgrade of Montenegro's management information system is progressing well. In December 2014, the National Fund completed the system-level verification process which had started in mid-2014.

The capacity of Montenegro's audit authority has been strengthened. The auditors were intensively trained by audit authorities from EU Member States. In December, the audit authority submitted annual audit reports for both operational programmes. A new audit methodology was adopted in April.

In December, the government amended the decision establishing the coordinating body for monitoring and managing irregularities to protect the financial interests of the European Union (the anti-fraud coordination service (AFCOS) network).



#### 4.23. Chapter 23: Judiciary and fundamental rights

*The EU's founding values include the rule of law and respect for human rights. A proper functioning judicial system and effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.*

Montenegro is **moderately prepared** to apply the *acquis* and European standards in this area and has made overall **some progress**. The legislative framework on the judiciary was strengthened to increase its independence and professionalism but has not yet been fully implemented. On the fight against corruption the legislative framework has further improved. Institutions now need to be established or strengthened. Corruption remains prevalent in many areas and continues to be a serious cause of concern. On fundamental rights, Montenegro is gradually shifting from incorporating EU standards into its legal framework to establishing an institutional framework with the potential to effectively protect and enforce human rights in practice.

In the coming year, Montenegro should in particular:

- strengthen the independence, accountability and overall effectiveness of the judicial system;
- establish a track record for investigation, prosecution and final convictions in corruption cases, in particular for high-level corruption, and increase the capacity to carry out financial investigations;
- match progress in the alignment of legislation with an increased institutional capacity, in particular for the fight against discrimination, the prison system and the protection of minorities;
- ensure effective penalties for human rights violations.

*(See also the specific recommendations on the judicial system, the fight against corruption and the freedom of expression in sections 2.3 and 2.4.)*

In February, the government adopted a revised action plan for Chapter 23, based on an analysis of the progress made and shortcomings identified. The aim of this adaptation was to fine-tune the implementation of reforms planned for 2015 and beyond, and to set new, realistic deadlines for measures not implemented on schedule.

#### **Functioning of the judiciary**

##### Strategic documents

In October 2014 the government established the Council for monitoring the implementation of the 2014-2018 judicial reform strategy, which includes representatives of the main stakeholders of the judiciary. According to the first semi-annual report on the implementation of the action plan for the implementation of the strategy, 10 % of measures have been partially implemented, and 9 % of measures have not been implemented.

##### Management bodies

The new Law on the Judicial Council and rights and duties of judges and the new Law on the State Prosecutor's Office were adopted in February. The two laws increased the competences of the Judicial and Prosecutorial Councils. The adaptation of internal procedures and the establishment of the new bodies required under the new laws remains to be completed.

The 2015 budget for the Judicial Council went up to EUR 715 383, compared with the 2014 figure of EUR 675 601. The 2015 budget for the Prosecutorial Council was increased to EUR 246 970 from EUR 131 824 in 2014 so that the Council could set up its own secretariat. The

Secretariat of the Judicial Council has been strengthened by two new employees. Additional recruitment could not be completed due to the lack of qualified candidates. A secretariat for the Prosecutorial Council has been established. It is operational since July but not yet fully staffed.

While overall transparency of the Judicial Council has significantly improved, the Prosecutorial Council needs to take further steps to increase the transparency of its work.

#### Independence and impartiality

In February, parliament adopted the new law on courts, the new Law on the Judicial Council and the Rights and Duties of Judges, the new Law on the Constitutional Court and the new Law on the State Prosecutor's Office. The provisions on functional immunity in the new Law on the Judicial Council and the Rights and Duties of Judges have been aligned with the Constitution. The new law on courts transferred the responsibility for conducting misdemeanour proceedings from specialised bodies appointed by the government to specialised misdemeanour courts. The appointment of misdemeanour judges needs to be completed and the new misdemeanour court system made operational.

The ongoing procedure of reappointment of state prosecutors (formerly deputy state prosecutors) needs to be completed in line with European standards. The number of presidential pardons granted further dropped in 2014. Out of 137 requests, the President granted a pardon in 23 cases (2013: 49 cases; 2012: 146 cases). Montenegro needs to take further steps to exclude any political influence on the work of judges and prosecutors.

#### Accountability

In 2014, the Commission for monitoring the implementation of the Code of Ethics for judges dealt with eight cases and in the first half of 2015 with 10 cases. It did not find any violations; in one case proceedings are ongoing. Regarding prosecutors, in 2014, there were no cases. In 2015 there were two cases; in one of them a violation of the Code of Ethics for prosecutors was established.

Disciplinary proceedings were initiated against three judges in 2014 and against three judges in the first half of 2015, resulting in minor sanctions. Two procedures for dismissal were brought against judges. In both of them the judge concerned filed a request for termination of judicial office. In 2014, no disciplinary and dismissal proceedings were initiated against prosecutors. In the first half of 2015 disciplinary proceedings were initiated against one prosecutor; proceedings are ongoing.

The new Law on the Judicial Council and the Rights and Duties of Judges, and the new Law on the State Prosecutor's Office, introduced an improved system of disciplinary accountability for judges and prosecutors. Specialised bodies have been set up within the Judicial and Prosecutorial Councils to handle disciplinary proceedings.

Mechanisms to detect breaches of integrity rules and enforce disciplinary penalties are not yet effective. Given that there were very few reports by members of the public of violations of the Code of Ethics, Montenegro needs to continue raising public awareness of existing complaint mechanisms. The possibility to challenge the dismissal of complaints on violations of the Code of Ethics before the Judicial and Prosecutorial Councils should be introduced. The adoption of integrity plans and appointment of integrity managers has been completed in all courts and prosecution offices.

### Professionalism and competence

The new Law on the Judicial Council and the Rights and Duties of Judges and the new Law on the State Prosecutor's Office introduced a single, countrywide recruitment system for judges and prosecutors, a system enabling judges and prosecutors to transfer on a voluntary basis to different courts and prosecutors' offices, and a new promotion system for judges and prosecutors based on periodic professional assessment.

The new systems are designed to be transparent, merit-based and seek to apply objective criteria. Adoption of secondary legislation and implementation of the new systems is pending. Uniform, objective, and transparent assessment of candidates is not yet guaranteed in practice. The grounds for decisions are not fully documented. In several cases of appointment and promotion of judges and prosecutors, the Judicial and Prosecutorial Councils selected a candidate other than the one who achieved the highest score.

### Quality of justice

The Judicial Training Centre has continued to provide initial and continuous training to judges, prosecutors and judicial advisers. It also offered e-learning programmes. For 2015, the Judicial Training Centre was allocated its own budget of EUR 170 000. However, it still has to rely on donor support for certain specialised training courses. In September 2015 the law on the training centre for judges and prosecutors was adopted. The law provides the legal basis for transforming the Judicial Training Centre, which is currently attached to the Supreme Court, into an independent institution.

Instructions for collecting statistical data in compliance with European Commission for the Efficiency of Justice (CEPEJ) guidelines were adopted in January 2015 but are not yet fully implemented. Some concerns remain as to the reliability and consistency of statistical data. While some court presidents started actively using statistical information for management purposes, so far it is seldom used on the policy-making level.

PRIS, Montenegro's judicial information system, is not backed by sufficient human and financial resources. Montenegro relies entirely on donations to maintain and upgrade PRIS and the system is no longer viable from a technical point of view. Work has started on a new IT strategy.

The 2015 judicial budget (including both courts and prosecutors' offices) is EUR 27.1 million (0.78 % of GDP; EUR 40 per capita), up from the 2014 figure of EUR 26.6 million. In 2015, EUR 20.8 million were allocated to the courts (2014 figure: EUR 20.6 million) and EUR 6.3 million to prosecutors' offices (2014 figure: EUR 6 million). Given that the largest part of the budget is spent on salaries, the funds allocated are insufficient, in particular to cover investment needs.

The number of cases referred to and solved through mediation significantly increased in 2014 (in 2014 869 cases were solved through mediation, compared to 262 in 2013) but the impact of alternative dispute resolution remains low and the use of mediation needs to be promoted further both among judges and parties to the dispute. In July a new law on arbitration was adopted.

### Efficiency

Although in 2014 the clearance rate (i.e. the ratio of solved cases to new cases filed) improved slightly in comparison with 2013 and was almost at 100 % (2013: 98.5 %), this was mainly due to a decrease in the number of incoming cases (17.6 %). Overall, in 2014 courts solved fewer cases than in the previous year (16.4 %). Basic courts and commercial courts in particular recorded a noticeable decrease in the number of cases solved.

The total number of cases pending at the end of the year remained more or less constant (37 111; 2013: 37 072). The total number of cases older than three years pending before all courts has further decreased and amounted to 3192 at the end of 2014 (end of 2013: 4 089). However, Montenegro needs to continue to work on increasing the efficiency of the judiciary, monitor backlogs and reduce the number of cases pending.

In 2014, the Constitutional Court solved more than three times as many cases as during the previous year (1 691; 2013: 425). At the same time, the number of incoming cases significantly increased (1 736 cases in 2014 compared with 860 in 2013). The efficiency of the Constitutional Court needs to be further improved to both cope with the backlog and the influx of new cases and to solve cases within the 18 months provided for by law.

In 2014, the disposition time (i.e. the average time from filing the case to a decision) for first instance proceedings was 242 days in civil cases and 261 for commercial cases (2013 figures: 237 days for civil cases and 303 days for commercial cases). One of the main reasons for lengthy trials was the practice of referring cases from higher to lower courts without going into the merits of the case. Amendments to the Criminal Procedure Code adopted in June 2015 and amendments to the law on civil procedure adopted in July 2015 limit this option by stipulating that a case can be quashed by a higher court only once.

Since the start of implementation of the bailiff system in April 2014, the number of incoming enforcement cases to be processed by the courts has been significantly reduced (2013: 72851; 2014: 23452; first half of 2015: 3271). However, the number of cases solved by the courts has also significantly decreased (2013: 65173; 2014: 35815; first half of 2015: 15667). The number of cases pending is still considerable (140 784 cases at the end of June 2015). To-date, 29 out of the planned 32 bailiffs have started working. Montenegro needs to put in place a centralised system to monitor data on the recovery rate, costs and duration of enforcement proceedings carried out by bailiffs. Enforcement of civil and administrative decisions remains weak.

Progress has been made on rationalising the judicial network. In the first half of 2015, a case-weighting study was carried out on a pilot basis in nine courts to collect data on the time-frames for processing specific types of cases. The results of the study will provide a solid basis for allocating human resources more efficiently and setting realistic standards for judges' workloads that take into account case complexity. Montenegro also needs to develop a medium- and long-term human resources strategy.

#### Domestic handling of war crimes cases

In December, the Appellate Court confirmed the decision of the High Court in Bijelo Polje, acquitting all eight defendants accused of having committed war crimes in Kaludjerski Laz in 1999. In March, the Supreme State Prosecutor's Office filed an application with the Supreme Court for protection of legality concerning the final verdict in the 'Deportation of Refugees' case, pointing to errors in the application of the law in this case. The application for protection of legality was dismissed by a Supreme Court decision in June. In May, the Supreme State Prosecutor's Office adopted a prosecution strategy that outlines measures to identify possible Montenegrin perpetrators of war crimes and open new cases. Its implementation has not yet started.

Montenegro's prosecution service needs to demonstrate a more proactive approach in following up on outstanding allegations of war crimes. The judicial decisions reached so far have contained legal mistakes and shortcomings in the application of international humanitarian law. Montenegro needs to do more to fight impunity over war crimes, and effectively investigate, prosecute, try and punish war crimes in line with international

standards. Charges of command responsibility, co-perpetration and aiding and abetting have so far not been brought. Montenegro also needs to ensure that victims of war crimes have access to justice and compensation.

## **Anti-corruption policy**

### Track record

#### *Prevention measures*

Montenegro has made some progress in establishing a track record in the prevention of corruption. However, penalties provided for by law are not applied effectively and are far from having a deterrent effect.

The Commission for the prevention of conflicts of interest has significantly increased the number of asset declarations cross-checked with data held by other institutions. In 2014 it checked the asset declarations of 2 428 public officials (62 % of all asset declarations; in 2013 1 489 were checked). Also, the number of public officials found to have reported incorrect data significantly increased from 206 in 2013 to 629 in 2014. For the submission period 2014/15, 97% of public officials submitted income and asset declarations. During the first half of 2015 the Commission verified a total of 1438 asset declarations; in 242 cases it established that public officials did not provide complete and correct data. The new powers of the Commission to enquire about inexplicable wealth so far have been applied in 79 cases (April – August 2015). In 46 cases public officials submitted evidence on the grounds of acquiring income and assets; in the remaining cases misdemeanour proceedings were launched.

Until 2015, the Commission terminated proceedings relating to established irregularities in asset declarations if officials provided additional information and corrected the data. However, it has now discontinued this ineffective practice, resulting in a significant increase in the number of misdemeanour proceedings initiated.

The Commission has processed and followed up on an increasing number of cases of incompatibility of functions (15 cases in the first half of 2015; 13 cases in 2014). Most but not all decisions of the Commission have been enforced through either resignation or dismissal of the concerned public official. Decisions on **conflict of interest** have been limited to requests by the public officials concerned to receive an opinion.

In 2014, the Commission filed 337 misdemeanour charges against public officials (2013: 455) for violation of the law on prevention of conflict of interest; in the first half of 2015 already a total of 542 misdemeanour charges were filed. Out of 300 misdemeanour proceedings completed in 2014, the majority resulted in a warning or minor fines below the statutory minimum.

The Ministry of Interior's internal control unit has so far **cross-checked 140 asset declarations** of high-ranking police officers out of a total of 500. In two cases irregularities were found and followed up through disciplinary and criminal proceedings respectively. Amendments adopted in December to the new law on internal affairs have expanded checks on assets and income to cover the spouses and children of police officers.

Only a very small number of irregularities were established in connection with the **funding of political parties and electoral campaigns** (2014: 10; 2015: 13). They all relate to the failure to submit annual reports on incomes, assets and expenditures. The judicial follow-up on alleged irregularities in the context of the 'audio recordings affair' and the 2014 local elections was not based on information provided by or decisions taken by the State Electoral Commission.

In 2014, out of a total of 4 058 initial requests for **access to information** made to public bodies, the requested information was not provided in 1 007 cases (25 %). The agency for personal data protection and free access to information received a total of 1 753 complaints in 2014. Of these, it upheld 1 332. The majority were cases of administrative silence. In a number of cases, the first instance authorities declared the requested documents confidential, thus requiring the complainant to request an Administrative Court decision. In 2014, the Administrative Court upheld 26 complaints, while 14 were rejected. While in 2014 the agency did not initiate misdemeanour proceedings for non-compliance with the law on free access to information, in 2015 (January – August) a number of proceedings were launched.

As regards the **protection of whistle-blowers**, criminal charges related to the dismissal of whistle-blowers were brought against 11 people in 2014 and against one person in 2015. Preliminary investigations are ongoing against two people; in all other cases the criminal charges were dismissed.

No violations of the Code of Ethics for members of parliament have been submitted to the parliamentary committee on human rights and freedoms. The fact that only MPs and parliamentary bodies have the right to submit complaints, and not the public, the media and other external stakeholders, may hinder implementation of the Code of Ethics.

#### *Law enforcement*

Investigations, prosecutions and convictions for corruption-related offences mostly concern low and medium-level corruption. In most cases, sentences are below the minimum provided for by law. There have been no final convictions for high-level corruption. During the reporting period, several new investigations in cases involving high-level officials were launched. These cases involve, among others, several former mayors. New trials have started in two cases. In the third first instance trial in the 'Zavala' case the Podgorica High Court in June confirmed the previous sentences (3-5 years of imprisonment) for the three higher-level defendants, a former mayor of Budva, a former deputy mayor and a former DPS MP. In the 'Kosljun' case in September another former mayor of Budva has been convicted by the Podgorica High Court at first instance to six years of imprisonment; a former manager of the municipality and adviser to the Prime Minister was acquitted. Both judgements are not final.

Financial investigations are not yet systematically used in cases of corruption. In no corruption case has the confiscation of assets been ordered. Seizure and confiscation of criminal assets should be systematically ordered to detect and cut financial flows of criminal networks.

#### Institutional framework

##### *Prevention of corruption*

In December, parliament adopted the legislative basis for an independent anti-corruption agency with administrative investigation powers, scheduled to be operational as of 1 January 2016. Its mandate covers the main areas of the prevention of corruption, including conflicts of interest, asset declarations, incompatibility of functions, integrity plans and protection of whistle-blowers. The agency will also be in charge of implementing the law on lobbying and have powers to check political party financing. The Directorate for Anti-corruption Initiative (DACI), until now in charge of coordinating anti-corruption policy and awareness raising, and the Commission for the prevention of conflict of interest, will be merged into the new agency. The new agency will also take over powers and staff from the State Electoral Commission (SEC).

The members of the new agency's council were appointed in June, and the director of the agency was appointed in October 2015. It is a matter of concern that in areas other than control of conflict of interest, incompatibility of functions and asset declarations, the agency is unlikely to be fully operational by January 2016 due to lack of staff with the necessary expertise and training.

The Commission for prevention of conflicts of interest has shown a slightly more proactive approach and, in a small number of cases, launched proceedings on its own initiative. A proper risk assessment methodology is not yet in place. The Commission lacks an electronic case management system and a system for electronic submission of cases. In addition, it is not yet connected to the databases of all relevant institutions.

In October 2014, parliament appointed the State Electoral Commission in its reformed composition. The 2015 budget for the SEC was increased by 100 % and now amounts to EUR 240 240. The recruitment procedures for seven out of the eight additional SEC staff were finalised in September 2015.

DACI continued to implement **awareness-raising** campaigns and provide anti-corruption **training** and workshops on integrity plans for public officials.

Inspection capacity in the area of public procurement needs to be enhanced and full e-procurement introduced as an instrument for achieving more transparency. The development of a risk assessment methodology remains to be completed. Steps have been taken to improve internal control mechanisms within the police, customs and tax administrations. A risk analysis methodology for performing inspection control was adopted by the government in June; however, it contains shortcomings that need to be addressed as soon as possible. Overall, there is a strong and urgent need to improve and strengthen internal control and inspection mechanisms within the public administration and to improve their interaction with law enforcement authorities.

#### *Law enforcement*

The institutional and operational capacity of prosecutors, judges and police to fight corruption remains insufficient and needs improving, including through specialised training. Cooperation between the police and the prosecution in pre-trial investigations must be improved. The capacity to carry out financial investigations in corruption cases needs to be enhanced.

The new Special Prosecutor's Office for the fight against corruption, organised crime, war crimes, terrorism and money laundering became operational in July. Recruitment of two special prosecutors and of specialised experts is pending. The special police directorate supporting the Special Prosecutor's Office is not yet operational.

A uniform database monitoring proceedings for criminal offences involving corruption has been established as part of PRIS, the judicial information system. So far, it covers only the stage from indictment to final judgment; the roles played by the police and prosecution are not yet covered.

#### Legal framework

In December 2014, parliament adopted a comprehensive package of laws on the prevention of corruption. The package includes: the law on the prevention of corruption (legal basis for the future anti-corruption agency); a new law on lobbying; a new law on political party financing and electoral campaigns; amendments to the law on the prevention of conflicts of interest; amendments to the law on public procurement; the new law on general administrative procedure. Parliament also adopted a Code of Ethics for its members. The new laws and amendments significantly strengthened the legislative framework in this area.

The amendments to the law on prevention of conflicts of interest gave the relevant Commission the power to investigate inexplicable wealth. They also increased the number of misdemeanour penalties and the level of fines. However, the range of penalties laid down does not seem to be enough of a deterrent for all offences. Under the new amendments, the Commission has access to information held by banks and other financial institutions, but only with the consent of the public official concerned.

As regards the accountability of directly-elected public officials, the law on the prevention of corruption constitutes a step back in comparison to the legislation currently in force in that it exempts directly-elected public officials from the four-year ban on public office that applies to public officials dismissed for breaches of the law on the prevention of corruption.

The main novelties introduced by the new law on lobbying are the establishment of a public register of lobbyists and the requirement for public authorities to document and publish contacts with lobbyists.

The new law on political party financing and electoral campaigns is intended to meet outstanding GRECO (Group of States against Corruption) recommendations. The new law strengthens rules preventing the abuse of public resources for political party and election campaign purposes in line with the Constitution. The GRECO recommendations not yet fully met relate mainly to institutional capacity and enforcement.

The amendments to the law on public procurement are intended to tighten up the rules on preventing conflicts of interest and to reduce the risk of corruption. The inspection service is in charge of checking the implementation of awarded contracts.

The law on the Special Prosecutor's Office, adopted in February, provides the legal basis for a new Special Prosecutor's Office to cover organised crime, corruption, war crimes, terrorism and money laundering. Its mandate is very broad and not limited to high-level and particularly complex cases. Police investigators work under the instructions of special prosecutors; to strengthen their autonomy, they cannot be reassigned to another position without the consent of the chief special prosecutor. However, the rules governing their status do not seem to sufficiently limit the risk of conflicting instructions and undue interference.

Amendments to the Criminal Procedure Code were adopted in June. They brought in a more stringent mechanism for reviewing decisions by prosecutors to dismiss criminal charges. A new law on the seizure and confiscation of assets was adopted in September 2015.

Montenegro decided not to follow the recommendation made in Article 20 of the United Nations' Convention against Corruption, i.e. to criminalise inexplicable wealth.

### Strategic framework

Montenegro's 2010-2014 national strategy for the fight against corruption and organised crime and its accompanying 2013-2014 action plan expired at the end of 2014. According to the final report on the level of implementation of the action plan, 59% of measures have been implemented, 30% partly implemented, while 11% of measures have not been implemented. In order to avoid duplication with the action plan for Chapter 23, for the time being no new strategy and action plan will be drafted. The implementation of measures that were in the strategy and related action plan but not implemented before the end of 2014 will be included in an annex to the action plan for Chapter 23 and monitored through the mechanism in place for Chapter 23.



## **Fundamental rights**

Montenegro continued to comply with **international human rights instruments** by progressing in the dialogue with relevant institutions and via the monitoring mechanisms. In October and December 2014, UN committees published concluding observations on Montenegro's implementation of the covenant on civil and political rights and on economic, social and cultural rights. The reports mainly focused on shortcomings in the fight against discrimination.

In January, the Council of Europe's Parliamentary Assembly decided to close the monitoring procedure on Montenegro and start the post-monitoring dialogue in response to progress in the five key areas identified in its 2012 resolution: independence of the judiciary, organised crime and corruption, the media, the rights of minorities and the situation of refugees and internally displaced persons.

Cooperation with the **European Court of Human Rights (ECtHR)** remained good; all 17 cases under supervision remained under the standard monitoring mechanism. Since September 2014, the Court has found that the country violated the European Convention on Human Rights (ECHR) in two cases relating to the right to a fair trial and prohibition of torture. A total of 109 new applications were allocated to a decision-making body, bringing the number of pending applications to 178. A new IT system in the Constitutional Court will enable easier and more consistent application of ECtHR case law to national rulings which so far has not been satisfactory.

As regards the **promotion and enforcement of human rights**, two new deputies to the Ombudsman with experience in human rights were appointed, one for the fight against discrimination and one for the national preventive mechanism (NPM). Some posts in the Ombudsman's department still remain vacant, specifically those dealing with human rights and discrimination. The capacity of this institution to effectively handle complaints remains limited: its internal organisation has to improve to cope with its broad mandate. An internal review mechanism for complaints would help improve the quality of decisions. Overall, key institutions in charge of human rights policy, including the relevant Ministry, are understaffed and existing staff require further training, particularly on international human rights standards.

As regards **prevention of torture and ill-treatment**, the national mechanism for the prevention of torture (NPM) started functioning under the new Law on the Ombudsman.

Inspections by the Ombudsman appear to be improving conditions for detainees, notably regarding health. The NPM department remains understaffed and its capacities need to be strengthened by improving the quality of visits and priority setting. Concerns remain over the prevention and punishment of torture and ill-treatment, both in police facilities and prisons. The processing of such abuses and the number of officers punished remain low. For example, there should be a full investigation into the instances of aggression which took place in Podgorica prison in January between prisoners and guards. Several prisoners are on trial, while only one guard was sentenced, to the minimum penalty.

Detention conditions, including in police stations, need to improve. The treatment of convicts and detainees still needs to be brought in line with international standards, as do the screening and reporting capacities of prison medical services and their cooperation with judicial authorities. Detainees' overall awareness of their rights needs to be increased.

On the **prison system**, amendments adopted in June to the law on prison sentences, pecuniary fines and security measures bring the system closer to European standards, balancing security and respect for human rights in the enforcement of prison sentences. With these amendments, the alternative sanctioning system is fully in place but work should continue to make it fully

operational. The probation department of the Ministry of Justice was expanded, with two additional posts filled in March. The prison health service remains understaffed and overall of poor quality. The limited availability of rehabilitation programmes continues to be an issue of concern in Montenegrin prisons.

On **personal data protection**, a report on the agency for personal data protection and free access to information was issued at the end of March. To-date, no cases on data protection have been brought before the courts, with the exception of the Constitutional Court's opinion on law enforcement access to the data of electronic communication services providers. Training for judges and prosecutors on data protection should continue in line with the schedule in the action plan.

**Freedom of thought, conscience and religion** continued to be guaranteed and upheld by law. Tensions between the Serbian and Montenegrin Orthodox Churches continue, particularly on property issues. A new law on the legal status of religious communities, compatible with European standards, has yet to be adopted. The law is expected to better regulate the procedures for allocating state funds to religious communities, particularly where the supervision of expenditure and auditing are concerned, as so far they are not being carried out in a transparent manner.

As regards **freedom of expression**, there were no attacks against journalists during the reporting period. However, vehicles belonging to four journalists from three different newspapers were damaged in the reporting period, including a car belonging to the family of the editor-in-chief murdered in 2004. Investigation and prosecution of cases of violence against the media continued. Three cases of violence were concluded in the recent period and hearings are ongoing for another three. Work needs to continue to solve older cases, including the 2004 murder of an editor-in-chief, and identify not only the material perpetrators but also those behind the attacks. However, there was limited progress on this.

Montenegro's ad hoc commission monitoring violence against media continued its work. Security issues, such as those related to premises and the granting of security clearance for commission members to access restricted information, were resolved. The commission's mandate was extended until the end of 2015. The police continued to take action to prevent violence against the media by carrying out risk analyses and protecting journalists and premises possibly at risk. The government has not implemented fully the recommendations of the media monitoring commission, particularly as regards the re-establishment of a reward for witnesses in older cases and identifying flaws in the investigations on the attacks.

Draft amendments to Montenegro's media law proposed by several members of parliament, enabling the courts to ban media outlets which violate constitutionally guaranteed rights, did not receive the necessary support in the parliamentary committees. The Council of Europe's Venice Commission criticised the amendments and recalled that the Montenegrin legal system already had mechanisms to enforce court decisions.

The lack of a uniform approach to penalties in this area suggests that ECtHR case law is not sufficiently known. The rationale behind the decision of the High Court in Bijelo Polje and of the Basic Court in Podgorica, ordering news outlets to pay EUR 5 000 in damages to a sibling of a high-ranking politician for emotional suffering and damage to reputation, is of concern. An ongoing smear campaign by one tabloid newspaper, mostly targeting prominent civil society activists and some politicians, shows that the authorities are failing to implement the media law and that self-regulation, re-established in 2012, is not working. Lack of professional and ethical standards continued to be an issue of concern. There is no single forum of discussion recognised by the whole of the media community. The OSCE-facilitated dialogue on improving ethical and professional standards in the media should continue.

Montenegro switched from analogue to digital broadcasting in June without any major problems. Ensuring the editorial independence of the public broadcaster RTCG needs to be a priority.

The previously state-owned newspaper company was privatised in December, following years of being in breach of the media law. There are concerns about the transparency and non-discrimination of the media in state advertising. Some major private media outlets are at risk of closure due to high tax debts. The precarious economic situation of journalists leaves the door open for editorial interference and possible self-censorship. The fact that many media outlets are not financially sustainable detracts from the quality of reporting and professionalism in the media.

According to the latest reports of Montenegro's media trade union, journalists are poorly paid and their jobs are not secure. In the past three years, at least 500 journalists lost their jobs, while three TV stations and one newspaper closed due to poor financial performance.

On **freedom of assembly and association**, amendments to the law on public gatherings were adopted in December. They provide wide discretionary powers to the police to temporarily ban peaceful gatherings and stipulate that assemblies can only be held in front of certain public buildings. The ambiguous definition of peaceful gatherings leaves room for interpretation and requires further amendments to the law, including defining state obligations accordingly.

On **property rights**, the restitution of property as provided by law is being hampered by the lack of administrative capacity and cumbersome procedures. The courts did not make any progress on addressing pending cases in line with the national legislation and ECtHR case law. Displaced persons permanently resident in Montenegro continued to face discrimination over access to land.

The overall legislative framework on **non-discrimination** has been further aligned with the *acquis* but requires additional strengthening, notably regarding sanctions. The capacity of the Ombudsman's Office to effectively handle complaints remains limited and the follow-up on reported cases of discrimination has not improved. Lesbian, gay, bisexual, transgender and intersex civil society organisations have continued to raise concerns over the Ombudsman's lack of results, in particular over its handling of petitions and complaints concerning discrimination.

As regards **equality between women and men**, amendments to the law on gender equality were adopted, bringing Montenegro closer to European standards. The law contains a clearer definition of direct and indirect discrimination, expands the definition of gender and includes improved provisions on penalties. The law also shifts the referral mechanism on gender equality from the Human Rights Ministry to the Ombudsman who will consequently need increased administrative capacity to carry out its enhanced role, including through hiring staff experienced in gender issues. The National Gender Equality Office has continued to build up a network of local-level gender mechanisms and nine municipalities have so far adopted action plans to tackle gender issues. A formalised model of cooperation should be established between the gender department, gender coordinators and relevant civil society organisations. The number of women councillors in local assemblies rose to 32 % through recent legal provisions; however, few women are mayors or presidents of municipal councils.

Gender-based violence remains a concern. Amendments to the law on free legal aid adopted in April made free legal aid available to victims of domestic violence. However, implementation of the Convention on preventing and combating violence against women and domestic violence is proceeding slowly: the establishment of a unified country-level database

for recording cases of violence against women was postponed and in the meantime statistics remain unreliable. The same happened with the government's pilot phase for the SOS helpline for victims of family violence. The rules of procedure for multidisciplinary teams for the prevention of domestic violence were adopted in December. Such teams have been established in all 11 social welfare centres. Inter-institutional cooperation requires improvement, especially between social services and law enforcement authorities, as does cooperation between institutions and NGOs in the field. The involvement of the police in tackling gender-based violence remains low; a better central coordination mechanism, linked with local police units, should be established.

Some progress was made with regard to the **rights of the child**. The 2013-2017 action plan on children continued to be implemented. Regular meetings of the Council for the rights of the child were held, discussing planned legislative changes and institutional developments with a focus on social affairs, in the context of the overall social services reform.

The relevant department in the Ombudsman's Office continued its awareness-raising activities and raised its visibility, leading to an increase in the number of cases handled. Some of its recommendations cited a lack of sensibility on the part of the judiciary when dealing with cases involving children; a survey was conducted as a follow-up. However, the department is understaffed and depends on external funds for specific projects. As also highlighted by the UN committee on the rights of the child, child labour is a concern in Montenegro. Such children are exposed to exploitation and human trafficking. Capacity-building activities have continued for judges and police dealing with children in conflict with the law; progress is needed in adapting the overall justice system to children's rights, including through collection of reliable statistical indicators.

As regards deinstitutionalisation, the operational plan for the children's home in Bijela has yet to be adopted. Individual plans of care for the beneficiaries in the 'Komanski Most' public institution were drawn up and regularly reviewed, while contacts with parents were improved. Individual plans were also prepared to protect children originally from Montenegro who are currently accommodated in institutions in Serbia. The law on social and child protection must also be implemented effectively.

Some progress was made on the **integration of persons with disabilities**. A new law prohibiting discrimination against persons with disabilities was adopted in July bringing the national framework closer to EU standards on the fight against discrimination and the UN Convention on the rights of persons with disabilities. Provisions of the law on higher education facilitating the inclusion of students with disabilities need to be fully implemented. The situation concerning accessibility for persons with reduced mobility remains critical: the law on spatial planning needs to be fully implemented to make it easier to enter priority public buildings. Construction works to make parliament accessible to persons with disabilities started in August. The allocation in the national budget remains a void commitment without effective implementation. Obstacles in physical access to courts are impeding access to justice for persons with disabilities.

As regards **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, in May Montenegro successfully organised the third International Day against Homophobia (IDAHO) conference. It was attended by ministerial delegations from 21 countries and high-level participants from the government, the international community and civil society organisations. Montenegro was also one of the signatories of the Joint Statement of Ministers of the region. Montenegro was able to smoothly handle the pride parade in Podgorica in 2014; various institutional and political representatives participated and demonstrated their support.

Unlike the previous year, no incidents were observed; this was also due to the rigorous security measures in place.

The rights of transgender persons were improved by the adoption in November of a protocol for legal gender recognition. Cooperation between the Ombudsman and LGBTI organisations requires improvement, as does cooperation between relevant institutions. Concerns remain over the level of homophobia, as attacks on LGBTI community members and activists continued. The lack of progress in related police investigations led to some tensions between police and the LGBTI community and few criminal convictions for attacks. Training for the judiciary and the police needs to continue. Regrettably, the police banned, for the third time, LGBTI gatherings in Nikšić, citing security reasons; prior to that, an academic debate on LGBTI issues was banned in the local university. Systematic anti-discrimination campaigns need to be rolled out in schools and universities as a matter of urgency.

**Labour and trade union rights** need to be strengthened. Proper procedures for appointing employees' representatives should be defined in the national legislation. Employees' representatives should enjoy adequate protection to perform their duties. Freedom of association needs to be guaranteed to workers assembling to discuss work-related issues.

Montenegro has started laying the legal foundations on **procedural rights**. A new law on the compensation of victims of violent crimes, adopted in June, has brought the national framework closer to EU standards, particularly on compensation. Amendments to the law on internal affairs and to the Criminal Procedure Code, adopted in December 2014 and June 2015 respectively, increased procedural safeguards in pre-detention. The law on free legal aid adopted in April includes new categories among the beneficiaries but certain categories, such as victims of torture and harassment, remain excluded. Legal aid is not yet applicable to administrative proceedings.

Amendments to the law on **minorities** remain to be adopted. The amendments need to remove possible conflicts of interest in procedures for allocating and controlling funds for minorities. There are concerns over the lack of transparency and overall institutional capacity in allocating and auditing funds dedicated to minorities, despite the substantial annual allocation: in 2015, minority councils and the minority fund received a total of EUR 1.318 million. The capacity of the Ministry for Human and Minority Rights to supervise in substance the legality of the work of national minority councils needs to be significantly increased.

According to the latest census, there are approximately 8 300 **Roma** and Egyptians living in Montenegro. The participation of Roma students in all levels of education improved. Access to healthcare services has remained difficult and the Roma minority remains the most vulnerable and discriminated community in various areas of life. Roma women are subject to double discrimination. Despite this, the community has very limited access to funds destined to minorities. Roma continue to be underrepresented in the political sphere and have difficult access to the labour market. Informal employment prevails and Roma children are particularly exposed to child labour. Active measures to include the community in the job market need to be pursued.

Some progress was made in resolving the issues of displaced and **internally displaced persons** (IDPs). Following years of postponement, the end of 2014 was the final deadline for registration. Under Montenegro's new law on foreigners, the category of displaced persons has ceased to exist. A simplified procedure to apply for permanent or temporary residence in the country was introduced for holders of an identity card for internally displaced persons, while additional documents could be provided at a later stage. A total of 12 854 internally displaced persons have applied since 2009 to regularise their status in Montenegro, while around 2 400 are still in the process of doing so. It remains important to follow up on all

cases, to ensure that cases are finalised through support in collecting documents and to ensure that internally displaced persons have full access to citizens' rights.

Montenegro has not yet introduced a separate procedure for the determination of statelessness, despite the ratification of the relevant Convention in 2013, which negatively affects access to rights for potential beneficiaries.

Amendments to the law on non-contentious proceedings were adopted in April, facilitating subsequent birth registration. The amendments establish a procedure for determining the time and place of birth in order to regulate status. Construction of social housing is in progress in the Konik camp and in some other settlements of the country. Social integration activities continued for the durable and sustainable integration of those residing in the Konik area.

#### **4.24. Chapter 24: Justice, freedom and security**

*The EU has common rules for border control, visas, external migration and asylum. Schengen cooperation entails the lifting of border controls inside the EU. There is also cooperation in the fight against organised crime and terrorism, and judicial, police and customs cooperation.*

Montenegro is **moderately prepared** to implement the *acquis* correctly in this area. **Some progress** was made, through the continued implementation of the action plan for justice, freedom and security. Criminal justice reform and police reorganisation have gained momentum, but so far results are limited, in particular in the fight against money laundering, trafficking in human beings and cigarette smuggling. Implementation of the new legal provisions should focus on strengthening cooperation between judicial and law enforcement authorities, and on the authorities' specialisation in the different forms of serious crime.

Reception centres for migration and asylum are now operational. So far, they appear to be coping with the inflow of migrants passing through Montenegro. The centres represent a major step forward in the establishment of a sound migration and asylum management system in the country.

In the coming year, Montenegro should in particular:

- establish a track record of investigations, prosecutions, seizures and confiscations in organised crime cases;
- further improve its capacity to deal with mixed migration flows, paying particular attention to vulnerable groups and minors;
- further invest in its border surveillance and control capacity and work towards resolving border management issues with neighbouring countries.

*(See also the specific recommendations on the fight against organised crime in section 2.3.)*

In February, the government adopted a revised action plan for Chapter 24 on the basis of an analysis of progress made and shortcomings identified. This revision mainly consisted of fine-tuning the implementation of reforms planned for 2015 and beyond and setting new, realistic deadlines for measures that were not implemented on schedule.

#### **Legal and irregular migration**

Amendments to the law on foreigners were adopted in December. They pave the way for future alignment with the Blue Card Directive; their enforcement was put on hold to provide additional time to prepare for it. An assessment of the capacity of the centre for irregular migrants confirmed that, for the time being, the facilities appear to be coping with the inflow of migrants arriving in the country. In 2014, 572 irregular migrants were identified, mostly

from neighbouring countries. A police operation, in cooperation with other countries of the region, resulted in the dismantling of an international smuggling network. Alignment with the EU *acquis* on legal and irregular migration needs to continue, following up on the analysis conducted by the government in 2014. At operational level, the focus should be on preventing people smuggling and increasing authorities' awareness of vulnerable migrants.

### **Asylum**

The pressure on the Montenegrin asylum system has continued, showing a similar trend to that of recent years, despite the reduced number of applications (2 312 in 2014 compared with 3 554 in 2013). Most of the applicants appear to leave a few days after registration. Subsidiary protection was granted in two cases and refugee status in two cases. During the peak of arrivals in the second half of 2014, temporary asylum premises had to be used. These remain vulnerable to criminal activities, as they are out of the control of the reception centre staff. The official reception centre has continued to accommodate families and individuals. The accommodation capacity for unaccompanied minors needs to be increased. Additional members of staff were allocated to the Asylum Office and its capacity has been increased. The law on asylum has to be brought into line with the EU *acquis*, including on appeal procedures in asylum cases. More work is needed to remedy the lack of interpreters and to facilitate the integration of refugees into society.

### **Visa policy**

An overall analysis in preparation of Montenegro's Schengen Action Plan was completed in April 2014. In September, Montenegrin diplomatic and consular posts abroad started being connected to headquarters with a secure IT system: the completion of the network is a prerequisite for future implementation of the national visa system. The number of visas issued at the borders remained limited. In March, Montenegro amended the decree on the visa-free regime, suspending short-stay visa requirements for nationals of Azerbaijan. The same regime remains in place for citizens of Moldova and the United Arab Emirates. Citizens of Kazakhstan, Armenia, Kuwait and Qatar were exempt from short-term visas for the summer season (April to October 2015).

The implementation of the visa-free regime with the European Union continued to run smoothly overall. There was an increase in the number of unfounded asylum applications lodged by Montenegrins nationals in the EU and Schengen-associated countries, although their relative impact remains low, accounting for around 3 % of the total number of applicants from the Western Balkans. Montenegro has focused on preventive measures, such as circulating instructions to border-crossing points and raising awareness of people travelling to EU Member States and Schengen-associated countries. Efforts should also include more effective border controls in line with fundamental rights and implementation of short- and long-term measures to improve the social and economic situation of the most vulnerable groups of the population most likely to migrate, including Roma.

### **Schengen and external borders**

The implementation of the integrated border management strategy and action plan has continued, with a focus on bilateral issues with neighbouring countries. Further investments in border management are required to keep pace with the evolving challenges stemming from cross-border crime and mixed migrations. Analyses of border premises, technical equipment and human capacity are being finalised and will be used to plan future investments. It appears that departments in the north have significantly less resources compared with other areas, despite the challenges they face owing to the presence of potential migration and smuggling routes in that part of the country.

The border police reorganisation was launched with a view to increase efficiency, freeing up more resources for fieldwork. A mobile unit has been established at central level, to be deployed according to risk analysis findings. The reorganisation should be followed by the establishment of a well-structured, cost-effective 'train-the-trainer' system. An agreement was signed with the Ministry of Defence on cooperation on border control, including the joint use of radars. Montenegro has continued to participate in training organised by Frontex or based on its models, and works within the framework of the Frontex risk analysis network on the Western Balkans.

On enforcement, Montenegro has improved its track record on detecting counterfeit documents at border-crossing points, thanks to enhanced cooperation with Interpol. Border police and customs have continued to seize goods and drugs during their checks. However, the border police do not yet use their investigative powers.

Cooperation with neighbouring countries continues to be good, particularly at technical level. Montenegro worked with Albania and Kosovo on identifying unauthorised routes across state borders. Efforts need to be stepped up on this issue with Serbia. Border agreements with Bosnia and Herzegovina and with Kosovo were signed in August. Liaison officers from Bosnia and Herzegovina and Montenegro continued their work on a 24/7 basis at the Joint Centre for Police Cooperation between Bosnia and Herzegovina, Montenegro and Serbia in Trebinje to improve regional capacity to counter cross-border crime and illegal migration. The establishment of a similar trilateral centre in Plav is planned for the next period. With Serbia, limited progress was registered on border-related bilateral activity.

### **Judicial cooperation in civil and criminal matters**

An analysis of the legal framework on **criminal matters** was completed in October 2014 and should now provide concrete steps and timelines for aligning with the relevant parts of the EU *acquis*. A similar analysis was made in December 2014 on aligning with the *acquis* in **civil** and enforcement matters. In January, a software application for record-keeping and monitoring of cases of mutual legal assistance in civil and criminal matters became fully operational. An agreement on cooperation between Montenegro and Eurojust was initialled in April, following Eurojust's positive assessment of Montenegro's data protection framework.

### **Fight against organised crime**

#### Track record

Despite some new cases in the areas of drugs, arms trafficking, cybercrime and migrant smuggling, Montenegro's track record has shown little progress on complex and cross-border crimes such as trafficking in human beings and money laundering. Financial investigations and seizure and confiscation of assets are used only in a limited number of cases, as there are legal issues to be resolved and a lack of know-how on carrying out such operations.

Two new indictments for money laundering were brought in 2014. One trial is ongoing, while the second case resulted in an acquittal. Only few cases of trafficking in human beings were launched and four victims identified, despite the fact that Montenegro is a transit country towards Western Europe and remains vulnerable to both domestic and regional trafficking. In November, the Podgorica High Court sentenced *in absentia* a Moldovan national, who was a former victim of human trafficking and a witness in a case involving state officials, to one year of imprisonment for perjury. This was after the Podgorica Basic Court first acquitted her of all charges and then sentenced her to one year on probation.



The number of final convictions remains low compared with the estimated scale of the regional criminal market. A track record of proactive investigations and final convictions remains to be established.

#### Institutional and operational capacity

Preparations on police cooperation have continued broadly on schedule, including on establishing a DNA database, for which the software is now operational. Montenegro's operational agreement with Europol was signed in October 2014 and a police liaison officer to be sent to The Hague was appointed in April. The operational agreement needs to be fully implemented. Training on intelligence-led policing was provided and the concept now needs to be expanded at national level, including by adopting appropriate operational rules. Montenegro's newly-established Special Prosecutor's Office has centralised powers to tackle organised crime and allows for specialisation, including on the police side. The special police unit is not yet operational.

In the fight against money laundering, a new economic crime unit has been set up following the reorganisation of the police. The new unit includes seven officers, whereas to date there was only one police officer in charge of this type of crime. The new law on the Special Prosecutor's Office centralises powers to tackle this offence, allowing for specialisation at prosecutorial level. A similar level of specialisation is needed within the judiciary.

In the fight against trafficking in human beings, multi-disciplinary cooperation was strengthened by setting up a coordination team. A specialised police unit was also established and requires further training. Training continued for the authorities, including the judiciary, the police and local authorities. The Montenegrin authorities need to look for and identify victims of human trafficking in a proactive manner (e.g. using their inspection services). The shelter for victims requires internal reorganisation due to the low number of victims hosted.

#### Legal framework

The Criminal Procedure Code was amended in June to improve cooperation between the prosecution and the police and to provide the latter with additional powers during preliminary investigations. Amendments to the law on internal affairs on eliminating possible political influence in the work of the police and on procedural safeguards were adopted in December. New units on organised and economic crime have been established.

A new law on the seizure and confiscation of assets was adopted in September 2015, with a view to expand confiscation powers by providing more detail on the relevant provisions of the Criminal Procedure Code. A new law on witness protection was adopted in 2014.

The overall criminal justice reform and the police reorganisation increase the capacity and specialisation of the national administration in fighting serious and organised crime. This now needs to be followed by appropriate training for the staff involved and a solid track record on implementation, including better cooperation between judicial and law enforcement authorities. Future amendments to the law on internal affairs should, in particular, focus on the issue of single entry point and on transparent and merit-based recruitment to increase the professionalism of the police. The police academy invests in training future police officers, while only part of its graduates is actually hired by the Police.

Montenegro needs to put in place a solid system to prevent and combat *money laundering*. The lack of strong coordination mechanisms between the various actors in the chain makes that results in this area are limited. The new law adopted in 2014 aims at incorporating the EU Fourth Directive and the standards of the Council of Europe's Committee of Experts on the

Evaluation of Anti-Money Laundering Measures (MONEYVAL). A new 2015-2018 action plan on fighting money laundering and the financing of terrorism was adopted in May.

Trafficking in human beings remains a concern. Despite progress on the legal and institutional aspects, results are limited, both in terms of victims identified and cases prosecuted. In January, the government adopted the 2015 action plan to implement the strategy for the fight against trafficking in human beings. Amendments to the law on foreigners and the law on compensation to victims of crime include victims of human trafficking in the list of beneficiaries.

#### Strategic framework

Montenegro drew up a national serious and organised crime threat assessment (SOCTA) in September 2014, inspired by the EU SOCTA methodology. It outlines the main areas on which law enforcement authorities will focus in the next few years: cocaine and heroin trafficking, the smuggling of cigarettes and other goods, the smuggling of illegal migrants and human trafficking, high-level corruption and robberies. The national SOCTA is currently being implemented and a mid-term assessment was done in June 2015. A strategy and an action plan for the Fight against Illicit Trade in Tobacco Products were adopted in July.

Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

#### **Fight against terrorism**

In March, amendments to the Criminal Code were adopted, criminalising the phenomenon of foreign terrorist fighters in line with UN Security Council Resolution 2178 (2014). An inter-ministerial group has been set up to monitor the situation in the country and to assess terrorist threats. Cooperation with international partners has intensified, particularly on exchanging information on people suspected to have travelled to conflict zones. Montenegro must further strengthen its preventive tools and anti-radicalisation measures. Efforts need to be enhanced to identify, prevent and disrupt any movement of foreign terrorist fighters traveling to conflict areas such as Iraq and Syria. In February, parliament adopted the law on firearms, introducing a moratorium on firearms. In response to the moratorium, the public has started to hand firearms in to the authorities. Work has been finalised to secure two warehouses.

#### **Cooperation in the field of drugs**

Montenegro prepared its second annual report on the implementation of the 2013-2020 national action plan on drugs. Implementation of the action plan has resulted in progress on aligning the legal and institutional system with international standards, including through training on drug prevention. A draft plan has been prepared and training has been given to civil servants on setting up a national drug information system and a national early warning system. Cooperation is in place with Europol on new detected drugs and with civil society organisations on the rehabilitation of drug addicts. The capacity of the Montenegrin authorities to identify new psychoactive substances is limited and needs to be strengthened. Destruction of seized drugs is not yet systematic. An appropriate process for the destruction of precursors has yet to be set up. In October 2014, Montenegro submitted to the European Monitoring Centre for drugs and drug addiction (EMCDDA) its first report on the use of drugs in the general population as well as information on the new psychoactive substances.

On enforcement, in 2014 Montenegro reported a 30 % increase in drug seizures. The good performance achieved in 2014 appears to be the result of a quality risk analysis and of the high number of joint controls by police and customs, notably in the port of Bar.

## Customs cooperation

The amendments to the Criminal Procedure Code adopted in June 2015 include provisions giving initial investigative powers to customs officials to examine suspects. The administrative capacity of Montenegro's customs administration was improved through cooperation with EU Member States, including on the exchange of intelligence among customs administrations and in the operational application of the Naples II Convention. The Montenegrin customs authorities participated in regional operations to prevent distribution and smuggling of counterfeit goods and piracy. The anti-smuggling department of the customs administration stepped up joint inspections with the tax authorities and the police to prevent illegal trade in excise products, including cigarettes and alcohol. These inspections resulted in seizures of significant quantities of tobacco, cigarettes and pyrotechnic devices.

For measures against **counterfeiting of the euro** see Chapter 32 — *Financial control*.

### 4.25. Chapter 25: Science and research

*The EU provides significant support to research and innovation. All Member States can benefit from the EU's research programmes, the more so where there is scientific excellence and solid investment in research.*

There is a **good level of preparation** in this chapter and **some progress** was made in the past year. In the coming year, Montenegro should in particular:

→ enhance efforts to increase investment in research, in particular through stimulating investment by the private sector;

→ increase and focus efforts on participation in the EU Programme 'Horizon 2020'.

Montenegro participates in the **EU Research and Innovation** programme 'Horizon 2020' (H2020) as an associated country. Administrative capacity for H2020 is good, with a nominated network of National Contact Points (NCPs) and representatives in the H2020 Programme Committees. Workshops and information days were organised, and regular "Open Door Days" on specific H2020 topics were held, aimed at increasing participation by bringing together relevant stakeholders. However, based on the first H2020 Statistics, successful participation is very low. Montenegro should assess its current H2020 performance; increase and focus efforts on areas of strategic interest to the country; and stimulate further participation of SMEs in these actions. Participation in EUREKA is also limited. In May, Montenegro became a full member of COST. Montenegro signed the new 2014-2020 Framework Programme for Cooperation with the International Atomic Energy Agency in October. Montenegro cooperates at regional level as co-signatory of the Regional Strategy on Research for Innovation, with the Central European Initiative, and UNESCO. In December, parliament adopted amendments to the law on scientific research activities.

Regarding integration into the **European Research Area (ERA)**, Montenegro nominated an observer delegate and regularly attends meetings with the European Research and Innovation Committee; but participation in other related ERA advisory bodies should also be considered.

Despite a continuous increase in public funding over recent years, overall the level of investment in research remains low: 0.38% of GDP in 2013, far from Montenegro's own target of 1.40% by 2016. From improved statistics, this represents, moreover, a decrease from the level of investment reported last year. This highlights the importance of good and reliable statistics, in particular for private expenditure. Serious efforts will thus be required to increase the level of investment in research, particularly from the private sector. Construction works started in July on the Science and Technology Park, 'Technopolis' and the BIO-ICT Centre of

Excellence was further supported to increase capacity. In September, a National Roadmap for Research Infrastructure - giving a good overview of the current infrastructures and potential - was adopted by the Montenegrin Council for Scientific Research Activities, which is a step in the right direction. Under the Higher Education and Research for Innovation and Competitiveness (HERIC) project, a study mapping Montenegro's scientific and research diaspora was adopted by the Government in November aimed at stimulating the return of scientists abroad to engage in the research community in Montenegro.

On **Innovation Union**, new legislation on innovation activities has yet to be adopted.

#### 4.26. Chapter 26: Education and culture

*The EU supports cooperation in education and culture through funding programmes and through the open method of coordination. Member States must also prevent discrimination and facilitate education of children of EU migrant workers.*

There is a **good level of preparation** in this chapter. **Some progress** was made in education; the national qualifications framework is now referenced with the European Qualifications Framework. In the coming year, Montenegro should in particular:

- continue with curricular reform in primary and secondary education to teach basic and transversal skills and focus on learning outcomes; improve teacher education accordingly;
- revise enrolment policies for vocational and higher education.

On **education, training and youth**, a new law on higher education was adopted in October 2014. It provides for non-discriminatory access to education for EU and Montenegrin nationals and introduces stricter criteria on quality assurance, study programmes and financing. Concerning students with disabilities, the law also includes the principle of affirmative action for enrolment, as well as exemption from tuition fees. Implementation of the new law should be ensured.. An external evaluation report on higher education programmes and labour market relevance carried out by the European University Association was adopted by the government in December. Its recommendations should be followed up, with employers actively engaged in the process. Several allegations of plagiarism of master's and PhD theses are under investigation.

Montenegro's national qualifications framework (NQF) is now harmonised with the European Qualifications Framework. In line with the NQF, Montenegro needs to revise and implement outcome-based curricula at all levels of education. Teacher-training programmes should be modernised to result in basic and transversal skills being taught.

The annual budget for education is just above 4% of GDP. Statistics for 2013 show that participation in life-long learning programmes (aged 25-64) remains limited at 3.1 %. The figure for early school leavers (age 18-24) in 2013 was 5.7%, well within the EU 2020 goal of <10%. The rate of youth unemployment with tertiary education in 2014 was 28.2%. Numerous teacher seminars were held to address the low 2012 PISA results. Reform planning to rationalise entry from vocational to higher education should continue. Awareness-raising activities were carried out on the importance of pre-school education (enrolment was 35.8% for 2013-14 school year). Further actions must be taken to provide adequate support services for children with special education needs.

The government's professional development training programme for graduate traineeships of nine months is now in its third year of implementation. An evaluation survey by employers shows that 20-25% of trainees were employed upon completion of the traineeship each year.

Montenegro participates actively in the Erasmus+ programme and major information days were held promoting its opportunities.

On **culture**, the 2015 action plan to implement the national programme for the development of culture and the 2015 programme for the protection and preservation of cultural assets were adopted. The memorandum of understanding on Montenegro's participation in the 'Europe for citizens 2014-2020' programme was signed in October. Montenegro's participation in Creative Europe and the Media Programme could be improved.

#### 4.27. Chapter 27: Environment and climate change

*The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.*

Preparations in this area are still at an **early stage**. Montenegro made **some progress** on aligning and implementing legislation on environment and climate change.

In the coming year, Montenegro should in particular:

- further step up its strategic planning on climate change and start implementing its intended nationally determined contribution to the expected 2015 Paris Climate Agreement;
- strengthen its administrative and coordination capacity and intensify its work on strategies and action plans;
- make resolute efforts to protect and manage the Ulcinj Salina nature and bird reservation site, in line with the requirements of nature conservation.

In the area of **horizontal legislation**, the new law on the **environment** is still to be adopted. Montenegro needs to do more both at national and local level to carry out environmental impact assessments (EIA) and strategic environmental assessments. On access to environmental information, the three Aarhus Centres have continued to function well. Montenegro has taken some steps to improve cooperation with civil society organisations, but more work is needed to achieve a satisfactory level of cooperation.

On **air quality**, Montenegro amended in July its law on air quality, to align more closely with the *acquis*. The national network of air quality monitoring was expanded in March with the opening of five pollen monitoring stations.

In July, the government adopted the national strategy for **waste management** until 2030 and the national waste management plan 2015-2020. The law on waste management needs to be adopted.

On **water quality**, amendments to the law on waters to further align with the *acquis* were adopted in July. The Ministry of Agriculture adopted the 2015 programme to encourage projects in the water sector.

On **nature protection**, in February the government adopted the 2015 forest management programme. In April, Montenegro designated its first regional park: the 'Piva' regional park in the municipality of Plužine. This will increase the percentage of Montenegrin territory that is protected. The government also took some initial steps to protect the Ulcinj Salina nature and bird reservation site. Resolute efforts are needed to protect this site by preserving its ecosystem, implementing sustainable management of the site compatible with the nature protection requirements and ensuring legal protection. Investments in hydropower need to ensure that EIA, water legislation and nature protection obligations are respected, especially

for national protected areas and areas of high natural value that could potentially become protected Natura 2000 sites.

On **industrial pollution control and risk management**, amendments to the law on integrated prevention and control of environment pollution were adopted in July.

On **chemicals**, in January the government adopted the 2015-2018 national strategy for the management of chemicals. The amendments to the law on flammable liquids and gases were adopted in July.

In March, parliament ratified the agreement between Montenegro and the EU on Montenegro's participation in the EU **Civil Protection** Mechanism.

On **climate change**, Montenegro made some progress on legislative alignment and on implementation, in particular on fuel quality, ozone-depleting substances and fluorinated gases through amendments to the law on air protection. The law should also enable the Environment Agency to improve its monitoring and reporting of greenhouse gases emissions, and enable alignment with the EU monitoring mechanism regulation. The government submitted a Second National Communication under the UN Framework Convention on Climate Change in May 2015 and adopted and submitted its intended nationally determined contribution (INDC) to the expected 2015 Paris Climate Agreement. INDC is part of the Climate Strategy, also adopted in September 2015. Their implementation should be consistent with the EU 2030 Framework. Significant efforts are also needed to integrate climate action into all relevant sectoral policies and strategies. Montenegro needs to continue paying attention to adaptation to climate change.

Steps were taken to improve coordination and strengthen **administrative capacity** with the creation of two new Directorates-General within the Ministry of Sustainable Development and Tourism, and the recruitment of staff. Administrative capacity must continue to be strengthened throughout all sectors.

#### **4.28. Chapter 28: Consumer and health protection**

*EU rules protect consumers in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, patients' rights and communicable diseases.*

Montenegro is **moderately prepared** on consumer and health protection. **Some progress** was made in this area. However, substantial further alignment of legislation is needed in order to meet EU standards and quality on both consumer protection and public health.

In the coming year, Montenegro should in particular:

→ do more to improve health promotion and prevention and achieve sustainable improvement in patient safety and the quality of healthcare.

As regards **consumer protection**, in February Montenegro adopted the annual action plan to implement the 2012-2015 national consumer protection programme. Consumer representation in the first collective lawsuit launched by the Consumer Protection Centre (CEZAP) increased to 300; to date, one hearing has been held. Implementing legislation was adopted for the consumer protection law. More public awareness of the banking ombudsman and the possibility to seek out-of-court settlements is needed, as well as additional support for civil society organisations in the field of consumer protection. The number of inspections (safety and non-safety related) performed by the Administration for Inspection Affairs and of consumer complaints has increased, as has the number of irregularities found following such inspections and complaints.

On **safety**-related issues, the law on general product safety was adopted in October. Further amendments are necessary to this law, as well as the law on consumer protection, to achieve full alignment with the *acquis*. In addition, administrative and enforcement capacity needs improving to ensure correct implementation.

On **non-safety related issues**, more work is needed on consumer education and information.

**Public health** promotion for disease prevention and the implementation of e-health remains insufficient. The death of a new-born baby and infections at the Bijelo Polje hospital led to the resignation of the Minister of Health and to demonstrations for better health governance and transparency. On **tobacco control**, the law allowing smoking in public places was extended until 1 January 2017. This needs to be addressed to meet EU recommendations on the prevention of smoking and on smoke-free environments.

The 2015 **communicable disease** programme for mandatory immunisation was adopted and a multi-sectoral committee for surveillance and reporting of Ebola was set up. Montenegro needs to further align its legislation with the *acquis* on communicable diseases, to ensure adequate capacity for its implementation and prepare for participation in the EU Surveillance System and reporting to the EU communicable diseases networks. Montenegro needs to provide sustainable financing for services dealing with HIV/AIDS and to improve capacity for and provision of psychosocial support and help to patients with chronic diseases.

Montenegro needs to do more to implement its national **drug abuse prevention** strategy, especially among young people, and civil society needs to be actively involved in the National Council for the prevention of drug abuse. National capacity on **non-communicable diseases** was strengthened to manage and implement screening for early detection of alcohol abuse. Consultations started on implementing the national early detection and treatment programme for breast cancer and cervical cancer.

On **blood, tissues, cells and organs**, activities took place to support the establishment of a modern blood transfusion system, based on EU quality and safety standards. A new Blood Transfusion Institute has been opened but is not yet fully functional. Blood handling, blood component and tissue and cell facilities need upgrading and restructuring to meet EU quality and safety standards and voluntary blood donation needs more promotion. Montenegro needs to align its legislation with the *acquis* on substances of human origin and to provide adequate administrative capacity to implement and enforce legislation covering blood, tissues, cells and organs.

Montenegro needs to improve its mechanisms for the sound implementation of the law on **patients' rights in cross-border healthcare** and raise awareness on this subject and on existing procedures. Preparations to establish legal bases and sufficient administrative capacity for EU cross-border healthcare are still at an early stage. An action plan to improve the quality of **mental health** care was adopted in July. Community services also need to be strengthened and sufficient financial resources provided. On **health inequalities**, activities have been carried out to inform the Roma population about their right to healthcare in all health facilities. A working group has been established to prepare the relevant framework and develop appropriate training to standardise the profession of Roma health mediator.

#### 4.29. Chapter 29: Customs union

*All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment as well as adequate implementing and enforcement capacity and access to the common computerised customs systems.*

Montenegro is **moderately prepared** for customs union. **Some progress** was made on customs legislation. In the coming year, Montenegro should in particular:

- ensure full implementation of business and IT strategies for the customs authorities;
- step up preparations for possible accession to the Convention on a common transit procedure, accompanied by the necessary capacity-building.

On **customs legislation**, the decree on the conditions and procedures for exercising the right to exemption from customs duties was adopted in March, further aligning Montenegrin provisions on duty relief. The customs tariff was updated in line with the 2015 version of the EU's combined nomenclature. Progress was also made with the adoption in June of implementing legislation for the authorised economic operator programme. Areas where further harmonisation is required include transit, intellectual property rights, drug precursors, customs' risk management and security aspects. As of February, the rules of origin in the Stabilisation and Association Agreement are harmonised with the Regional Convention on pan-Euro-Mediterranean preferential rules of origin.

In January, the customs administration became fully responsible for the administration of excise duties, taking over the tasks previously performed by the tax administration. As regards its **administrative and operational capacity**, the customs administration strengthened the risk analysis system by developing its IT capacity. Despite such improvements, the IT units remain understaffed and full implementation of the business and IT strategies needs to be ensured. More work is also needed to increase the customs authorities' operational capacity to apply simplified procedures and security measures. Finally, Montenegro should prioritise preparations for the implementation of a customs transit system in compliance with the EU's new computerised transit system. The agreement between the EU and Montenegro on participation in the Customs 2020 programme entered into force in December 2014.

#### 4.30. Chapter 30: External relations

*The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.*

Overall, Montenegro has reached a **good level of preparation** on external relations. **Some progress** was made on trade and Montenegro acceded to the WTO Government Procurement Agreement. Preparations on development and humanitarian aid remain at an early stage. In the coming year, Montenegro should in particular:

- complete the alignment of its legislation with the *acquis* on exports of dual-use goods.
- put together an action plan for its remaining preparations in terms of legislative alignment, bringing international agreements into conformity with the *acquis* and enhancement of administrative and control capacity.

On **common commercial policy**, in October 2014 the WTO Committee on Government Procurement adopted a decision on Montenegro's accession to the Government Procurement Agreement. In May, Montenegro's parliament ratified this decision. Amendments to the law on foreign trade were adopted in December, to further align legislation with the *acquis*. In June the control list on dual-use goods was brought in line with Regulation 1382/2014.



Further alignment with the *acquis* of the law on control of exports of dual-use goods is needed. Administrative and control capacity should be further improved.

Regarding **bilateral agreements with third countries**, Montenegro's negotiations with Russia on the protocol to the free trade agreement, and related negotiations with Belarus and Kazakhstan, were stalled by Russia after Montenegro aligned with the EU sanctions in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine. An economic cooperation agreement was signed with Albania in February. Montenegro is currently negotiating bilateral investment treaties with 12 countries, including four EU Member States. Montenegro continues to play an active role in the Central European Free Trade Area (CEFTA).

Montenegro needs to further improve its institutional and financial capacity on **development policy and humanitarian aid**. Humanitarian contributions are still decided on a case-by-case basis in the absence of a legislative framework. Montenegro has joined the EU Civil Protection Mechanism.

#### **4.31. Chapter 31: Foreign, security and defence policy**

*Member States must be able to conduct political dialogue in the framework of the foreign, security and defence policy, to align with EU statements, to take part in EU actions and to apply agreed sanctions and restrictive measures.*

Montenegro has a **good level of preparation**. **Some progress** was made with the adoption of the law on international restrictive measures. Montenegro continued to participate in civil and military crisis management missions and to align itself with relevant EU positions.

The regular **political dialogue** between the EU and Montenegro on foreign and security policy issues has continued (For more information on bilateral relations with other enlargement countries and EU Member States, *see Political criteria — Regional issues and international obligations*).

On the **common foreign and security policy** (CFSP), Montenegro aligned, when invited, with all relevant EU declarations and Council decisions (100 % alignment). This included implementation of restrictive measures in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine. In December 2014, parliament adopted the law on international restrictive measures. (As regards the International Criminal Court, *see Political criteria — Regional issues and international obligations*.)

Montenegro continued to participate in some, but not all, international export control arrangements and instruments concerning **non-proliferation**. In March, parliament adopted the law on ratification of the Convention on Nuclear Safety. Montenegro continued to comply with international commitments on small arms and light weapons, including the aims of the EU strategy on this subject.

On **cooperation with international organisations**, preparations for NATO membership are under way, particularly in the area of security sector reform.

On **security measures**, the EU-Montenegro security agreement continues to be implemented smoothly. Montenegro should continue to align with the EU security rules.

Montenegro continued to participate in **civil and military crisis management** missions under the **common security and defence policy** (CSDP), in particular EU NAVFOR Atalanta and EUTM Mali. Montenegro took part in UN operations, in particular UNFICYP. Montenegro also participated in the International Security Assistance Force (ISAF) mission in

Afghanistan. After the mandate of the ISAF expired at the end of 2014, the officers deployed by Montenegro continued to serve in the NATO-led Resolute Support mission.

#### 4.32. Chapter 32: Financial control

*Based on international standards, EU financial control rules promote sound financial management of national income and expenditure. They also protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.*

Montenegro is **moderately prepared** on financial control. **Good progress** was achieved in the past year in all areas. The managerial accountability principle is not yet fully embedded in the management culture and responsibilities are rarely delegated. Significant efforts are needed to implement public internal financial control (PIFC) in public administration and in state-owned enterprises. In the coming year, Montenegro should in particular:

- ensure systematic implementation of the government's recommendations following the annual PIFC review to strengthen the internal control framework at central and local levels;
- improve capacity of the State Audit Institution and increase performance audit work;
- ensure implementation of the new national anti-fraud strategy.

##### Public internal financial control

Montenegro is implementing its 2013-17 PIFC **strategy and action plan**, to be updated in line with the new public financial management reform programme (2016-2020). Links to PIFC need to be further strengthened in the new PAR strategy, particularly on the delegation of responsibilities. The Central Harmonisation Unit reports annually on implementation of the strategy to the government, which adopts conclusions. While most of the conclusions on the 2013 report were addressed, only 14 % were fully implemented.

The **Central Harmonisation Unit (CHU)** is responsible for methodological guidance, training and monitoring of implementation of the PIFC legislation. Its capacity is gradually improving and increase focus on methodological guidance and monitoring. In June it published its first consolidated report on the public sector's internal financial control system. It provides a realistic picture of the state play and the challenges to further implementation..

The PIFC law regulates **financial management and control (FMC)** in line with the Committee of Sponsoring Organisations (COSO) Internal Control framework and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). The amendments adopted in December provide an opportunity to improve delegation of responsibilities within organisations. More efforts are needed to integrate risk management into regular governance processes. Managers responsible for FMC are high-level officials, but their involvement in practise remains limited. Pilot mapping of internal control processes was launched at central and local level, and needs to continue on a larger scale. Few budget users have finalised FMC rulebooks. There are serious challenges at local level, where large arrears indicate internal control failures. The 2014 law on budget and fiscal responsibility provides for a **centralised budget inspection** function to act on reports or suspicions of fraud and corruption in financial management. Implementing legislation is still to be adopted.

**Internal audit** is governed by the PIFC law, in line with the international standards. Internal audit capacity continues to be an issue of concern. Most public sector entities legally required to establish an internal audit unit have done so, but some have no staff. There was progress on the certification: over 75 % of auditors are now certified by either national or international certification schemes. A structured in-service training programme needs to be put in place.

## External audit

Montenegro's **constitutional and legal framework** ensures independence of the State Audit Institution (SAI), in line with the INTOSAI standards. The president and four members of SAI's senate, nominated by parliament, have immunity by virtue of their office, cannot be members of a political party and are not allowed to have any other professional activity.

The SAI's **institutional capacity** continues to be an issue of concern. The SAI should have 83 staff in total. To date, the SAI has 39 auditors, which is half the number of auditors foreseen. This is insufficient for the SAI's responsibilities, including a 20 % increase in the number of audits in its 2015 audit plan. Limited office space restricts recruitments. The SAI made progress in implementing its 2012-2017 strategic development plan and adopted new rules of procedure in January. It has a structured training policy, including a certification programme: 70 % of external auditors are certified. The SAI foresees an internal audit function and is in the process of recruiting its first internal auditor.

The SAI improved the **quality of audit work** in January by adopting new methodologies for financial and regularity audits and for performance audits, in line with the international standards of the Supreme Audit Institutions (ISSAI) and the guidelines on audit quality control. It is shortly expected to adopt a revised code of ethics. It has started to assess the internal control environment of audited bodies and has provided recommendations. The SAI's first performance audit was published at the end of 2014. However, its capacity to conduct performance audits needs to be significantly strengthened and coverage increased.

On the **impact of audit work**, SAI reports are public and its cooperation with media and non-governmental organisations is improving. However, the implementation of its recommendations needs to improve. The government set up a formal mechanism to follow up on external audit recommendations but it lacks transparency and no time limits are in place for addressing weaknesses. Parliament's capacity to ensure effective scrutiny over the whole budgetary process, including SAI audit reports and recommendations, needs to be improved.

## Protection of the EU's financial interests

Montenegro has reached a high level of **acquis alignment**. Montenegro's **national anti-fraud coordination service (AFCOS)** was established in 2013 under the direct authority of the Minister of Finance as a coordination body for the AFCOS network, which includes 13 different institutions and services. However, the AFCOS' capacity needs to be significantly strengthened. A national anti-fraud strategy was adopted by the government in April. **Cooperation with the European Commission** has been established. Montenegro has adopted procedures on the reporting of irregularities and suspected fraud cases for all bodies involved in the management of EU funds. The first AFCOS report was submitted in February. On-line reporting through the European Anti-Fraud Office (OLAF) Irregularity Management System has been established and training has been provided in this respect.

## Protection of the euro against counterfeiting

There is a high level of **acquis alignment** on definitions, competent authorities and procedures to deal with counterfeit money. In October 2014, a decision on medals and tokens was adopted. A law on the ratification ratify the 1929 International Convention for the suppression of counterfeiting currency is in parliament for adoption.

**Technical analysis** of suspicious euro banknotes and coins is performed by the Central Bank, which set up three national centres for this purpose. Cash handlers are obliged to check the authenticity of euro notes and coins and to withdraw all 'suspicious' money from circulation immediately. A failure to report is punishable under the Criminal Code. Cash handlers in

commercial banks and the post office are trained to systematically use devices to detect counterfeits. Montenegro participates in international cooperation on counterfeiting prevention and information sharing. The Central Bank has **cooperation agreements** in place with the European Commission and the European Central Bank.

#### **4.33. Chapter 33: Financial and budgetary provisions**

*Rules for funding the EU budget provide for contributions based mainly on the gross national income of each Member State as well as from value-added tax and customs duties.*

Preparations in this area are at an **early stage**. There was **some progress** on financial and budgetary provisions.

Montenegro's rules of administration for the own resources system, including **traditional own resources**, the **value added tax-based resource** and the **gross national income-based resource**, are not yet aligned with the *acquis*. (*For developments in the underlying policy areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

On **administrative infrastructure**, the administrative capacity of the institutions in policy areas that indirectly affect the own resources system (customs, taxation, statistics, financial control) needs to be further strengthened.

The department established to coordinate and manage the EU's own resources needs to become fully operational to ensure the correct calculation, accounting, forecasting, collection, payment and control of own resources and reporting to the EU on the implementation of the EU's own resources rules.

## Annex I – Relations between the EU and Montenegro

Within the framework of the **accession negotiations**, by September 2015, 20 chapters, including chapters 23 and 24 on the rule of law, had been opened, two of which, i.e. science and research, and education and culture, have been provisionally closed.

Montenegro is participating in the **Stabilisation and Association Process**. Overall, Montenegro continued to broadly implement its obligations under the **Stabilisation and Association Agreement (SAA)**. On 1 December 2014, the Protocol to the Stabilisation and Association Agreement between the European Communities and their Member States, on one side, and the Republic of Montenegro, on the other side, to take account of the accession of Croatia to the EU, entered into force. It had been applied provisionally since 1 July 2013.

Regular political and economic dialogue between the EU and Montenegro has continued through the SAA structures. The Stabilisation and Association Council met in June 2014 and the Stabilisation and Association Committee in December 2014. Various subcommittee meetings have been held since October 2014, plus two meetings of the Stabilisation and Association Parliamentary Committee, in December 2014 and April 2015.

Montenegro participates in ministerial dialogue between the economic and finance ministers of the EU and the candidate countries, which aims at helping the latter gradually meet the economic accession criteria and be better prepared in terms of economic reforms, competitiveness and job creation. The most recent meeting was held on 12 May 2015, where joint recommendations were adopted.

**Visa liberalisation** for citizens of Montenegro travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented in the last quarter of 2015. A **readmission agreement** between the European Union and Montenegro has been in force since 2008.

The EU provided financial assistance to Montenegro under the **Instrument for Pre-accession Assistance (IPA)** for the period 2007-2013, with a total allocation to Montenegro of € 235.7 million. The implementation of the IPA Components I and II continues to be managed by the EU Delegation in Podgorica, while management for Components III and IV was conferred to Montenegro.

Under IPA II, Montenegro will continue to benefit from pre-accession assistance for 2014-2020 in line with the priorities set out in the Indicative Strategy Paper, with a total indicative allocation of € 270.5 million. The Framework Agreement for IPA II entered into force in June.

The 2014 action programme for Montenegro provides € 35.7 million to support efforts on rule of law and public financial management, and to address key requirements of the accession negotiations over a broad number of chapters (and to improve safety in the transport sector).

Montenegro continues to benefit from support under the IPA multi-country and regional programmes. It continues to participate in five cross-border cooperation programmes with neighbouring Western Balkan countries and in transnational cooperation programmes with Member States under the European Regional Development Fund and the IPA Adriatic cross-border programme.

Montenegro participates in the following EU programmes, with IPA support: Erasmus+, Creative Europe (Culture and Media strands), Employment and Social Innovation, Horizon 2020, Customs 2020, Fiscalis 2020, Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME).

## Annex II – Statistical Annex

### STATISTICAL DATA (as of 7.09.2015)

#### Montenegro

<b>Basic data</b>	Note	2002	2010	2011	2012	2013	2014
Population (thousand)		608	619b	620	620	621	622
Total area of the country (km <sup>2</sup> )		13 812	13 812	13 812	13 812	13 812	13 812

<b>National accounts</b>	Note	2002	2010	2011	2012	2013	2014
Gross domestic product (GDP) (million euro)	1)	1 360	3 104	3 234	3 149	3 327	3 379p
GDP (euro per capita)	1)	2 209	5 011	5 211	5 063	5 356	5 436p
GDP (in Purchasing Power Standards (PPS) per capita)	2)	:	10 200	10 600	10 300	10 700	10 600p
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	2)	:	40	41	39	40	39p
Real GDP growth rate: change on previous year of GDP volume (%)		1.9	2.5	3.2	-2.5	3.3	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		:	9.3	9.5	8.8	9.8	:
Industry (%)		:	14.8	12.2	12.4	13.8	:
Construction (%)		:	5.9	5.8	5.5	5.0	:
Services (%)		:	70.1	72.4	73.3	71.4	:
Final consumption expenditure, as a share of GDP (%)		105.8	105.6	104.0	105.2	101.3	:
Gross fixed capital formation, as a share of GDP (%)		14.6	21.1	18.4	18.5	19.2	:
Changes in inventories, as a share of GDP (%)		4.1	1.7	-0.3	1.0	-0.3	:
Exports of goods and services, relative to GDP (%)		35.3	34.7	42.7	44.1	41.8	:
Imports of goods and services, relative to GDP (%)		59.8	63.1	64.9	68.8	62.1	:

<b>Business</b>	Note	2002	2010	2011	2012	2013	2014
Industrial production volume index (2010 = 100)		111.1	100.0	89.8	83.5	92.3	81.8
Number of active enterprises (number)		:	:	:	:	:	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	:	:	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	:	:	:	:	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
Total value added (in the non-financial business economy) (EUR million)		:	1 870	:	1 133	1 271	:

<b>Inflation rate</b>	Note	2002	2010	2011	2012	2013	2014
Harmonised consumer price index (HICP), change relative to the previous year (%)		:	:	3.3	4.0	1.8	-0.5

<b>Balance of payments</b>	Note	2002	2010	2011	2012	2013	2014
Balance of payments: current account total (million euro)	3)	-175	-710	-573	-588	-487	-526
Balance of payments current account: trade balance (million euro)	3)	-433	-1 267	-1 306	-1 389	-1 329	-1 376
Balance of payments current account: net services (million euro)	3)	100	464	589	612	653	690
Balance of payments current account: net income (million euro)	3)	76	-22	26	54	66	46
Balance of payments current account: net current transfers (million euro)	3)	82	114	117	135	123	114
of which government transfers (million euro)	3)	:	16	6	18	22	24
**3 year backward moving average of the current account balance relative to GDP (%)	3)	:	-33.5	-22.8	-19.8	-17.0	-16.3
Net inward foreign direct investment (FDI) (million euro)	3)	87.3	552.1	389.1	461.6	323.9	353.9
Foreign direct investment (FDI) abroad (million euro)	3)	0.1	22.1	12.3	20.8	13.0	20.7
of which FDI of the reporting economy in the EU-28 countries (million euro)	3)	0.1	18.9	-9.4	20.6	11.1	14.7
Foreign direct investment (FDI) in the reporting economy (million euro)	3)	87.4	574.2	401.4	482.4	336.9	374.6
of which FDI of the EU-28 countries in the reporting economy (million euro)	3)	73.3	292.7	204.9	219.7	79.8	118.2
**Net international investment position, relative to GDP (%)		:	:	:	:	:	:
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	3)	:	:	:	:	:	1.9

<b>Public finance</b>	Note	2002	2010	2011	2012	2013	2014
***General government deficit / surplus, relative to GDP (%)		:	-4.6	-5.2	-5.9	-2.3	-3.1
***General government gross debt relative to GDP (%)		84.3	40.9	46.0	50.9	58.0	56.7
Total government revenues, as a percentage of GDP (%)		:	:	:	:	:	39.5
Total government expenditure, as a percentage of GDP (%)		:	:	:	:	:	42.5

<b>Financial indicators</b>	Note	2002	2010	2011	2012	2013	2014
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		:	:	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	4)	125	2 166	1 945	1 842	1 966	1 929
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	5)	:	9.63	9.73	9.47	9.36	9.22
Deposit interest rate (one year), per annum (%)	5)	:	3.26	3.02	3.23	2.54	1.86
Euro exchange rates: average of period (1 euro = ... national currency)		1	1	1	1	1	1
Trade-weighted effective exchange rate index (2005 = 100)		:	:	:	:	:	:



Value of reserve assets (including gold) (million euro)		55	416	303	348	424	545
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<b>External trade in goods</b>	Note	2002	2010	2011	2012	2013	2014
Value of imports: all goods, all partners (million euro)		:	1 657	1 823	1 821	1 773	1 784
Value of exports: all goods, all partners (million euro)		:	330	454	367	376	333
Trade balance: all goods, all partners (million euro)		:	-1 327	-1 369	-1 454	-1 398	-1 451
Terms of trade (export price index / import price index * 100) (number)		:	107	102	96	102	101
Share of exports to EU-28 countries in value of total exports (%)		:	57.2	60.2	51.5	41.5	35.8
Share of imports from EU-28 countries in value of total imports (%)		:	42.6	44.3	44.5	44.2	45.8

<b>Demography</b>	Note	2002	2010	2011	2012	2013	2014
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		4.9	2.9b	2.2	2.5	2.5	2.4
Infant mortality rate deaths of children under one year of age (per thousand live births)		10.8	6.7b	4.4	4.4	4.4	4.9
Life expectancy at birth: male (years)		:	73.6	73.3	74.2	74.1	73.9
Life expectancy at birth: female (years)		:	78.5	78.9	78.4	79.0	78.9

<b>Labour market</b>	Note	2002	2010	2011	2012	2013	2014
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	:	:	65.1	67.6
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	:	:	52.6	55.6
Male employment rate for persons aged 20–64 (%)		:	:	:	:	57.8	61.4
Female employment rate for persons aged 20–64 (%)		:	:	:	:	47.5	49.4
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		:	:	:	:	38.7	38.7
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	:	5.6	5.7	4.5	5.7
Industry (%)		:	:	13.0	11.7	11.9	11.1
Construction (%)		:	:	6.0	5.7	5.9	6.5
Services (%)		:	:	75.5	76.9	77.7	76.7
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	6)	:	:	:	:	:	32.8
People employed in the private sector as a share of total employment, persons aged 20–64 (%)	7)	:	:	:	:	:	48.2
Unemployment rate: proportion of the labour force that is unemployed (%)		20.7	19.7b	19.7	19.7	19.5	18.0
Male unemployment rate (%)		:	18.9	19.5	19.3	20.1	17.8
Female unemployment rate (%)		:	20.7	20.0	20.3	18.8	18.2
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		:	:	:	43.7	41.6	35.8
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		:	15.5	15.7	15.6	16.0	14.0
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	:	:	:	:	32.8
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)		:	:	:	:	:	9.0

<b>Social cohesion</b>	Note	2002	2010	2011	2012	2013	2014
Average nominal monthly wages and salaries (national currency)	8)	211	463	479	484	487	479
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		91.6	219.6	226.1	221.6	214.3	206.1
GINI coefficient — see definitions	9)	:	24.3	25.9	26.5	26.2	:
Poverty gap	9)	:	1.1	2.0	2.8	2.4	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	6.6	6.7	6.6	5.1	5.1

<b>Standard of living</b>	Note	2002	2010	2011	2012	2013	2014
Number of passenger cars relative to population size (number per thousand population)		166.8	267.1b	278.2	279.9	287.0	280.1
Number of mobile phone subscriptions relative to population size (number per thousand population)		775	2 260b	1 875	1 595	1 605	1 630

<b>Infrastructure</b>	Note	2002	2010	2011	2012	2013	2014
Density of railway network (lines in operation per thousand km <sup>2</sup> )		18.1	18.1	18.1	18.1	18.1	18.1
Length of motorways (kilometres)		0	0	0	0	0	0

<b>Innovation and research</b>	Note	2002	2010	2011	2012	2013	2014
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.74	:	0.32	:	0.38	:
Percentage of households who have internet access at home (%)		:	:	51.4e	55.0e	55.8e	63.6

<b>Environment</b>	Note	2002	2010	2011	2012	2013	2014
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2005 constant prices)	2)	:	522	488	474	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	55.5	65.8	:
Road share of inland freight transport (based on tonne-km) (%)		51.7	52.5	43.1	51.0	100.0	100.0

<b>Energy</b>	Note	2002	2010	2011	2012	2013	2014
Primary production of all energy products (thousand TOE)		:	690	700	684	761	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		:	426	434	393	372	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		:	305	443	373	239	:
Gross inland energy consumption (thousand TOE)		:	994	1 143	1 057	1 000	:
Electricity generation (thousand GWh)		2.3	4.0	2.7	2.8	3.8	:

<b>Agriculture</b>	Note	2002	2010	2011	2012	2013	2014
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		106	:	:	:	:	:
Utilised agricultural area (thousand hectares)	10)	518p	221b	223	223	223	:
Livestock numbers: live bovine animals (thousand heads, end of period)	11)	183e	96	87	85	89	94
Livestock numbers: live swine (thousand heads, end of period)	11)	22e	11	21	18	20	22
Livestock numbers: live sheep and live goats (thousand heads, end of period)	11)	241e	198	232	230	220	237
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)	12)	198e	143	202	159	182	192
Harvested crop production: cereals (including rice) (thousand tonnes)	13)	5p	4b	6	5	8	:
Harvested crop production: sugar beet (thousand tonnes)		:	:	:	0	0	:
Harvested crop production: vegetables (thousand tonnes)	13)	:	40	36	34	42	:

: = not available

b = break in series

e = estimated value

p = provisional

\* = Europe 2020 indicator

\*\* = Macroeconomic Imbalance Procedure (MIP) indicator

\*\*\* = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes:

- 1) 2014: source, Eurostat.
- 2) Source: Eurostat.
- 3) 2013 and 2014 (where available): based on balance of payments manual edition 6 (BPM6).
- 4) Loans include total banks' loans granted to non MFI residents and other claims (factoring and forfeiting, claims on outstanding bills of acceptance, guarantees and bills of exchange). 2002: excludes other claims.
- 5) Weighted average effective interest rate, outstanding amounts.
- 6) Data of NGOs are excluded.
- 7) Comprises data of private companies or enterprises, entrepreneurs and private households.
- 8) 2002: in German marks (DEM).
- 9) World Bank methodology, by consumption approach, source: MONSTAT (release Poverty Analysis of Montenegro), link <http://www.monstat.org/eng/page.php?id=340&pageid=73>.
- 10) Based on the reports of agricultural organisations (agricultural enterprises and cooperatives) engaged in crop production and estimates for private agricultural holdings.
- 11) Including livestock held by enterprises, cooperatives and households.
- 12) In million litres. Net quantity, from enterprises, cooperatives and households.
- 13) Including production of enterprises, cooperatives and households.