

BTI 2012 | Montenegro Country Report

Status Index	1-10	7.28	# 27 of 128	
Political Transformation	1-10	7.60	# 29 of 128	➔
Economic Transformation	1-10	6.96	# 31 of 128	➔
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scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	0.6	HDI	0.771	GDP p.c.	\$	13016
Pop. growth ¹	% p.a.	0.2	HDI rank of 187	54	Gini Index		30.0
Life expectancy	years	74	UN Education Index	0.802	Poverty ³	%	<2
Urban population	%	59.5	Gender inequality ²	-	Aid per capita	\$	120.8

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

Executive Summary

During the period under review, the Democratic Party of Socialists (DPS) continued to be the single most important and dominant political force in Montenegro. The parliamentary elections on 29 March 2009 represented the second electoral contest held in Montenegro since the country regained independence. The ruling coalition, comprised of the DPS, the Social Democratic Party (SDP), the Bosniak Party (BS) and the Croatian Civic Initiative (HGI), won 48 of 81 seats in parliament and thus strengthened its position. Local elections in 14 Montenegrin municipalities held on 23 May 2010 resulted in another big victory for the DPS and its coalition partners.

In December 2009, the North Atlantic Treaty Organization (NATO) invited Montenegro to join its Membership Action Plan, and in December 2010, the European Union granted the country candidate status. This decision reflects the progress Montenegro has made in previous years, yet as of January 2010 many challenges still remained. Provisions on the representation of ethnic minorities in election laws still do not comply with the constitution; parliament lacks the capacity to fulfill its legislative and oversight role; public administration requires further professionalization and depoliticization; the judicial system still lacks sufficient independence, autonomy and accountability; the legal framework for combating corruption is still incomplete and corruption cases are not effectively investigated, prosecuted and brought to conviction; the fight against organized crime needs to be intensified; media freedom is constrained by political intervention and economic dependence; cooperation between the government and civil society is weak; and anti-discrimination laws and policies are not in line with European or international standards. In September 2011, parliament extended parliamentary representation to all ethnic minorities, and the parliament's capacity was also expanded in the course of 2011.

History and Characteristics of Transformation

A tradition of independent statehood in the area of what is now modern Montenegro dates back to the 11th Century. In 1878, the Congress of Berlin recognized Montenegro as the 27th independent state in the world, prior to which for centuries it had been a sovereign principality. The history of Montenegrin independence ended in 1918, when Montenegro unconditionally joined Serbia in a controversial decision of the Podgorica Assembly, and soon afterwards became a part of the Kingdom of Serbs, Croats and Slovenes, later renamed Yugoslavia. From 1918 to 1941, and from 1946 to 1992, Montenegro belonged to Yugoslavia.

Montenegro was the only republic of Yugoslavia that preferred to remain part of a joint state with Serbia in the early 1990s. This policy was not only advocated by the post-communist political elite that emerged victorious in the country's first democratic elections, but also was supported by a substantial part of Montenegrin citizens who felt closely associated with the idea of Yugoslavia. In 1992, Montenegro and Serbia established a Federal Republic of Yugoslavia (FRY) to succeed the Socialist Federal Republic of Yugoslavia (SFRY). While the constitution of the FRY envisaged parity between Montenegro and Serbia in federal institutions, the common state was de facto dominated by Serbia, both economically and politically. Facilitated by wars and nationalist mobilization, Serbia's then president, Slobodan Milosevic, was able to establish a semi-authoritarian system that included Montenegro and that kept him in power until 2000. Milosevic's regime was based on clientelistic networks within the state administration, police, military and the state-dominated economy, all of which enabled him to exercise control over traditional and electronic media, skillfully falsify elections and, thereby, engender the effective fragmentation and isolation of the political opposition. These methods enabled him to control the Democratic Party of Socialists as well as the political leadership in Montenegro.

With the election of the reform socialist politician Milo Djukanovic as president in October 1997, Montenegro increasingly extracted itself from Serbian control and implemented reforms aimed at establishing a market economy. Economic reforms focused on openness, the protection of property rights and freedom of contracts (including the protection of investors), implementing a credible currency (the euro), maintaining low levels of business regulations and taxation, implementing the rule of law and fostering entrepreneurship, private initiatives and innovation. In the wake of the Kosovo war, in August 1999, the Montenegrin government proposed to transform the FRY into a confederation of two states with independent foreign policies. As the Milosevic regime rejected this proposal and unilaterally abolished the equal representation of Montenegro in the federal parliament, Montenegrins boycotted the federal presidential and parliamentary elections in September 2000.

After the fall of the Milosevic regime, Montenegro and Serbia negotiated a loosely integrated "state union" to replace the FRY. The talks were mediated by the European Union, which feared the destabilizing effects of another disintegrating state in the Balkans. Whereas the Montenegrin

government wanted to establish an independent state, Montenegrin opposition parties and most parties in Serbia preferred to preserve a common state framework. Negotiations led to an agreement in 2002 and a constitutional charter in 2003, which defined the state union and its institutions. To accommodate Montenegrin interests, the constitutional charter of the state union envisaged the option of an independence referendum, held three years after the creation of the state union.

On 21 May 2006, the referendum was held and more than 55% of Montenegrin citizens voted for independence. Following its declaration of independence, Montenegro joined the United Nations, the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe, the Partnership for Peace and a number of other international bodies as a sovereign country.

Montenegro is a candidate country for membership in the European Union. Its European perspective was reaffirmed in June 2006 after the recognition of the country's independence by EU member states. In October 2007, Montenegro signed the Stabilization and Association Agreement (SAA) and an Interim Agreement on trade and trade-related issues. Montenegro submitted its application for EU membership in December 2008.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force covers the entire territory. Police and military forces provide security across the country and there are no existing organizations that pose a threat, such as militias or guerrillas.

After the 21 May 2006 referendum on independence, the Montenegro parliament adopted a new constitution with a two-thirds majority in October 2007. According to the constitution, Montenegro is an independent and sovereign state with a republican form of government. The constitution provides the framework for parliamentary democracy and guarantees the independence of the judiciary. It sets out the rules for respecting human and minority rights.

In the period under review, some opposition groups still had yet to accept the results of the referendum and didn't vote for the 2007 constitution. National symbols, especially the country's flag and anthem, remained subjects of dispute, as some opposition parties argued that the symbols do not represent the state's multiethnic and multi-religious character. Therefore, in the political discourse of governing parties, opposition groups are often presented as a threat to the state's continued existence. However, state opposition was perceived as rather theatric and rhetorical and not substantial, as all political actors to date participate in the country's democratic processes and institutions. After the 2009 elections and success in European and Euro-Atlantic integration processes, political consensus over the state's identity is becoming stronger, as political parties moderate their positions.

Interethnic relations in Montenegro are solid. In a 2003 census, 43.16% of citizens identified as ethnic Montenegrins, 31.99% as self-identified Serbs, 7.77% as ethnic Bosniaks, 5.03% as ethnic Albanians, 3.97% as self-identified Muslims and 1.10% as Croats. The Roma, Ashkali and Egyptian (RAE) communities remain the most vulnerable groups; according to the EU Commission's 2010 Analytical Report, members of these groups are at risk of statelessness, due to the lack of personal

Question
Score

Monopoly on the
use of force
9

State identity
8

documents. The EU Commission also stated that a new law on citizenship contains strict naturalization criteria that restrict citizenship opportunities for displaced persons from Bosnia and Herzegovina, Croatia and Kosovo. Negotiations concerning dual citizenship with Serbia and other neighboring countries are in progress. In practice, citizens of Montenegro who obtain Serbian citizenship do not risk losing their Montenegrin citizenship, as Serbia's Ministry of Interior does not share its register of citizens with Montenegrin authorities.

The Montenegrin state is largely secular, but religion has significant influence on politics and decision-making. According to the constitution, religious communities operate separately from the state and are equal and free in the exercise of their religious rights.

According to the 2003 census, Montenegro's three major religious groups are Orthodox Christians (74.2%), divided into two opposing churches, Serbian Orthodox and Montenegrin Orthodox; Muslims (17.7%); and Catholic Christians (3.5%). The remaining 4.5% belongs to other religious groups or atheists/agnostics and those who declare no religious affiliation.

Both Orthodox Churches in Montenegro have backing among the people and in the political establishment. Both the Serbian Orthodox Church (SPC) and Montenegrin Orthodox Church (CPC) enjoy significant political support; the Serbian church receives support from Serbia, while the Montenegrin church is backed by ruling political structures.

The SPC has shown the highest level of interference in affairs of state and politics in recent years. While the SPC is not a political party and doesn't formally support a single party, clergy occasionally interferes directly with democratic procedures at the state level.

Mostly as a reaction to the SPC, the CPC is trying to mobilize citizens by representing itself as one of the cornerstones to safeguarding Montenegrin identity.

The Law on the Legal Status of Religious Communities from 1977 provides a basic legal framework for religious life. However, there are numerous opinions that this law is outdated and doesn't regulate adequately the relationship between the state and religious communities.

All necessary administrative structures, which provide all basic public services, exist and operate throughout the entire territory.

No interference of
religious dogmas
8

Basic
administration
10

2 | Political Participation

Montenegro's 2007 constitution envisaged electoral legislation to be aligned with constitutional provisions on the representation of ethnic minorities and voting rights within six months after the document's adoption. However, the representatives of all parliamentary parties have failed to agree on the shares of seats that would be guaranteed for individual minorities, so the deadline since has been extended five times. A two-thirds majority in parliament is needed to adopt the new election legislation. The most recent deadline as of the time of writing for consensus and a new election law is set for a parliamentary vote on 31 May 2011.

Free and fair
elections

8

The constitution provides that the right to elect or stand for elections shall be granted to every citizen of Montenegro who is 18 years old or older, and who has established residence in Montenegro for a minimum of two years. Representatives to the 81-seat parliament are elected to a four-year term. The election law (Law on the Election of Councilors and Representatives) provides for the allocation of mandates on the basis of a proportional system within a single constituency with a 3% threshold. However, five out of 81 mandates are allocated to a "small" constituency of about 70 polling stations designated for each election by parliament, in areas populated primarily by Montenegrin Albanians. An election list can claim seats in both constituencies if the established 3% threshold is exceeded in both. If a list doesn't reach either threshold, votes from that constituency are reallocated to the other constituency. The existing arrangement for Montenegrin Albanians was introduced in 1998 as a temporary solution, and after that incorporated in the election law despite criticism from the ODIHR.

The election law does not allow individual candidacies. Yet this is not ideal in practice, as a party list is the only way for a candidate to run for a parliamentary seat.

Elections in 2009 and 2010, according to OSCE/ODIHR and domestic observer groups, generally met international standards. However, some shortcomings were observed, mainly related to the legal framework for elections. The election law is still waiting to be harmonized with the constitution, and should define legal mechanisms to guarantee the representation of minorities and address objections by the OSCE/ODIHR and the Venice Commission.

The parliamentary election on 29 March 2009 was the second electoral contest held in Montenegro since the country regained its independence. The ruling coalition, comprised of the Democratic Party of Socialists (DPS), the Social Democratic Party (SDP), the Bosniak Party (BS) and the Croatian Civic Initiative (HGI), won 48 of 81 parliamentary seats and thus strengthened its position.

In addition to the parliamentary elections, elections for municipal assemblies in Budva and Niksic and for the office of mayor in Herceg Novi and in Tivat were held on the same day. Similarly, the ruling coalition won in Budva, Niksic and Tivat, while the opposition won the mayoral election in Herceg Novi. In 2009, another two mayoral elections were held, in Zabljak in August and in Kotor in November, as well as elections for local assembly in Mojkovac in December. In all three elections, the DPS and their allies won. Major opposition parties boycotted local elections in Kotor, Mojkovac and later in Cetinje, arguing that the elections were not free or fair, and that persons associated with organized crime were involved in the electoral process.

In the following months, opposition parties struggled to unify and compete as a coalition in 14 municipal elections held on 23 May 2010. Despite the opposition parties' coalition strategy, the DPS alone or together with its allies won a majority of votes at 12 out of 14 municipalities. The coalition led by the DPS won an absolute majority in seven municipal parliaments, and will hold this position for four years. The opposition in contrast secured an absolute majority in two municipalities, Pluzine and Pljevlja.

In December 2009, parliament amended a law on local government, which set out that mayors would be elected by a vote of councilors from local parliaments. A similar model was in place in Montenegro before 2003, and there are many who feel that this change is a step backwards in the democratization of the electoral process.

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

Effective power to govern

9

Freedom of assembly and freedom of association are guaranteed by the constitution. The constitution prohibits political activity in state bodies and political activity by foreigners and political organizations with headquarters abroad. The freedom of assembly may be temporarily restricted by the decision of a competent authority to prevent disorder or the execution of a criminal offence, a threat to health, morality or security of people and property, in accordance with the law.

Association / assembly rights

9

The freedom of association is further protected and regulated by a law on NGOs, a law on political parties and other guidelines. Montenegro has a large number of NGOs, owing to the law which makes NGO registration easy. There are around 5,500 NGOs registered in Montenegro, but a majority of these exist on paper only.

Montenegro has approximately 70 electronic and print media outlets. With such a figure one might conclude that Montenegro's media is pluralistic and strong; however, the financial sustainability of many outlets is questionable.

Freedom of expression

6

The capacity and independence of public broadcasters is often criticized by both national stakeholders and international organizations, and there is a consensus that the situation needs to improve. The 2002 law on media banned state ownership of the press, yet a majority of shares in the daily newspaper Pobjeda is still owned by the state. As a result of the failure of the country's public broadcasting service (Radio Television of Montenegro) to successfully collect subscriptions, parliament adopted in 2008 a law on public radio broadcasting services, which provided 1.2% of the annual state budget as direct funding to the public broadcaster.

Freedom of expression, freedom of the press, the prohibition of censorship and access to information are constitutionally guaranteed. Still, these freedoms have been compromised by violence against journalists and considerable fines against media outlets for defamation.

In August 2009, the mayor of Podgorica, Miomir Mugosa, and his son clashed with two journalists from the daily newspaper Vijesti who wanted to take a photo of the mayor's improperly parked car. The physical confrontation caused one of the journalists to seek hospital treatment for his injuries. Media outlets and NGOs accused both the police and the prosecution of handling the incident investigation unprofessionally and in a biased manner.

The country's criminal code doesn't meet European media standards, since defamation remains defined as a criminal offence that can merit jail time. However, progress was made in April 2010 when parliament adopted amendments to the criminal code and partially decriminalized defamation, leaving the court free to abolish sanctions if the court ruling is published by the accused media outlet, and stating that journalists will not be sanctioned for defamation if they performed with "needed professional vigilance." The complete decriminalization of defamation has been announced by the government and is in the works for late 2010.

In January 2010, more than two years after the station started broadcasting, TV Vijesti received frequencies that allowed national coverage. The delay was the result of confusion over who was indeed in charge of frequency allocation following new legislation. The Broadcasting Agency used a legal loophole, stating that the law didn't give them the authority to allocate frequencies. The management of TV Vijesti however claimed that the state authorities intentionally obstructed them from obtaining the license. In October 2009, parliament adopted an amendment that precisely regulates the jurisdiction of the Broadcasting Agency, which led to a resolution of the problem and the allocation of the remaining national frequencies.

3 | Rule of Law

According to the 2007 constitution, Montenegro is an independent and sovereign state with a republican form of government regulated by the division of power into legislative, executive, and judicial branches. Legislative power is exercised by parliament, executive power by the government and judicial power by the courts. The relationship between these branches of authority is based on balance and mutual control. Montenegro is represented by the country's president. Constitutionality and legality are protected by the Constitutional Court. The army and the security services are subject to democratic and civil control.

Separation of
powers
7

Parliament is elected through a proportional system based on a single nationwide constituency. Parliament's rules of procedure envisage MP questions and a prime minister's hour, interpellation, vote of confidence and consultative and control parliamentary hearings as tools for exercising parliament's oversight function. However, parliament's capacity to perform its oversight and legislative functions is weak and has met with limited success. Following EU recommendations, in December 2010 parliament adopted an action plan to strengthen its legislative and oversight role.

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

The president of Montenegro is directly elected for a five-year term of office, renewable once. The president is impeachable for any violation of the constitution. The procedure to determine whether the president has violated constitutional rules is initiated by parliament, at the proposal of a minimum of 25 parliamentary members. The Constitutional Court decides on the existence or non-existence of violations. Parliament may impeach the president when the Constitutional Court finds that there had indeed been a violation of the constitution.

According to the country's constitution, the judiciary is an autonomous and independent body. Courts should rule on a legal basis provided by the constitution, laws and confirmed and published international agreements. However, serious concerns exist over the independence of the judiciary as the election of judges and the composition of the Judicial Council as defined in the constitution expose the process to political influence.

Independent
judiciary
6

The Judicial Council, comprised of a president and nine members, is an autonomous and independent authority that works to secure the autonomy and independence of courts and judges. The president of the Supreme Court is the president of the

council. Four members of the council are judges elected by the Conference of Judges, two are prominent lawyers appointed by the president and two are members of parliament elected by parliament. The Minister of Justice is also a member of the Judicial Council. The EU Commission and the legal experts from the Venice Commission attached to the Council of Europe criticized that the structure of the Judicial Council does not guarantee independence from political influence, as six out of 10 members are elected directly or indirectly by parliament and the executive branch. Likewise, a similar problem exists in the role of the state prosecutor.

According to the December 2010 poll by the Center for Democracy and Human Rights (CEDEM), only 45.5% of Montenegrin citizens have confidence in the judiciary, which is the lowest level of confidence when compared to other government branches, including government, the president or parliament. Some 47.2% believe that the European Union's request for a more independent and efficient judiciary is very hard or hard to accomplish. According to the research by the Directorate for Anti-Corruption Initiative in 2010, 42% of citizens believe that corruption is highly present in the judiciary.

Corrupt officeholders are occasionally prosecuted under the law and often attract adverse publicity. Official statistics for 2006–2009 shows that 70 cases of corruption have led to a sentence, including some 37 cases addressing abuse of office.

In 2009 and 2010, some municipal senior officials were arrested on suspicion of corruption and abuse of office, arrests that attracted the attention of media and civil society. In March 2009, police arrested a High Court judge and a municipal secretary in Bijelo Polje on corruption charges. In the municipality of Ulcinj, the head of municipal building inspection and related employees, and the director and eight employees of the municipal cadastre administration were accused of abuse of office and bribery. On 24 December 2010, Montenegrin police arrested the Budva mayor and deputy mayor, Rajko Kuljaca and Dragan Marovic (a brother of former vice-premier Svetozar Marovic), and eight other officials and the owners of a construction company. MP Djordje Pinjatic was arrested three days later. The Special Prosecutor for Organized Crime charged the individuals with abuse of office in connection with the construction of a tourist residential complex in Zavala. The construction of the resort began in 2007, and an NGO discovered the project lacked the necessary permits. Strong public and media pressure eventually led to the reaction of the authorities.

The main challenge of combating corruption in Montenegro is the weak implementation of legislation. A new law on the prevention of conflicts of interest introduced fines and sanctions for individuals who do not declare their assets or declare them falsely. However, according to the European Commission's 2010 Analytical Report, the law is not in line with European standards, as it remains

Prosecution of
office abuse
5

ineffective against parliament members and politicians who accept positions within management of public and private companies. The supervisory role of the conflict of interest commission was also a subject of criticism, as it has no power to verify the declarations of assets by public officials. The Criminal Code was amended in April 2010 to allegedly update the code closer to international anti-corruption standards. Political parties however have failed to comply with requirements for reporting assets and campaign financing.

Following the European Commission's report, the Montenegrin government prepared a draft action plan for the monitoring and implementation of recommendations given in the European Commission's opinion of 16 December 2010, and organized public consultations in January 2011. The plan includes the improvement of an anti-corruption framework, including changes to the conflict of interest law and the Criminal Code.

Civil rights are occasionally violated. Mechanisms by which citizens can seek redress if their rights are violated exist and are exercised in the courts. Although there is no systematic discrimination in Montenegro, the disabled, Roma, sexual minorities and women are still discriminated against. An anti-discrimination law was adopted in July 2010.

Civil rights
8

The constitution of Montenegro prohibits torture, inhuman and degrading behavior, while the Criminal Code prescribes up to five years imprisonment for individuals who commit torture. According to a report by the European Committee for the Prevention of Torture published in 2010, citizens run a significant risk of being ill-treated while in police custody. The government adopted an action plan for the prevention of torture in January 2009. A Montenegrin NGO, the Youth Initiative for Human Rights (YIHR), in 2010 registered 27 reported cases of police torture and a few cases of torture in prison. In 2009, the YIHR registered 24 reported cases of police torture and two cases within the premises of the Institution for Enforcement of Criminal Sanctions in Podgorica. In 2007, the YIHR recorded 24 cases of torture, while 51 cases were reported in 2008. The largest problem in the fight against torture is the low number of investigations and convictions against police officers accused of acts of torture.

A 2010 publication by the Statistical Office of Montenegro indicated that women are discriminated against in many social spheres. There is only one female minister in the government during the period under review. Parliament has nine female MPs and 72 male MPs, while local parliaments in total claim 92 female and 632 male councilors. The situation is similar in the judiciary, in education and other areas, as women are usually underrepresented in senior positions. The average salary of women is 13.8% lower than that of men.

The lesbian/gay/bisexual/transgender (LGBT) population in Montenegro experiences a high level of discrimination. A public opinion survey about homophobia in Montenegro, conducted by the NGO Human Rights Action from Podgorica, shows that 71% of adult citizens consider homosexuality an illness, and every second citizen agrees that homosexuality is very dangerous for society and that state institutions should work to suppress it. Citizens are intolerant toward public displays of homosexuality, as 75% believe that homosexuals should not express their sexual identity in public in events such as a gay pride parade. The experience of LGBT community representatives, who were included in the research, showed that many had suffered some form of physical violence or were victims of discrimination, while violators of their rights and freedoms were mostly teachers, professors, policemen or even members of their own families. The Minister for Minority and Human Rights, Ferhat Dinosa, has openly expressed negative attitudes over LGBT population rights.

4 | Stability of Democratic Institutions

Democratic institutions perform their appropriate functions, but conflict between institutions sometimes produces inefficiencies. Montenegro's legislation has not yet been fully aligned with the country's constitution. In December 2010, parliament for a fifth time extended the legal deadline for harmonizing election legislation with constitutional rules.

Performance of
democratic
institutions
7

Montenegro has a stable system of government that, taken as a whole, functions well. The legal framework establishes a basis for stable institutions that can guarantee democracy, the rule of law and the protection of human rights. Still there is a risk of marginalization of parliament in the legislative process, due to a lack of administrative capacity and the dominance of governing parties in parliament. Parliament however is making certain efforts to strengthen its legislative and oversight role, as requested by the European Union. Regarding local government, limited progress has been made in the process of decentralization. A law on territorial organization still waits to be adopted.

All relevant political and social players accept democratic institutions as legitimate. With the exception of local elections in Kotor, Mojkovac and Cetinje which were boycotted by some opposition parties, all relevant political parties participated in parliamentary and local elections in 2009 and 2010.

Commitment to
democratic
institutions
9

5 | Political and Social Integration

The party system is socially rooted and characterized by moderate fragmentation, limited polarization and comparatively low voter volatility.

Party system
7

The ruling Democratic Party of Socialists (DPS) has led the country, alone or in a coalition, since the first multiparty elections in 1990. Even though the government makeup has changed little for more than 20 years, the DPS has been able to change its politics from within (such as the country's split from Serbia in 1997). At the moment, the opportunity for a change of government through elections seems to be small; more likely is again the DPS changing from within.

Sixteen electoral lists were placed on the ballot in the March 2009 parliamentary elections. Again the ruling DPS-SDP coalition remained in power, and was strengthened by two additional parties, the Croatian Citizen Initiative (HGI) and the Bosniak Party, winning 48 out of 81 parliamentary seats. In contrast, opposition party efforts to unite were a failure. On the eve of the March 2009 elections, several parties, such as newly established parties or other parties resulting from the transformation or fragmentation of existing parties or coalitions, stimulated the political scene. The establishment of the New Serb Democracy (NOVA) resulted from the merger of party sections that participated in the previous Serbian List coalition. NOVA was formed through the reorganization of the Serb People's Party (SNS) and its merging with the People's Socialist Party (NSS), as well as with regional political entities, such as with the People's Movement of Montenegro-League for the North, and partly with officials from the Democratic Center of Boka. Expressing disagreement with the change, some members of the SNS and the Serbian Radical Party (SRS), the Serbian National Council (SNV) and other individuals agreed to participate in the elections as a Serbian National List (SNL). NOVA won eight seats in parliament, while the SNL failed to pass the minimum threshold. Some officials and members of the Movement for Changes (PZP), led by the former vice-president of the party, established a new party called the Democratic Center (DC), and contested the elections in coalition with the Liberal Party (LP), failing to pass the 3% threshold. Although destabilized, the PZP managed to pass the threshold and gained five seats in parliament, which represented a serious loss when compared to the 11 seats the party won in the previous elections. Only the Socialist People's Party (SNP) managed to avoid political fragmentation before the elections, which resulted in its winning 16 seats, a five-seat increase when compared to the 2006 parliamentary elections, when the party contested in coalition with People's Party (NS) and the Democratic Serb Party (DSS). SNP's former coalition partners, the NS and the DSS, jointly failed to pass the required threshold.

Comparisons of election and census results indicate that parties claiming to represent the interests of Montenegro's ethnic Serb citizens have so far not been able to capitalize on uniting this group of voters. The ruling party coalition partners achieved majorities even in municipalities with a high share of self-declared ethnic Serb residents.

The level of polarization of the party system decreased after the 2009 elections, as extreme right parties, such as the SRS, stayed out of parliament. The establishment of NOVA also led to a change of political platform toward more moderate conservative voters, rather than Serbian nationalists.

Electoral volatility is overall moderate. The degree of change in voting behavior between elections is very low among voters for the ruling coalition. Although they may not be enamored with the governing coalition, voters are not shifting their support to the opposition. On the other hand, parts of the electorate have switched allegiance between opposition parties.

There is an average range of interest groups which reflect and represent social interests. These civil society groups have proved to be the most active and efficient mediator between society and the political system (at times more so when unions failed to be effective). Over the last five years, especially after the referendum, civil society organizations have managed to successfully represent certain important social interests while ignoring other social segments (such as LGBT groups, atheists and so on), thus allowing a few strong interest groups to dominate public debate. While there are certain social and political powers that mobilize around ethnic and nationalist interests, none aim to undermine democracy or civil society.

Interest groups
6

Approval of democratic norms and procedures is fairly high. According to the December 2010 public opinion poll by the NGO Center for Democracy and Human Rights (CEDEM), 48.8% of citizens believe that Montenegro “took the right path” in pursuing democracy while 24.9% think that the country chose wrongly. The results of the same poll show that 59.5% of citizens expressed trust in the president, 55.2% in the government, 48% in parliament and only 31.3% in political parties. The level of trust in the country’s democratic institutions remains lower than the level of trust in the education or health system, the church or the military, or even the European Union.

Approval of
democracy
8

There is a fairly high level of trust among the population, and a substantial number of autonomous, self-organized groups and organizations exists. The number of civil society associations (organized around cultural, environmental and social issues) has grown every year. These organizations are voluntary and autonomous. A December 2010 public opinion survey by the Center for Democracy and Human Rights (CEDEM) indicated that some 50.5% of citizens held a fairly high trust in civil society.

Social capital
6

However, the high level of trust among citizens to a significant extent reflects traditional cultural patterns of interactions (such as kinship connections).

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Poverty and inequality are limited in scope and are seldom structurally ingrained. With a gross national income of \$6,650 per capita in 2009 (World Bank figures), Montenegro belongs to a group of lower- to middle-income countries.

Socioeconomic
barriers
6

The country's Human Development Index (HDI) increased from 0.775 in 2002 to 0.828 in 2007. Improvements in HDI are not consistent across different regions and municipalities; where Podgorica has the highest HDI rating of 0.863, the country's northern region has the lowest, at 0.789. Montenegro belongs to a group of countries with high levels of human development. Montenegro in HDI terms ranks better than most other countries in its immediate neighborhood.

Montenegro's Gender Development Index (GDI) in 2007 was 0.824, which is only slightly lower than its HDI of 0.828, indicating a reasonably high level of gender equality. The Gender Empowerment Measure (GEM) is another human development indicator that evaluates the progress in advancing women's standing in political and economic forums. Montenegro's GEM index was 0.478 in 2007, indicating that the country belongs to a group of countries with a high level of human development, showing that further progress in the area of gender equality is needed (UNDP figures).

The poverty rate in Montenegro in 2008 was 10.8% (UNDP). Although the share of the population living below the poverty line has declined from 12.2% (2003), the fact that the confidence intervals overlap shows that poverty has remained stable, despite recorded economic growth. However, extreme poverty outside the most vulnerable groups is minimal, with only 1% of non-Roma, Ashkalia and Egyptian (RAE) and non-displaced person households.

Poverty is lowest in the center of the country and in the south, and significantly higher among the population in the north, both the least populated and the least developed. Overall, more than half of Montenegro's poorest reside in the north (62%). Slightly more than 25% live in the center, and the south has the smallest share of poor individuals (11.1%). The poverty headcount in Podgorica (8.5%) is lower than in Montenegro in general (10.8%). In the north, high unemployment, high illiteracy, especially among the elderly and women, and low-income levels contribute to maintaining high poverty rates. Some population groups are poorer than the others. The RAE group represents the most vulnerable population,

followed by displaced persons and social welfare beneficiaries, pensioners, the long-term unemployed, and persons with disabilities.

The country's Gini coefficient increased to 0.35 in 2008, compared to 0.29 in 2004 (UNDP), which shows increasing inequality.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	3668.9	4519.7	4141.4	4111.1
GDP growth	%	10.7	6.9	-5.7	2.5
Inflation (CPI)	%	4.3	8.8	3.5	0.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	25.5	21.2	36.9	18.5
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	27.5	31.9	40.7	44.1
External debt	\$ mn.	1262.8	1466.4	2314.9	1554.5
Total debt service	\$ mn.	159.5	67.7	71.0	99.2
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	20.6	17.8	19.2	18.9
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	8.1	8.4	9.3	-
R&D expenditure	% of GDP	1.10	-	-	-
Military expenditure	% of GDP	1.5	1.6	1.3	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the rules for market competition are not consistent for all market participants. The informal sector is small.

Market-based
competition
6

The privatization in previous years of the Montenegrin economy was intense. Tax, banking and customs reforms were implemented, followed by the development of a new capital market and the creation of a new private sector. Montenegro exhibits the characteristics of an open economy with free market competition and limited government intervention. The reduction in the tax burden on work has spurred a bid on the Montenegrin labor market. In turn, this has magnified the influx of domestic and foreign investment, leading to the transmission of the informal economy into official channels.

It is very difficult to predict the size and trend of the informal economy. However, the role of informal sector can't be ignored. Personal incentives to become involved in informal economic activities aren't measurable, but conditions that might have an impact on incentives can be identified. The Montenegrin government took several measures against the informal economy, with a key effort being the elimination of business barriers.

There are many significant indicators which show that rules are not equally applied to all market actors; therefore, one can conclude that a strong political impact on the market still exists.

Competition laws which aim to prevent monopolistic structures and conduct exist, but are inconsistently enforced. The legal framework consists of the 2006 law on the protection of competition and an amendment law from May 2007. These laws created the legal framework for establishing and operating an independent body called the Directorate for the Protection of Competition. This has provided the principles of European legislation in the field of competition, a solution that is in accord with the European Union in the process of negotiations over a Stabilization and Association Agreement.

Anti-monopoly
policy
7

In 2008, the government adopted a new strategy in formulating competition policy. The main objective was to provide the market conditions to increase consumer safety and facilitate greater product choice and quality. The strategy precisely defines the manner in which the relevant authority works, whose task it is to effectively apply the legal provisions that help control the abuse of market dominance and mergers, and to ensure that competition works for the benefit of consumers, the common good and economic competitiveness.

In practice however “natural monopolies” do exist in Montenegro. One example is the Montenegrin Electricity Enterprise, which has shifted a significant amount of the costs of modernizing the country’s electricity grid to consumers. The work of the regulatory agency in this field has been criticized, and the Constitutional Court has called the company’s behavior illegal.

Foreign trade is liberalized, tariffs are low and uniform and there are few non-tariff barriers.

The government wants Montenegro to be recognized as a small yet open economy. With this in mind, all customs tariff rates on imports have been reduced significantly. Montenegro also eliminated tariffs on exports and quotas on either imports or exports. However, the signing of the Belgrade Agreement with Serbia in 2002 required Montenegro to increase its tariffs on imports, thus raising the average tariff from 2.81% to 6.13%. This was seen as a step backwards for Montenegrin trade policy. In December 2004, while still part of the State Union, Montenegro submitted a claim for separate accession to the World Trade Organization (WTO). The WTO accepted the proposal, and on 15 February 2005, negotiations started on the separate accession of Montenegro to the WTO. Montenegro adopted the New Law on Customs in December 2005. This law abolished all remaining non-tariff barriers to trade in Montenegro (such as variable levies and seasonal custom rates). Thus, trade policy was further liberalized, despite the increase in the average nominal tariff rate to 6.19%. Montenegro became a member of the Central European Free Trade Agreement (CEFTA). The new agreement was signed in 19 December 2006 at the Summit of the Prime Ministers of Southeast Europe in Bucharest. The new agreement was ratified in March 2007, and came into force on 1 May 2007.

Further progress in WTO accession process has been achieved, based on a foreign trade regime and its implementation. During the four years of negotiations, Montenegro fully harmonized its legislation and established all necessary institutions in accordance with WTO rules and disciplines. Montenegro signed bilateral protocols with many members, such as: members of the European Community, China, Switzerland, Brazil, Norway, Canada, Japan, the United States and others. The final working party meeting, at which all 153 WTO members were to confirm Montenegro’s documentation, or its WTO application package, was planned for mid-January 2009 with a scheduled decision on accession on 3 February 2009 at the meeting of the WTO General Council in Geneva. However, Ukraine blocked Montenegro bid, and has not agreed to sign a bilateral agreement, although trade data has demonstrated that the volume of trade between Ukraine and Montenegro was almost negligible.

The banking system is solid and oriented toward international standards, with functional banking supervision and minimum capital equity requirements. Capital

Liberalization of
foreign trade

9

Banking system

7

markets are open to domestic and foreign capital with sufficient resilience to cope with sudden halts or capital flow reversals. The main institution in charge of supervision and oversight of the financial service sector is the Central Bank of Montenegro. The banking sector is reformed and aligned with international standards. All regulations are in accordance with the Basel Accords and European Union norms. There are currently 11 commercial banks that have a license issued by the Central Bank. Within the Central Bank, there is a department for the control of banks. This department reports on financial indicators of each bank, such as balance sheets and income statements, and ensures bank maintain a minimum share of capital equity in relation to assets, which is required (and especially crucial during the economic crisis). Also, banks undergo a supervisory review process, disclosing information about their economic activities. The Central Bank of Montenegro, to strengthen cooperation with other supervisors to better monitor banking sector risks, has signed many agreements on cooperation with central banks of other (mainly regional) countries.

During 2009, the Central Bank of Montenegro adopted a set of interim measures to mitigate the effects of the global financial and economic crisis. To enhance credit operations and to stimulate banks to actively work on attracting new deposits and returning earlier deposits withdrawn, in June 2009 the Central Bank significantly changed its policy related to required reserves. Banks are exempt from required reserves on all new deposits as compared to the last accounting period. The current required reserve ratio was reduced from 11% to 10%. Interest rates on the use of required reserves were reduced from 4% to the interest rate of the European Central Bank (ECB), for main refinancing operations, and are increased by 0.5% per year. In August 2009 the Central Bank adopted new measures related to more favorable conditions for the rescheduling of loans, the classification of banks' assets and calculation of a lower provision for credit losses. The new measures have been applied only to banks with a solvency ratio and liquidity ratio above the statutory minimum.

The government provided a loan to Prva Banka, Montenegro's largest domestic bank, to prevent it from defaulting. In addition, the Central Bank prohibited the bank's lending activities. Since the bank's majority shareholder is Aco Djukanovic, the former prime minister's brother, opposition politicians and economic experts claimed that state support of a private business connected to the prime minister's close relatives was unacceptable. State officials defended their intervention by arguing that Prva Banka's collapse would have triggered a chain of illiquidity in the market. According to Ljubisa Krgovic, the former governor of the Central Bank of Montenegro and other economic analysts, the Central Bank's intervention led to the governor's dismissal in October 2010.

Securities trading is conducted only on stock exchanges established for the purpose of creating conditions to match the demand and supply of securities. The main

institution in charge of overseeing the capital market is the Securities Exchange Commission of Montenegro. Established capital markets represent not only a mechanism for privatizing state-owned enterprises but also for developing an active trading environment attractive for domestic and foreign investors. It is also anticipated that capital markets make company financing easier.

Initially two stock exchanges were in operation, the NEX Montenegro and the Montenegro Stock Exchange. In late December 2010 the two were merged, and have been operating as a single unit since 10 January 2011. The expectations are that this will provide increased liquidity and efficiency within capital markets and foreign investors will respond positively.

8 | Currency and Price Stability

Inflation and foreign exchange policies are brought in line with other economic policy goals and are institutionalized in the country's largely independent Central Bank. Montenegro uses the euro as its official currency. The advantages of a stable currency were recognized by many investors, as transaction costs associated with the international trade were reduced and political risks were low after euro adoption. However, the unilateral adoption of the euro also implies that Montenegro is not able to improve or adjust its economic competitiveness through currency devaluation.

Inflation in Montenegro was stable during previous years and it relatively low in 2005 and 2006; inflation increased in 2007 and 2008 from 7% to 8%. In 2009 inflation decreased again to 1.5%, which has contributed to the country's relatively stable economic environment and has reduced uncertainty among economic actors. The Central Bank of Montenegro contributes to price stability in the country, publishing reports on price stability and delivering them to parliament and the government, if needed, at least once per year.

The Central Bank of Montenegro is independent in achieving objectives and carrying out its functions as prescribed by law. The Central Bank, members of its agencies and employees act independently in carrying out bank functions and may not accept or seek instructions from the government and other agencies and organizations or other entities. Also, governmental and other agencies and organizations may not exercise influence on the work and decision-making bodies of the Central Bank. However, the Central Bank cannot print money. In 2010 a new Central Bank law was adopted. The members of the Central Bank however were against the new law, as they believed it was not aligned with the Montenegrin constitution and EU legislation.

Anti-inflation /
forex policy

9

The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes. Positive developments in public finances have influenced events in the economy, and on the other hand, events in the economy have had a positive impact on the public sector. At the end of 2005, Montenegro had a budget deficit of -1.8 % of GDP, while 2006 enjoyed a budget surplus of 1.9% of GDP. Tax revenue increased slightly, from 22% of GDP in 2004 to 25% of GDP in 2006. Public debt fell from 88.3% of GDP in 2002 to 36.9% of GDP in 2006. However, fiscal policy focused on fiscal adjustments during the crisis, which resulted in a budget deficit of 2.3% of GDP. In 2009, total budget revenues were 11.5% lower than in 2008 and at the same time 5.6% lower than planned revenues for 2009. This decrease was partially caused by lower revenues from taxes and contributions. Budget expenditures in 2009 were 7.13% lower than planned expenditures. The highest share of total expenditures (around 30%) is allocated to social protection, which increased by more than 11% compared with 2008 figures. However, state subsidies increased most significantly (by almost 170%), which is the direct consequence of state support to mediate the effects of the economic crisis.

Macrostability
7

9 | Private Property

Property rights and regulations on acquisitions, benefits, use and sales are well-defined, but occasionally there are problems with implementation and enforcement under the rule of law. The process of mass voucher privatization was a very important step in developing ideas of ownership and private property in Montenegro. Also, the institutional and legislative framework related to property rights has significantly improved. In its Stabilization and Association Agreement with the European Union, Montenegro committed itself to take the necessary measures to guarantee by January 2013 a level of protection for intellectual, and industrial and commercial property rights, similar to those existing in the European Union.

Property rights
8

Montenegro's legislative framework of property rights is largely aligned with the EU acquis. A number of amendments to the laws are designed to bring the laws into line with the EU acquis.

Foreign investors, companies and individuals may acquire property. The Montenegrin foreign investment law specifically permits foreign investors to purchase real estate through contracts. Additionally, foreign individuals can claim property rights to real estate by inheritance in the same manner as can domestic citizens.

To improve the protection of intellectual property, Montenegro established an Intellectual Property Rights Committee in 2009. The main goal of the committee is

to work closely with Montenegrin institutions that deal with property rights, to increase public awareness of the importance of intellectual property protection and to help strengthening Montenegrin administrative capacities in this field.

Private companies are viewed institutionally as primary engines of economic production and are given appropriate legal safeguards. In 2009–2010, the privatization of state companies proceeded consistently with market principles. The legal framework for a functional private sector exists in Montenegro. More than 90% of the Montenegrin economy is privatized. Along with the privatization process, Montenegro has conducted reforms aiming to improve the overall business environment, resulting in easy business entry and strong incentives for greater entrepreneurship. There is no company in Montenegro which is not owned, at least partially, by private owners, except Montenegro Airlines. In Montenegro, several large companies have been privatized through international tenders, such as the Niksic brewery, Jugopetrol, a steel company, an electricity company, a number of furniture manufacturing companies, many hotels and so on.

Private enterprise
8

Foreign companies may own 100% of a domestic company, and profits and dividends can be repatriated without limitation or restrictions. Foreign investors can participate in the privatization process and can own land in Montenegro. Expropriation of property can only occur for a “compelling public purpose,” and compensation must be made at fair market value. Montenegro adopted a set of business-related laws, all in accordance with EU standards. The regulations over the establishment of new private companies allow them to be founded with a start-up capital of just €1.

10 | Welfare Regime

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

Social safety nets
7

As a consequence, social protection compensation is often not high enough to satisfy the basic needs of poor families. This does have one positive consequence, as relevant households are looking for jobs that will provide them with a source of income to satisfy basic needs.

During the period under review, the state has tried to reduce risks and complete the legal framework of transfers for social assistance. In general, the system of social protection in Montenegro includes health care, pension insurance, worker’s

compensation insurance, disabled insurance, unemployment insurance, child support and the general right to military protection. The complete system is coordinated by two ministries (health and social welfare) through different administrative bodies, each one being in charge of a different segment. Also, system supervision is being put in place, through control of cash flows and reviews. However, concrete data on the results of such work is not available.

Social transfers as a part of overall GDP was 12.1% in 2006, 10.64% in 2007 and 10.5% in 2008, indicating a relative decline in social expenditures. According to 2009 data, the state provides pension funds for more than 100,000 people, clear evidence that the existing system of pension security is unsustainable. A reform of the pension system has been announced.

Women and members of ethnic and religious groups have near equal access to education, public office and employment. There are legal provisions against discrimination, although Roma and individuals from other ethnic minorities often lack the knowledge and means to act against discrimination or use existing opportunities to combat discrimination.

Equal opportunity

7

11 | Economic Performance

Montenegro's macroeconomic indicators include low GDP growth rates, moderate unemployment levels, relative price stability, a slightly unbalanced budget and a tendency toward a manageable current account position. The main factors that contributed to strong economic growth registered in the period prior the global crisis relate to the introduction of the euro as official currency, privatizations (particularly the process of mass voucher privatizations) and tax reform. Also, numerous reforms and structural changes in the field of price and trade liberalization, privatization and stable managed public finance were the main conditions leading to the stimulation of economic growth.

Output strength

7

After independence, for example during 2006–2008, Montenegro was one of the fastest growing economies in Europe, with GDP growth rates of 8.6%, 10.7% and 6.9% during 2006, 2007 and 2008 respectively. Over the several previous years Montenegro's GDP registered a large share of foreign direct investment (FDI), around 25%. Around 85% of state capital is privatized in Montenegro as of the period under review. The banking sector, the country's capital markets and the telecommunications market are 100% privatized. However, Montenegro's economy is still characterized by a lack of diversification and the dominance of industrial aluminum production, rendering it vulnerable to international crises. Continuing privatization in the field of energy and transport is of key importance for the economic competitiveness of the Montenegrin economy.

Due to the global economic crisis, economic activity slowed down by the end of 2008. In 2009, GDP fell by 5.7%, while in 2010 GDP is projected to grow by 0.5%. The sectors that recorded the most significant decreases were industry (-32.2%), construction (-21.8%) and trade (-8.9%). Decreases in these sectors were partially covered by tourism revenues and an increase in FDI, which totaled about €1 billion in 2009. In 2009, inflation measured by CPI was 3.4%. The current account deficit in 2009 in comparison with 2008 recorded a decrease of 42.7% and represented 30% of GDP, due to low domestic production and high demand for foreign products. The budget deficit in 2009 was 2.3% of GDP.

12 | Sustainability

Environmental concerns are taken into account but are occasionally subordinated to growth efforts. Environmental regulations and incentives are in place, but their enforcement is often deficient. The basic legal framework for environmental protection is provided by an environmental law, but the law is not yet fully implemented and a series of bylaws have not been adopted. Inadequate institutional capacities to meet commitments under various multilateral environmental agreements and conventions and to incorporate requirements into the national agenda have led to an unclear delegation of duties among institutions and ministries. What's more, activities among various sectors are confusing, overlapping and complex. This problem was partially solved with the establishment of an Environmental Protection Agency.

The country's planning system allows for the identification of and formation of new natural areas for protection, with the aim to establish a network for protected natural areas nationwide. However, the system has no mechanism for monitoring or controlling the development rate, which has consequences: devastated or endangered natural areas and biodiversity; overpopulated towns under threat of floods and earthquakes; a lack of waste disposal locations, and so on.

Waste management is one of Montenegro's biggest challenges. Despite progress, alignment with European standards is at a very early stage and needs to be sped up. The waste management law and a waste management master plan were adopted in 2008, but the law only entered into force in January 2010. Implementing legislation has been adopted and the future integrated waste management system is in the process of formation, which includes preparatory work for six regional landfills. As the time of writing there is only one modern sanitary landfill; most waste is disposed of in open landfills or multiple unauthorized sites (European Commission 2010).

Protection of the quality and integrity of water resources is also a significant challenge, as the water pollution and inadequate water reservoirs in a karstic region

such as Montenegro can have severe and permanent effects. A special challenge has been the harmonization of legislation with the requirements of the EU Water Framework Directive and creation of preconditions for its implementation, facilitated through the law on waters.

An air quality law has been adopted but implementing measures and air quality standards have yet to be established.

Montenegro has an office for sustainable development, which coordinates the work of five ministries with jurisdiction in this area as well as manages the implementation of the national strategy on sustainable development. Supervisorial bodies in charge of the realization of legal provisions have also been formed. A strategic environmental assessment (SEA) is one of the tools used to ensure sustainable development. Although projects and other actions that have an environmental dimension are brought to the public, a more genuine consultation process which sufficiently incorporates comments and suggestions needs to be formulated.

It is challenging to locate any data to track the implementation of environmental regulations. No data for example exist detailing the amount of funds invested toward the solution of certain environmental problems. Some 0.15% of GDP was invested in environmental projects during 2009, a low percentage when compared to other EU countries and countries in the region.

Education policy ensures a nationwide system of sound education and training, while research and development is deficient. Investment in education and training is average (4.6% of GDP in 2009), while the investment in research and development is rather low (estimated at 0.13% of GDP in 2007). According to the EU Commission's 2009 Progress Report on Montenegro, primary and secondary school enrolment rates remain high. The government adopted a strategy for the establishment of a Montenegrin qualification framework (MQN) for 2008–2010 and a strategy on introducing educational software in schools. The report states that future challenges in the field of education include establishing a national qualification framework, improving recognition of informal learning, strengthening the links between higher education and vocational training and the labor market.

While the level of investment in research was very low, the government plans to increase funds available for both the public and private sector, aiming at a total investment of 1.4% of GDP by 2013. There are no reliable figures available on investment in R&D by the private sector.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

Structural difficulties which constrain leadership management performance have roots in the Yugoslavian state socialist system, but were fully developed during the country's democratic transition of the 1990s and 2000s. During this period, two problems became clearly visible, the country's infrastructural deficiencies and the disappearance of a middle class. The lack of proper infrastructure within political, economic and social spheres slowed the democratization process and enabled a rather non-transparent privatization process. On the other hand, mass pauperization had a permanent effect on the general political culture and civil society of the country. These two constraints combined created issues which still resonate in society. Therefore the structural constraints on governance capacity remain fairly high.

Structural
constraints

6

Traditions of civil society are fairly weak. No institutions of civil society existed during the five decade-long socialist period, which had a direct impact on the current low level of social capital. Civic engagement has had some 15 years to develop, but a culture of participation in public life is almost non-existent. An interesting phenomenon is the number of registered NGOs, some 5,500, of which only a small percentage can be described as active by publicly visible indicators. For example, only 13% of NGOs which receive funding from state and municipal budgets have a website, while only 8% update their Internet presence on a regular basis (according to a Center for Democratic Transition (CDT) research paper, "Financing of NGOs," December 2010). Moreover, most NGOs are established to create temporary job opportunities, rather than being driven by the value and need for civic participation.

Civil society
traditions

5

During the period under review, there were no violent incidents based on social, ethnic and religious lines, given that radical actors failed to mobilize supporters along existing cleavages. Nevertheless, society and political elites are divided along ethnic and religious lines, yet not in an antagonistic but rather an agonistic relationship. The Montenegro independence referendum in 2006 brought to light the rift running through society over the country's identity. This divide has persisted, albeit less intensely. Unlike other countries in the West Balkan region, political actors in Montenegro have managed to sustain and nurture a political

Conflict intensity

2

culture characterized by respect for ethnic differences and diversity. Therefore, the confrontational nature of politics is rather low, while during an election period it becomes more intense along ethnic and cultural cleavages. The polarization of society along these lines however is declining, although some political parties still possess the power to mobilize large groups over national, ethnic and identity issues, while openly opposing conflict based on the same cleavages.

II. Management Performance

14 | Steering Capability

Question
Score

The government sets strategic priorities, but sometimes postpones plans in favor of short-term political goals, while unquestionably maintaining that democracy and a market economy are its overall strategic goals. The ruling political elite have managed to make long-term policy aims and short-term political benefits mutually supportive, and to present party interests as also having national importance. Accordingly, the government has managed to maintain strategic priorities over periods of crisis and stalemate, since any potential serious division between reform drivers and defenders of the policy status quo was bypassed by overall party interests and the unquestionable leadership role of Prime Minister Milo Djukanovic. Within this configuration, actors outside the government were not able to seriously constrain its strategic priorities.

Prioritization
7

A new government was established December 2010. Newly appointed Prime Minister Igor Luksic was very explicit in pointing out that his was a government of continuity, but the facts have shown differently, as his government has embraced media cooperation, promoted cooperation with civil sector and encouraged dialogue with opposition parties. However, the government's strategic priorities have remained the same.

The government has only limited success in implementing its policies. It identified two major policy objectives, European Union and NATO membership. The granting of EU candidate status in December 2010 constituted a major step toward EU membership; whereas the accession to NATO has not been realized due to a lack of public support (only 35.4% supported the cause in December 2010, according to the Center for Democracy and Human Rights (CEDEM)). The government pursues a Euro-Atlantic plan, yet it avoids placing it squarely on its agenda in exchange for short-term political benefits, such as retaining voters who may oppose Montenegrin NATO membership. However, the government and ministries are strongly dedicated to European and Euro-Atlantic integration.

Implementation
7

Nevertheless, while democratic legislation is adopted, implementation in certain areas (such as anti-corruption efforts and conflict of interest concerns) remains weak.

The government demonstrates a general ability of policy learning, but its flexibility is limited. It shows a tendency to learn from mistakes and failed policies, but only on a certain level: learning from past experiences does not seem to affect the routines and the knowledge foundation on which policies are based, and sometimes the same mistakes are repeated even with reformed policies. This is due to the lack of monitoring and evaluation mechanisms for governmental strategies and actions plans. The government engages in institutional knowledge exchange and consultancy by academic experts and practitioners, which has a positive effect on the basic beliefs guiding policy formulation.

Policy learning
7

15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. Regarding efficient use of government administrative personnel, there are no officially registered cases of politically motivated dismissals and new appointments of public servants.

Efficient use of
assets
5

A law providing for internal audit units in government bodies was adopted in November 2008, but implementation has not yet begun during the period under review. These and other legal reforms (for example, the new law on the prevention of conflicts of interest) seek to strengthen the overall framework for transparency and accountability.

The Human Resources Management Authority (HRMA) was established in 2004 to train civil servants and state employees and to improve practices of personnel management in public administration. Recruitment procedures for public administration are generally based on public vacancy announcements, but the concept of merit-based recruitment and promotion of civil servants is not provided for in the legislation and is not implemented in practice. Overall, the HRMA lacks the administrative capacity to promote and monitor implementation of the civil service law.

Despite the global economic crisis, a balanced state budget has been planned for 2011 at a total of €1.2 billion. Budget planning and its implementation are transparent; the parliament debates and adopts the budget plan. The level of state debt has been significantly reduced in recent years, and there is a low deviation of actual budget expenditures from associated planned expenditures.

The government tries to coordinate conflicting objectives and interests, but has only limited success. To define policy priorities, all ministers submit proposals for an annual work plan that is approved by the cabinet, and whose implementation is reviewed quarterly by the cabinet. Mechanisms of inter-ministerial coordination are weakly developed. Parliament does not have an annual legislative agenda or work schedule based on the established priorities of government. Communication and coordination between the two branches at the leadership level and at the level of ministries and committees are not sufficiently institutionalized.

Policy
coordination
7

The government seeks to coordinate various policy objectives, particularly conflicting objectives within different sectors of government. The most obvious conflicting objectives remained those in area of protection of employees' rights and protection of investors' and owners' interests.

Most integrity mechanisms are in place, although with limited effectiveness. Montenegro has made significant efforts to put in place a legal and institutional framework needed for combating corruption. A new anti-corruption strategy and an action plan for 2010–2014 were adopted. A new 2009 law on the prevention of conflicts of interest in exercising public functions introduced fines and sanctions for those who do not declare assets or declare assets falsely. However, according to the European Commission 2010 Analytical Report, the law is not in line with European standards, as it remains ineffective against MPs and politicians who accept positions within public or private companies. The supervisory role of the Conflict of Interests Commission was also a subject of criticism, as it has no power to verify asset declarations made by public officials.

Anti-corruption
policy
5

The Criminal Code was amended in April 2010, allegedly to bring the Criminal Code closer to international anti-corruption standards. The main problem in fighting corruption in Montenegro is the weak implementation of legislation. The system of institutions responsible for combating corruption is very complex and needs to be streamlined and better coordinated. These institutions have narrow jurisdictions, weak authority, limited powers and insufficient funding. The law on financing political parties adopted in 2008 has been violated many times by political parties which failed to report on income and spending, as research by the NGO Center for Democratic Transition (CDT) has shown. The track record of investigations, prosecutions and final convictions in corruption cases remains low.

Another challenge is the weak legislative framework and poor implementation of regulations on political party financing, which results in lack of efficient controls, the poor implementation of prescribed sanctions and a low level of transparency. CDT research has shown that the law has been violated many times, yet there were no prosecutions.

The law on financing presidential and mayoral campaigns was adopted in January 2009, but its provisions will be applied only on future presidential elections, as mayors will no longer be directly elected.

16 | Consensus-Building

All major political actors agree on the consolidation of a constitutional democracy and a sustainable market economy as the country's strategic, long-term transformation goals. The degree of consensus with regard to democracy is very high (virtually no political actors promote anti-democratic ideas or sentiments), while there are obvious differences over the adequate level of market regulations, even among the ruling coalition. The strong influence of neoliberal ideas is evident among young professionals and government experts, while older party elites tend to favor a free market with a state that plays a significant role in the economic sphere.

Consensus on goals
10

A decade-long overall consensus of political actors on establishing democracy prevented the rise of anti-democratic sentiment among parties and their acquiring of political power. Thus reformers have been able to successfully exclude or co-opt all actors with anti-democratic interests.

Anti-democratic
actors
9

After the independence referendum, the political leadership managed to depolarize cleavage-based conflict and expand consensus across dividing lines. The remainders of ethnopolitical antagonisms which divided society in the past were pushed aside as second-rate problems, dominated by discourses of experts (such as the codification of a Montenegrin language). However, dividing lines become visible during politically sensitive periods; the 2011 census became a political issue rather than a question of statistics. Nevertheless, the national consensus on EU integration process as a strategic goal (70.3% of the population supports the Montenegrin EU integration process, according to the Center for Democracy and Human Rights (CEDEM), December 2010) served as a vehicle for establishing consensus across dividing lines in Montenegrin society.

Cleavage /
conflict
management
7

The political leadership permits civil society participation. On some issues it takes into account and accommodates the interests of most civil society actors, while on other issues it tends to ignore civil society actors and formulates policy autonomously. While there is a significant lack of tradition of civil society participation in the political process, the non-governmental (NGO) sector is involved in agenda setting, policy formulation and performance monitoring. However, institutional mechanisms for civil society participation are not developed adequately, although some indications for their proper development appeared in January 2011.

Civil society
participation
6

The political leadership actively tries to develop friendly relations with all the former republics of Yugoslavia. It recognizes the need to deal with historical acts of injustice, but its attempts for reconciliation have encountered difficulties, since the political leadership was directly involved in the conflict-laden past. Government involvement in Yugoslav wars and acts of injustice has been addressed only by independent media and opposition parties. The political leadership has renounced claims of direct involvement in the deportation of Bosniaks in 1992, and has explicitly stated that its members had no knowledge of the deportations. Police officers in contrast involved in the case have been presented and prosecuted as responsible for this injustice.

Reconciliation
7

17 | International Cooperation

The political leadership makes focused and good use of international assistance (from EU institutions, the IMF, the OSCE, the World Bank, the United Nations and, more recently, NATO) to implement its long-term development strategy. It has utilized international know-how and external advice in formulating its domestic policy agenda. International support has helped the government articulate its aims of political and economic development, as well to make progress in implementing steps of development. A successful reform process shows that the government has a clear roadmap of internationally assisted reform process and fulfills its long-term strategy of development.

Effective use of
support
9

The government mostly acts as a credible and reliable partner, but some international actors express doubts regarding its reliability on certain issues (such as the freedom of press and judicial reforms).

Credibility
8

The political leadership actively promotes regional and international integration. Moreover, government sees good neighborly relations as a strategic goal. Montenegro is an active member of most regional and sub-regional initiatives. It cooperates with all neighboring countries and complies with rules set by regional and international organizations. Montenegro has further improved its active cooperation in the region by intensifying its participation in multilateral initiatives and organizations, and by further fostering bilateral relations. According to the Montenegro 2009 Progress Report, neighborhood cooperation intensified particularly in the areas of cross-border cooperation and science and technology. In 2010, the EU Commission stated that Montenegro has been a constructive regional partner, playing a stabilizing role in the Western Balkans. However, after Montenegrin recognition of Kosovo independence, friendly relations with Serbia declined but remained on a positive level. While having certain disputes, both countries acknowledge the need to cooperate over economic, political and cultural issues.

Regional
cooperation
8

Strategic Outlook

The referendum on independence greatly reduced the divisions in Montenegrin society. The political leadership managed to expand consensus across dividing lines, primarily based on a key strategic goal of European integration, a goal supported by two-thirds of the population. However, Euro-Atlantic integration still possesses significant potential to create a further division within society, considering the negative attitude held toward NATO by a significant percentage of the population. Montenegro's political leadership should take into account that any quick unilateral decision by the government or parliament would create a serious split in society. In December 2009, Montenegro was granted a Membership Action Plan, based on which the country's progress in preparation for NATO membership will be evaluated annually. While progress in fulfilling technical and administrative conditions is proceeding apace, public support needs to be secured as it is one of the requirements for full membership. In December 2010, the European Union granted candidate status to Montenegro. However, accession negotiations had not started by January 2011. Until Montenegro fulfills EU requirements and negotiations start, its candidate status is only symbolic, seen as an acknowledgement for progress made in previous years. Once entry negotiations have taken place, Montenegro will have to negotiate on 35 chapters of the acquis, which will create a strategic agenda for years to come.

In a mid- to long-term perspective, sustaining an economic recovery will depend on the government's ability to facilitate economic restructuring and industrial diversification, to develop its tourism potential by protecting the country's fragile environment, and to invest tourism revenues into education, research and knowledge-intensive economic sectors.