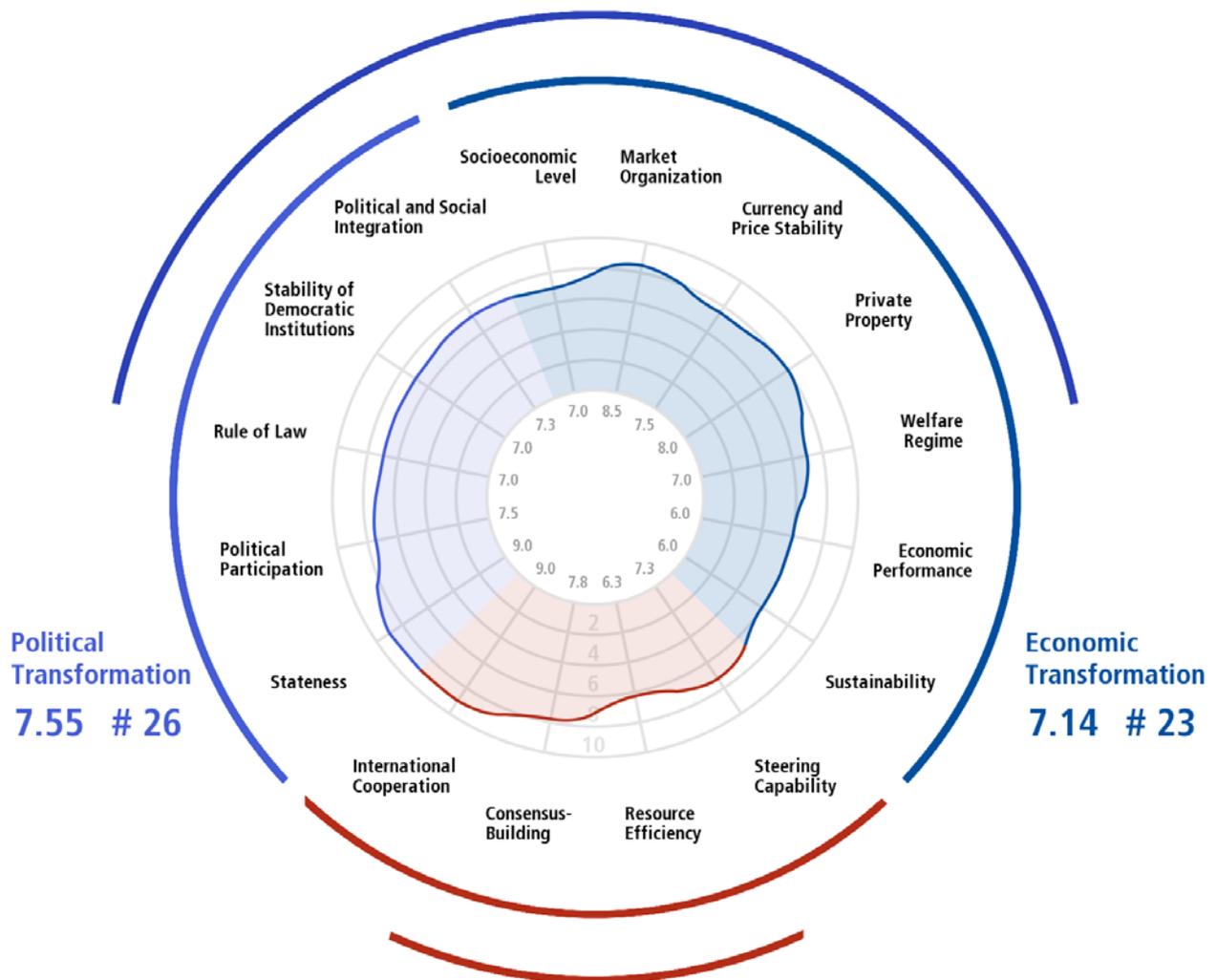


Montenegro

Status Index

7.35 # 20

on 1-10 scale out of 129



Governance Index

6.49 # 17

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	0.6	HDI	0.807	GDP p.c., PPP \$	16854
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	48	Gini Index	31.9
Life expectancy	years	76.9	UN Education Index	0.818	Poverty ³	% 0.8
Urban population	%	64.2	Gender inequality ²	0.156	Aid per capita \$	160.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Preparations for NATO membership, a breakdown of the ruling coalition, political crisis and protests and efforts to improve conditions for 2016 parliamentary elections dominated the political agenda in Montenegro during the period under review.

Montenegro is in the final phases of the NATO integration process. In December 2015, NATO invited Montenegro to begin accession talks. In May 2016, NATO foreign ministers signed the Accession Protocol for Montenegro. By the end of January 2017, 20 member states ratified the Accession Protocol, and the ratification process is ongoing in the remaining eight. It is expected that Montenegro will accede to the Washington Treaty and become a full NATO member in 2017. NATO integration has been one of the most divisive issues for Montenegrin society throughout 2015 and 2016, and was one of the key topics in the October 2016 parliamentary elections. Since 2015, Russia started to openly show resistance to Montenegro's future NATO membership and supported opponents of NATO in Montenegro.

In September 2015, the largest opposition group, the Democratic Front (DF) organized street protests asking for the transitional government that would organize free and fair elections. Their protests also carried a strong anti-NATO message. On October 24, 2015, protesters attacked the police with poles, stones and Molotov cocktails, resulting in injuries to around 30 officers. Police used force to break up the protests. An outcome of an investigation and prosecution against perpetrators of violence and allegations of excessive use of force by the police is still pending.

Long-lasting friction within the governing coalition resulted in a breakdown between the Democratic Party of Socialists (DPS) and the Social-Democratic Party (SDP) after Montenegro received the invitation to join NATO. After the fulfillment of that final common policy goal, SDP has left the government. The government survived the vote of confidence with the endorsement by the opposition Positive Montenegro. As a result, a so-called government of electoral trust was established with a task to control use of public resources in pre-election period. Four ministerial

(Finances, Interior, Social Welfare, and Agriculture) and one deputy prime minister posts were filled by opposition party members. Despite statements by opposition representatives that misuse of resources was significantly prevented, public doubts about the use of public resources for the purpose of election campaigns remain high.

Elections were held on October 16, under a considerably revised legal and institutional framework. 17 lists competed, and nine won seats parliament. DPS again managed to form the government, with the support of Social Democrats (SD) and Bosniak, Albanian and Croat minority parties. Opposition parties have not recognized the election results. On election day, a group of foreign nationals was arrested under accusations of criminal association and attempt of terrorism. The opposition started to boycott the parliament demanding early elections in 2018, on the basis of “an atmosphere of coup d’état” in which people could not express their political will freely on election day.

Montenegro is making solid progress in its EU accession negotiations. In total, negotiations have been opened on 26 out of 33 chapters. Despite the progress, implementation and measurable results in the area of rule of law, the track record in fighting corruption and organized crime is still pending.

The government has struggled to maintain macroeconomic stability, with both public and foreign debt levels increasing and a continuing high current account deficit. Montenegro’s public debt in 2016 exceeded 70% of its GDP due to the start of Bar-Boljare highway construction project. In its 2016 report on Montenegro, the European Commission also expressed concerns over rapidly rising public debt, high fiscal deficits, high external imbalances and high unemployment.

History and Characteristics of Transformation

A tradition of independent statehood in the area of what is now modern Montenegro dates back several centuries. In 1878, the Congress of Berlin recognized Montenegro as an independent state. The history of Montenegrin independence ended in 1918, when Montenegro unconditionally joined Serbia in a controversial decision of the Podgorica Assembly, held under the auspices of the Allied forces, while the Montenegrin sovereign and government were still in exile.

Soon afterwards, Montenegro became a part of the Kingdom of Serbs, Croats and Slovenes, later renamed Yugoslavia. From 1918 to 1941, and from 1946 to 1992, Montenegro was a constituent republic of Yugoslavia. Montenegro was the only republic of Yugoslavia that decided to remain in a joint state with Serbia in the early 1990s. This policy was not only advocated by the post-communist political elite that emerged victorious in the country’s first post-communism elections, but also was supported by a substantial part of Montenegrin citizens, who felt closely associated with the idea of Yugoslavia and cultural links with Serbian nation. In 1992, Montenegro and Serbia established the Federal Republic of Yugoslavia (FRY) to succeed the Socialist Federal Republic of Yugoslavia (SFRY). While the constitution of the FRY envisaged parity between Montenegro

and Serbia in federal institutions, the common state was de facto dominated by much larger Serbia, both economically and politically. Facilitated by wars and nationalist mobilization, Serbia's president, Slobodan Milosevic, was able to establish a semi-authoritarian system that included Montenegro and that kept him in power until 2000.

Meanwhile in Montenegro, his partners, the DPS, governed Montenegro since the fall of communism using the similar rule. Milo Djukanovic, prime minister of Montenegro and one of the leaders of the DPS, broke with Milosevic in 1997, increasingly distancing Montenegro from Serbia and implementing reforms aimed at establishing a market economy. After the fall of the Milosevic regime, Montenegro and Serbia negotiated a loosely integrated "state union" to replace the FRY. 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. 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 May 21, 2006, the referendum was held and 55.5% of Montenegrin citizens voted for independence. Following its declaration of independence, Montenegro joined the United Nations and other major international organizations.

The EU started accession negotiations with Montenegro in June 2012. At the end of 2016, Montenegro is the most advanced EU candidate country, with 26 negotiation chapters opened, two out of which have been provisionally closed. In December 2015, Montenegro was invited to join NATO. The NATO Accession Protocol is being ratified at the moment and the confirmation of membership is expected in 2017.

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

As regards the social and political transformation of Montenegro, the dynamics of change are heavily influenced by the fact that a single party has effectively been in power since the fall of communism. Political control over the public and judicial sector, alongside clientelistic political and social networks, has created a culture of passivity among public institutions mandated with law enforcement. Institutional inactivity and futile political opposition opened huge space for the civil society and media sectors, which have been extremely vocal and active.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

Question
Score

Monopoly on the
use of force

10



The legitimacy of the nation-state is occasionally questioned by some political actors. All major political actors officially state that they do not question the independence and statehood of Montenegro. However, some of them occasionally refer to the conduct of the independence referendum and the political divisions over independence to challenge the state's legitimacy in the political discourse. Identity-related issues, such as the official language and national symbols continue to play a divisive role in society.

State identity

8



The state is largely secular, and religious dogmas have very limited influence on politics and decision-making. The three major religious groups in the country are Orthodox Christians (72.07%) who are divided between two churches that contest each other – the Serbian Orthodox Church (SOC) and the Montenegrin Orthodox Church (MOC); Muslims (19.41%) and Catholics (3.44%). The remaining 5.4% of the population belong to other minor religious communities, are atheists/agnostics or did not declare their religious affiliation. A total of 23 religious groups is registered in the country. Registration is not compulsory and SOC has opted out from registering.

No interference of
religious dogmas

8



Some religious leaders are powerful political actors, and they seek to interfere in the affairs of the state and politics.

Adoption of a new law on the freedom of religion has been announced and delayed several times since 2012.

In July 2015, the government adopted the draft law on freedom of religion, and organized three public hearings (Bijelo Polje, Kotor and Podgorica) before sending the bill to parliament. SOC sought to organize their supporters to attend the hearings in huge numbers, while accusing the government of purposely providing inadequate facilities in order to restrict attendance. Police prevented SOC supporters from physically attacking the Metropolitan of the MOC. Forums in Bijelo Polje and Kotor were cancelled, but police made no arrests. One public forum was held in Podgorica, with heavy police protection and under the “siege” of SOC supporters. After the failure of the public hearings, government withdrew the draft law from the procedure.

MOC and the Jewish community supported the failed draft law. Other major religious groups criticized it, voicing complaints of exclusion from the drafting process. SOC was the most vocal critic, particularly of the parts of the draft law prohibiting political activities by religious groups and requiring religious groups to notify the government before appointing religious leaders.

In January 2017, the Minister of Human Rights announced that the new draft law will be prepared in cooperation with religious communities.

All necessary administrative structures, providing all basic public services, exist and operate throughout entire territory of Montenegro. 100% of the population has access to a water source and 96% of the population has access to improved sanitation facilities.

Basic
administration

10



1

2 | Political Participation

General, multiparty elections are held regularly, and mostly positively assessed by international observers. Still, there are serious concerns regarding the fairness of the electoral process, primarily related to misuse of public funds and institutions in elections.

Free and fair
elections

7



1

The electoral season started in September 2015, when the major opposition group, the Democratic Front (DF) started boycotting parliamentary sessions and resorted to street protests. The rest of the opposition opted for dialogue over boycott.

The invitation to Montenegro to join NATO in December 2015 has brought an end to the 18-year coalition between the Democratic Party of Socialists (DPS) and the Social-Democratic Party (SDP). SDP left the government, which survived the vote

of confidence thanks to the endorsement by three parliamentarians of the opposition Positive Montenegro. As a result, a transitory “government of electoral trust” was formed, with a task to control use of public resources in the pre-election period. Four ministerial (Finances, Interior, Social Welfare, and Agriculture) and one deputy prime minister posts were filled by opposition party members. Three opposition groups took part in the government. Despite the statements of opposition representatives that misuse of resources was significantly prevented, public doubts about the use of public resources for the purpose of election campaigns remained high.

Elections were held on October 16, 2016. Out of 17 competing party/coalition lists, and nine managed to get the seats in the parliament. DPS won 36 seats, DF 18, nine for the Coalition Key (URA, Demos, SNP), eight for the Democrats, four for SDP, two for both the Bosniak Party (BS) and Social-Democrats (SD), and one for both the Albanians Resolutely and the Croatian Civil Initiative (HGI).

The elections were held in the atmosphere of political polarization. Improvement of the legislative and institutional framework did not achieve the desired positive impact on increasing citizens’ trust in the electoral process, nor trust of political actors in the election result. According to an opinion poll conducted by DeFacto Agency in February 2016, 61% of citizens do not believe that elections are free and fair, in comparison to the 47% identified by a similar survey conducted by the Center for Democratic Transition in February 2014. This shows a major decline in public trust in elections and indicates that parliament’s and government’s activities aimed at increasing the trust failed to yield desired outcomes.

Examples of shortcomings of the electoral register include changed addresses of registered voters, inclusion of deceased voters and an alleged inclusion of an unknown number of individuals whose residency status has not been verified.

The election campaign was one of the most expensive in Montenegro and was marked by a number of doubts and accusations related to the legality of funding sources. The Agency for Prevention of Corruption broadly oversaw the campaign finance, without conducting thorough investigations.

Throughout entire process the composition and decision-making of the State Election Commission (SEC) were non-transparent and influenced by partisan interests.

On election day, a group of foreign nationals was arrested under accusations of criminal association and attempt of terrorism. Allegedly, they plotted a coup and the assassination of the prime minister.

In the afternoon of the election day, the Agency for Electronic Communications and Postal Services (AECPS) ordered a two-hour long suspension of applications Viber and WhatsApp for sending spam.

Over 2,600 representatives of domestic and international organizations observed the elections. OSCE/ODIHR EOM stated that the elections were held in a competitive environment in which fundamental freedoms were generally respected, and that election day proceeded in a calm and orderly manner, with few cases of procedural irregularities.

Opposition parties did not accept the election results. In January 2017, they are still boycotting the parliament, demanding repeated (early) elections in 2018, on the basis of “an atmosphere of coup d’état” on election day, in which people could not freely express their political will.

Democratically elected political representatives have the effective power to govern. No individuals or groups hold any de facto veto power. During this period, international actors, as well as churches, business and landowners tried to influence political decisions. Generally, all their activity stays within the limits of the usual behavior of interest groups. The degree of success of their influence on decision-making always depends on finding common interests with governing structures.

Russia has sought to influence policy-making in Montenegro not only through diplomatic channels, but Russian nationals were also detained on the day of the parliamentary election under charges of orchestrating a coup plot against Montenegro’s government. Media reports and statements of the public prosecutor investigating the case indicate that Russia’s military intelligence service has been involved in an attempt to assassinate the prime minister, occupy the parliament and install a new government in order to prevent Montenegro’s accession to NATO.

Freedom of assembly and freedom of association are guaranteed by the constitution. The freedom of association is further protected and regulated by the law on NGOs, the law on political parties, etc. The law on NGOs defines two forms of NGOs: associations and foundations. Foreign NGOs can also operate in Montenegro.

The parliament in July 2016 adopted a new law on public gatherings to clarify, among others, the state’s obligations and liabilities with regard to preserving public order and safety during public assemblies.

According to the constitution, authorities have the prerogative to temporarily restrict the freedom of assembly in order to prevent disorder or the execution of a criminal offense, or a threat to the health, morality or security of people and property. Research by the leading NGOs indicates that the police directorate prevented 26% of peaceful gatherings during 2015, on grounds of potential security risks.

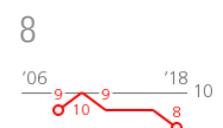
A number of public gatherings during this period were organized with the aim to draw attention to workers’ rights and minority rights, for example. Yet political protests, mainly organized by opposition political parties gathered around Democratic Front attracted the most support. Cases of excessive use of force by police officers were documented in the aftermath of the anti-NATO protest, in which the protesters

Effective power to govern



1

Association / assembly rights



1

clashed with the police force. One protester was beaten up by a large group of officers from the Special Anti-Terrorist Unit (SAJ), suffering severe injuries. Identifying all perpetrators is still pending as SAJ members are united in the effort to cover the act. In January 2017, the commander of SAJ was sentenced in first instance to five months for assisting in covering up the crime. The sentence was criticized in public for being too mild. In an out-of-court agreement the government offered the victim an indemnity of 130,000 euros.

There are over 80 electronic, online and print media outlets in Montenegro. Many of them are in a difficult financial situation and hardly sustainable. Many media outlets laid off employees.

The Tax Authority confirmed that some media outlets have high debts related to taxes and contributions to employees. This has a negative influence on the quality and professionalism in reporting.

Media commonly work hand-in-hand with particular political parties, which is especially evident during election campaigns.

According to the research of the Center for Civic Education, public institutions and enterprises advertise their activities dominantly in media that are favorable toward the government.

This tendency often prevails over professional standards and matters of public interest. Also, certain media outlets are closely tied to influential political participants, which causes significant differences in media reporting about the same events.

While the Trade Union of Media of Montenegro advocates for improving the financial and social status of media employees, the key characteristic of the Montenegrin media community is strong political polarization. It has been reflected in the media's inefficacy at creating an all-inclusive self-regulating body.

Freedom of speech, freedom of the press, prohibition of censorship and access to information are guaranteed by the constitution. However, these freedoms have been compromised by violence against journalists and attacks on media-owned properties.

The Commission for Monitoring Activities in Cases of Threats and Violence against Journalists, founded in 2013, has not yet produced any significant results.

Several attacks against journalists and media property took place during the anti-government protests in 2015. The state authorities have not yet solved earlier cases of such attacks.

At the end of 2016, the tabloid *Informer*, which published a set of insulting articles about opposition representatives, media owners and civil activists, ceased to exist.

Freedom of
expression

6

'06 _____ '18 10



_____ 1

With changed management, the radio outlet RTCG improved the reporting quality and ensured the equal treatment for all political actors during the election campaign. Strengthening the editorial independence is still a priority for new management.

Freedom of expression was additionally limited during the parliamentary election when the regulatory Agency for Electronic Communications and Postal Services blocked the messaging apps Viber and WhatsApp on election day.

3 | Rule of Law

Montenegro has a republican form of government regulated by the division of power into legislative, executive and judicial branches. Legislative power is exercised by the parliament, executive power by the government and judicial power by the courts.

Montenegro is represented by the president who is directly elected for a five-year term of office, renewable once. The president is impeachable for any violation of the constitution. Constitutionality and legality are protected by the Constitutional Court. The army and the security services are subject to democratic and civil control.

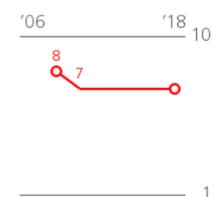
Parliament's rules of procedure envisage member of parliament questions and a prime minister's hour, interpellation, vote of confidence and consultative and control parliamentary hearings as tools for exercising parliament's oversight function. The government holds executive power, and is responsible for the management of Montenegro's internal and foreign policy and the enforcement of legislation. It plays a key role in the legislative process, as the vast majority of laws are drafted by the government.

Parliament's capacity to perform its oversight and legislative functions is still weak. Political crises throughout 2015 and 2016 brought to the surface many flaws in parliament's ability to effectively perform. As a result of boycott and crisis of parliamentary majority, both legislative and oversight functions were weakened. For example, the Committee on Security and Defense adopted an annual plan of parliamentary oversight in the end of June 2016, with six months delay, thus violating the law on parliamentary oversight of the security and defense sectors. Also, the parliament lags behind on adoption of some important legislation.

Following the constitutional principle of independent judiciary, the key objectives of the Judicial Reform Strategy 2014-2018 include strengthening the independence, impartiality and accountability of the judiciary. Despite intense legislative activity, adoption of new laws and bylaws, establishment of new institutions and the introduction of new legal institutes over the past few years, significant changes in judicial practice have yet to happen.

Separation of powers

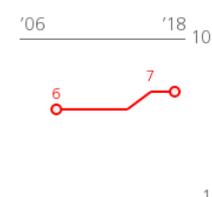
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1

Independent judiciary

7



1

The law on the judicial council and judges, adopted in February 2015, aims to further consolidate the independence and impartiality of the judiciary.

The Special State Prosecution Office for organized crimes and corruption was established in 2015 by the law on state prosecutor. A chief special prosecutor was elected in June 2015, and a head of the Special Police Unit supporting the Special Prosecutor's Office was appointed in February 2016.

In a short period of time, the prosecutor's office adopted the key directions for the institution's development. The institution has begun to participate more actively in public dialogue and promote the value of the rule of law.

The capacity of the recently established Prosecutorial Council has improved, but still lacks transparency and strategic planning for budget and human resources.

Despite these results, CSOs have expressed concerns that the discretionary power of the Judicial and Prosecutorial Council on the appointment of judges and prosecutors continues to have primacy over the references and achievements of candidates. There is also criticism about the lack of transparency in the process of scoring, and evaluation results are not publicly available. Since the adoption of new laws, there has been no criminal responsibility or disciplinary sanction for judges or state prosecutors. The Ethics Committee concluded that only one judge and two prosecutors violated the Code of Ethics.

The salaries for judges and prosecutors are still not equivalent to the weight and duties of the judicial function. Among other things, this is a precondition for independence and autonomy in their work. Therefore the remuneration of judges, prosecutors and administration should be increased.

According to a survey from December 2016, conducted by the Center for Democracy and Human Rights (CEDEM), 42.6% of Montenegrin citizens have confidence in the judiciary, which is almost the same as in 2014. According to De Facto Consultancy survey from April 2016, the Montenegrin public believes that judges are among the most corrupt, together with the leaders of political parties, customs officials, police officers and tax officials, which also shows that reputation of judges from 2014 has not significantly changed. According to the respondents, key problems are political pressure and influence on judges, the use of connections as a method of pressure and corruption, bribery or any other form of personal benefit.

Over the past two years, several officials have been prosecuted for corruption offenses. Montenegro's Special Prosecutor for corruption and organized crime focused on high-level corruption cases, including the cases against the former mayors of Budva, Bar and Nikšić, and the former chief administrator of Podgorica.

Prosecution of
office abuse

6

The most important case of office abuse in 2016 has been the so called Budva affair, in which Svetozar Marovic, a high official of the governing party, who had held some

of the highest public offices, pled guilty for leading a criminal group that committed several interrelated corruption crimes. He will serve four years in prison. This is the first time in Montenegro that a top politician and member of his family has been sentenced.

In 2016, through plea bargains and financial investigation, the Special Prosecutor's Office confiscated 24 million euros gained through criminal activities. Another four million euros await confiscation upon court approval. A large chunk of this amount is related to Budva case. The special prosecutor is running five financial investigation cases against 190 individuals for illegal acquisition of property.

Montenegro has been frequently urged by the European Union to prosecute more high-profile corruption cases. While it seems that these arrests and trials show that Montenegro is finally dealing with high-level corruption, there is concern that all this is a settling of scores within the governing party. The Special Prosecutor's Office has become more proactive and has started some investigations based on media and NGO reporting. Yet, the Special Prosecutor's Office is being criticized by the opposition for not opening some cases in which the general public suspects corruption.

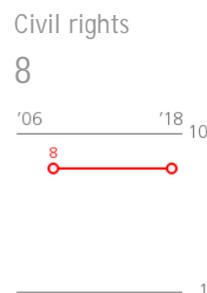
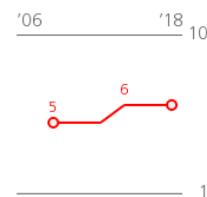
The Agency for Prevention of Corruption started work in January 2016 as a central anti-corruption institution. It has a wide range of responsibilities. In its first year, the Agency has struggled to fulfill these demanding tasks with its limited capacities, often opting for broad rather than in-depth controls. Developing the agency's capacities to perform its responsibilities more profoundly is a great challenge.

Another challenge for the credibility of the agency is its managing structure (council and director), which is perceived as partisan by the opposition and some NGOs. They maintain that due to partisanship, the agency is unwilling to thoroughly perform as that might harm the governing party.

Montenegrin human rights institutions continued institutional strengthening as well as alignment with EU legislation. The Office of the Protector of Human Rights and Freedoms of Montenegro (the Ombudsman) is slightly empowered, and acts upon citizens' complaints, including those about the work of courts, the performance of the prosecution and police conduct. The capacity of the Ministry for Human and Minority Rights needs to be further improved through trainings and education.

In cases of police abuses, citizens could address complaints to the Council for Civilian Control of Police Operations, but the council may only provide recommendations for action to the Chief of Police or the Minister of Interior.

Citizens may seek protection in courts for violations of constitutionally recognized human rights. After exhausting all available legal remedies, citizens may appeal a perceived violation of human rights to the Constitutional Court. In 2015, the Constitutional Court resolved 862 constitutional appeals concerning alleged violations of human rights and liberties. Once national remedies are exhausted,



individuals may appeal cases alleging government violations of European Convention on Human Rights to the European Court of Human Rights.

Some progress has been made regarding rights of persons with disabilities. A new law was adopted in 2015 prohibiting discrimination against persons with disabilities. While the text of the law is in line with international standards, its implementation is still weak. There has been some improvement in enabling access to public buildings for persons with reduced mobility. However, many public institutions are not yet accessible.

Freedom of assembly is guaranteed by constitution. The government commonly respected this right, but on several occasions, the Interior Ministry denied permits to political protesters, workers and LGBTI groups wishing to assemble and express their requests. Local LGBT Pride was banned by authorities in Nikšić on grounds of security considerations. However, the fourth LGBTIQ parade “Montenegro Pride,” took place in Podgorica in December 2016, with no incidents and in line with organizers’ schedule.

CSO representatives, the Ombudsman and the EU ambassador described the prison health care system as inadequate, with poor hygiene and lack of natural light.

The EU’s Progress Report for 2016 highlights that the Roma minority remains the most vulnerable and most discriminated-against community in various areas of life: underrepresented in politics, with difficulty accessing the labor market and health care services, while Roma children are still exposed to child labor.

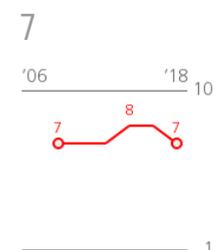
4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but sometimes are inefficient due to friction between institutions. Conflict between institutions often comes as a result of profound politicization of institutions, and becomes more visible during the times of political crises.

Prolonged political crisis in the governing coalition has shown the need for better regulation of the relationship between the parliament and the government. Montenegro does not have a law on parliament or the law on government. The constitution establishes the basis for the separation of powers. Parliamentary operations including the oversight activities are regulated by the rules of procedures of the parliament. Organization and functioning of the executive is defined by the Decree on Organization and Functioning of Public Administration and Rules of Procedures of the Government. These regulations leave enough ambiguity to block or manipulate the rules.

The governing coalition was initially based on a division of institutional power positions in the executive and legislature between DPS and SDP. The breakdown of

Performance of democratic institutions



their coalition transformed this balance into an inter-institutional conflict driven by power politics rather than policy concerns. Moreover, several opposition parties have boycotted the work of the parliament since September 2015.

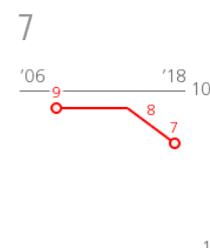
In June 2016, 300 bills were stuck in the parliamentary procedure. Several bills were withdrawn by the government, and another few were adopted against the government's active disapproval. Laws that are outcomes of such political conflicts are often referred to the Constitutional Court, and their constitutionality is tested. This puts the Constitutional Court at the center of a political struggle, placing it under enormous public pressure and diminishing its credibility when the decisions do not meet public expectations.

Friction was also notable in relations between the institutions in charge of fighting organized crime and corruption – Special Prosecutor's Office, police, judiciary – which negatively impacts effectiveness of their work.

Legitimacy of elections continues to be seriously questioned by the opposition, based on allegations that the governing DPS has abused public resources to gain votes.

An effort that started in 2013, aimed at increasing public trust in elections through legislative and institutional changes, political dialogue and finally “watchdog” transitional government has not yielded the desired outcome. The opposition has not accepted the results of October 2016 parliamentary elections. They have boycotted the work of the parliament since requesting new elections by 2018.

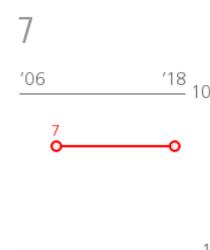
Commitment to democratic institutions



5 | Political and Social Integration

The party system is relatively unstable, but political parties remain fairly socially rooted. It shows high fragmentation, strong polarization and moderate voter volatility. During the reporting period many new political parties have been established, and the majority of those parties have emerged after splits in existing parties. Democratic Montenegro emerged from splitting from SNP, Social-democrats from SDP and URA was formed from a split in Positive Montenegro. There are currently 51 registered political parties in Montenegro.

Party system



After the series of protests organized by Democratic Front and riots in October 2015, a dialogue was initiated by the president of parliament. Democratic Front boycotted parliamentary dialogue, while other parliamentary parties engaged in the attempts to agree to conditions for free and fair elections. In January 2016, there was a shift in ruling coalition after Prime Minister Milo Đukanović initiated a no-confidence vote and ruling SDP voted against confidence. The government was supported by, until then, opposition party Positive Montenegro who provided necessary majority in parliament. Positive Montenegro and the government were accused of political

corruption by the opposition parties. In the follow-up of the parliamentary dialogue, three opposition parties, URA, Demos and SDP, along with Positive Montenegro have taken part in the so-called Government of Electoral Trust. Opposition parties controlled four ministries and the opposition representative has been named as vice-president. The Government of Electoral Trust had a mandate until the final results of parliamentary elections held in October 2016 were published. Since then, the entire opposition has been boycotting parliament as they do not accept the election outcome.

There is a large number of social groups with diverse interests, but still many social interests are not adequately represented in Montenegro. Although policies in Montenegro allow a great number of interest groups to represent social interests, their influence and effectiveness depend on financial resources.

The most active interest groups are NGOs in the civil sector who commonly articulate citizens' interests. This is mainly due to top-down decision-making process.

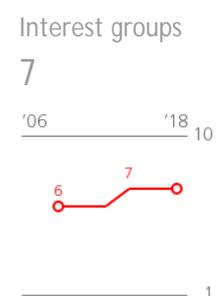
Even though the majority of civil society organizations (CSOs) are active in the field of culture and social services, the most lucrative topics are rule of law and strengthening democratic capacities of state institution. These are the typical donor driven projects found in many post-communist societies such as Montenegro, where EU institutions are recognized as the main and the most prominent donor. Commonly, NGO projects are based on European Commission's Progress Reports and recommendations.

The CSO sector in Montenegro is divided between grassroots initiatives and highly structured NGOs, whose interests are not represented equally. Rare grassroots initiatives are mainly on issues of environmental protection and local concerns.

There is also certain level of polarization within the NGO sector. Cooperation between NGOs and state institutions is more formal than substantive. The European Commission in its latest report on Montenegro assessed that relations between CSO and the government is on occasions characterized by distrust.

The Union of Free Trade Unions of Montenegro is struggling with lack of influence, relying on unconventional political participation. Controversies during the management appointment in Federation of Trade Unions of Montenegro yet again imposed the question whether trade unions are protecting workers' rights or the small groups running them.

Even though the law on lobbying was adopted in the end of 2014, no lobbyist has registered since, thus no legal person is allowed to perform lobbying activities. There are still no candidates who passed the exam for lobbying, meaning no one received the obligatory certificate issued by the Agency for Prevention of Corruption. Lobbying in Montenegro has been performed rather through informal channels and through standard advocating practices of various stakeholders.



Although citizens have very little opportunity to influence the adoption of or a change in legislation, there are several institutions that, due to vast public trust, have the legitimacy to advocate for its own special interests. Church remains a very influential opinion maker, but it constantly undermines some of the core democratic values.

Public opinion poll conducted by NGO CEDEM in December 2016 has shown that 35.3% of citizens believes that Montenegro chose the wrong direction, while 32.8% of them think that country is “on the right track.” This trend remains steady, since the percentage has changed insignificantly from 2014, when 2.3% more citizens saw Montenegro as on the “right track.”

When it comes to confidence in institutions, people have most trust in the education and health care system. The confidence levels are over 50%. Approval of the president is 45%, that of the government is 40.9%, and 38.5% of the parliament. Out of all institutions, political parties, with 35.4%, inspire the least confidence of Montenegrin citizens. An opinion poll conducted in February 2016 indicated that over 60% of Montenegro’s citizens do not believe that the elections are free and fair. Public trust has not improved significantly although the October 2016 elections were held under stricter arrangements intended to ensure their integrity.

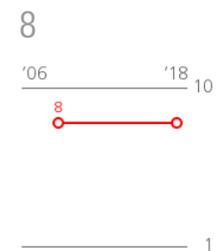
A public opinion survey conducted for NGO Civic Alliance from 2015 has shown that citizens do not have strong and definite opinion regarding the best or the most desirable form of governance. Although 77.9% of citizens consider democratic political system as “very good” or “good,” 36.6% have the same opinion for military authority. In addition, 48.2% thinks that it is “very good” or “good” to have a strong leader who is not accountable to parliament or elected. In addition, 78.1% of citizens “strongly agree” or “agree” with the statement that democratic system can have problems but that it is still better than any other.

There are 4,213 NGOs in Montenegro (data from December 2016). According to NGO CEDEM opinion poll from December 2016, 45.3% of citizens trust NGOs. However, NGO Civic Alliance opinion poll from 2015 has shown that citizen have a relatively negative image of the NGOs.

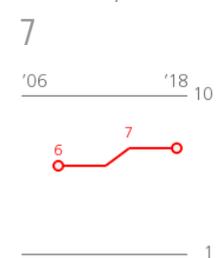
In Montenegro, interpersonal trust is relatively limited. Ethnicity and religion are conflated, which creates distance between specific ethnic and religious groups. The 2015 International Religious Freedom Report points to a strong correlation between ethnicity and religion. Although religious tolerance is solid, some tensions do emerge among groups in the course of establishing closer relationships.

A public opinion poll conducted for the Ministry for Human and Minority Rights in 2015 shows a certain level of sensitivity on political rather than personal authorities. Greater social and ethnic distances exist toward authority categories (president of the country, chief, educator) than toward personal ones (member of family, friend, colleague, party colleague).

Approval of
democracy



Social capital



Therefore, citizens are unlikely to choose a leader from a different ethnic group. For instance, 53.1% of citizens would object to a Roma president of the country, 51.4% an Albanian one, 45.5% a Croat, and 35.9% a Bosniak or Muslim. Objections would be lower for the same individual in a personal category (e.g., as a friend or colleague).

However, public opinion polls show that affirmative measures toward vulnerable groups enjoy great support. There is substantive affirmative action toward persons with disabilities, which is understandable since they are considered as the most vulnerable social group with major problems, as it was shown by the Balkan Barometer public opinion survey from 2016.

Volunteering is still underdeveloped in Montenegro. According to the World Giving Index 2016, only 8% of Montenegrin citizens claimed that they have volunteered their time to an organization. A law on volunteering additionally complicates volunteering by requiring contracts and thus creating unnecessary bureaucratic procedures.

II. Economic Transformation

6 | Level of Socioeconomic Development

With a gross national income of \$7,220 per capita in 2015 (World Bank figures-Atlas method), Montenegro belongs to a group of middle-income countries.

In 2013, the absolute poverty line in Montenegro amounted to €186.45, while 8.6% of the population had consumption levels equivalent to below the absolute poverty line. Rural population has a higher risk of poverty than the urban population. Poverty incidence was significantly higher in the northern region that is dominantly rural, compared to other parts of the state. No new data on poverty was published by February 2017.

Gini Index measuring the inequality in household income was 31.93% in 2014, lower than in the previous two years, but higher than earlier ones. However, there are no people living under \$1.90 a day, according to World Bank data, and only 0.07% is living by under \$3.90 a day.

Poverty is structurally engrained. Poverty rates have persisted over the past few decades due to high unemployment and low-income levels. Some population groups are poorer than the average. The Roma, Ashkali and Egyptian (RAE) population has been identified as vulnerable groups by UNDP. Reports on social exclusion have identified displaced persons and social welfare beneficiaries, pensioners, the long-

Question
Score

Socioeconomic
barriers

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term unemployed and persons with disabilities as further vulnerable groups in Montenegro.

The International Labor Organization (ILO) report for the third quarter of 2016 states that the youth unemployment rate (15-24 years of age) is 35.5%. Unemployment rates of males and females in this age group, at 34.8% and 36.3%, respectively, are reasonably balanced.

Unskilled persons, persons with disabilities, minorities, ex-offenders, drugs addicts, victims of violence, persons with mental and physical impairments, redundant workers, long-term unemployed from all categories, unemployed in less developed areas, persons lacking permission for work, refugees and internally displaced persons have difficulties accessing the labor market. Lack of competitiveness is a barrier to their employment and leads to a permanent dependence on social welfare.

Montenegro is ranked 49 out of 187 countries in the 2015 UNDP Human Development Report. It is third among the former Yugoslav republics, after Slovenia (25th) and Croatia (47th). Life expectancy in Montenegro is increasing and is currently at 76.2 years. The Gender Inequality Index was 0.156 in 2015, which was the second lowest inequality in achievements (health, empowerment, labor market) between women and men found in Southeast Europe.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	4464.3	4587.9	4019.9	4173.3
GDP growth	%	3.5	1.8	3.4	2.5
Inflation (CPI)	%	2.1	-0.8	1.2	-
Unemployment	%	19.5	18.0	17.5	17.5
Foreign direct investment	% of GDP	10.0	10.8	17.4	5.4
Export growth	%	-1.3	-0.7	5.7	5.1
Import growth	%	-3.1	1.6	4.4	14.1
Current account balance	\$ M	-649.0	-698.7	-532.6	-784.2
Public debt	% of GDP	58.7	63.4	69.3	70.0
External debt	\$ M	3061.0	2634.4	2659.8	2707.1
Total debt service	\$ M	374.0	287.1	499.8	495.7

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	19.5	19.4	19.4	20.4
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	3.7	3.7	-	-
R&D expenditure	% of GDP	0.4	0.4	0.4	-
Military expenditure	% of GDP	1.5	1.5	1.4	1.6

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but rules are not equally applied to all market actors; therefore, it can be concluded that a strong political impact on the market still exists. The informal sector is significant.

According to the EC, Montenegro is moderately prepared in developing a functioning market economy. Montenegro exhibits the characteristics of an open economy with free market competition and limited government intervention, which influenced the opening of new companies. It considers its competition legislation to be generally in line with the EU acquis.

In 2014, according to UNDP National Human Development Report 2016, the size of informal economy was estimated at 24.5 % of GDP, and represents one of the major obstacles in doing business. Reducing the informal economy is one of the imperatives of the Montenegrin government, due to its serious effects on overall social and economic development. According to the ILO, the most frequent manifestations of informal economy in Montenegro are informal employment (undeclared work both in formal and informal economic entities) and informal business (when the entire economic activity of the entity is carried out against the law and is completely unregistered). The main reasons for the informal economy in Montenegro are weak rule of law, inadequate regulatory framework, inefficient and ineffective implementation of policies and relatively high costs of doing business.

Market-based
competition

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Competition laws to prevent monopolistic structures and conduct exist, but are enforced inconsistently. According to European Commission 2016 Report, Montenegro has a good level of preparation for aligning with rules on antitrust and mergers. However, the implementation of these rules suffers from some weaknesses.

A law on protection of competition, which secured European principles in the area of competition, was passed in 2012. It has not been amended since.

Based upon this law, an Agency for Protection of Competition was established in 2013 as a functionally independent entity. The agency may act upon a complaint or a notification (e.g., for mergers) or act of its own initiative. The main downside is that fines cannot be imposed by the agency, but only by a juridical decision. The agency may approve mergers, with or without conditions, or prohibit them. In its 2016 report on Montenegro, the European Commission noted that the agency adopted three decisions on cartels and abuses of dominant position in 2015. According to the EC, the agency and the courts lack staff and expertise to enforce competition rules.

Montenegrin economy is service-based, and relies heavily on trade and foreign investment. The government has undertaken several measures in the past decade to liberalize Montenegro's trade regime. According to the 2017 Index of Economic Freedom, Montenegro's average applied tariff rate was 2.6%.

All custom tariffs on imports have been reduced significantly in Montenegro in the past decade. Montenegro has also eliminated tariffs on exports and quotas on either imports or exports. Montenegro has signed agreements and established institutional frameworks for free trade with its main trading partners. These include the EU countries; the countries of the Western Balkan region through the Central European Free Trade Agreement; European Free Trade Agreement (EFTA) countries (Norway, Liechtenstein, Switzerland); Russia, including members of the Eurasian Economic Union; and Turkey and Ukraine.

Since Montenegro has aligned with EU sanctions against Russia and has been counter-sanctioned by Russia, many aspects of their agreement are suspended at present.

Montenegro is also a part of Preferential Trade Agreement with the European Union which provide duty-free entry for over 95% of Montenegrin goods. Exemptions include wine, meat and steel.

Montenegro became a full member of the World Trade Organization in 2012. Montenegro's membership in the WTO entails the obligation to continue the liberalization of national trade regime, providing a transparent and predictable environment for both domestic and foreign companies. According to the Ministry of Economy, the government adopted more than 40 regulations to comply with its WTO commitments. The government has complemented its strategy on the free flow of

Anti-monopoly policy

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Liberalization of foreign trade

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goods 2014-2018 with an action plan in order to align its international agreements with EU legislation.

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

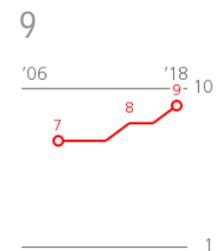
The main institution in charge of supervision and oversight of the financial service sector is the central bank of Montenegro. The banking sector is reformed and aligned with international standards. All regulations are in accordance with the Basel Accords and European Union norms. The banking sector in Montenegro has significantly recovered, but is still vulnerable.

Since 2014, four new commercial banks were established: Lovcen Banka, Zapad Banka, Nova Bank and Ziraat bank Montenegro. There are currently 15 commercial banks and six micro financing institutions 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 banks maintain a minimum share of capital equity in relation to assets, which is required. Also, banks undergo a supervisory review process, disclosing information about their economic activities. The central bank also continued to develop monetary instruments, policy review of reserve requirements and in cooperation with the World Bank, the government and the Bank Association.

The banking system, according to a quarterly report of central bank on the operations of banks and microfinance institutions, during the first half of 2016 was characterized by positive trends. There has been growth in total assets of banks, liquid assets, profits, solvency ratio, improving asset quality, as well as a fall in interest rates. Improving the quality of bank loans continued in the second quarter of 2016. At the end of the period, non-performing loans amounted to €278.7 million and a decrease of 7.1% compared to the end of 2015. The share of non-performing loans in total loans amounted to 11.72% and was 0.85 percentage points lower than at the end of the previous year. Bank capital, compared to the end of 2015, increased by 5.8%, and the banking system of Montenegro in this period is characterized by a high level of solvency, with a solvency ratio of 16.65% at the end of June. The growth of capital during the period was largely a positive financial result, the recapitalization of two banks and the start of a new bank in the second quarter.

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, according to the law on securities.

Banking system



8 | Currency and Price Stability

Inflation and foreign exchange policies are brought in line with other economic policy goals and are institutionalized in the country's largely independent central bank. Montenegro is a dollarized economy and uses the euro as legal currency. This significantly reduces the exchange rate risk and inflation risk, thus helping to achieve macroeconomic stability and reduce transaction costs. However, due to the dollarized economy, the ability of the central bank to conduct monetary policy is limited, and leaves it with only required reserve rate as a tool of monetary policy.

Recently, Montenegro faces a general fall in the aggregate price level. The fall of prices was driven by the strong decrease of transportation, food and other services, weaker than expected demand and the euro's appreciation on EU market, as well as falling wages and tight credit conditions.

The average annual inflation in Montenegro measured by consumer prices index (CPI) in the first three quarters of 2016 amounted to -0.3%, while in 2015 was 1.5%. The inflation rate in developed economies is recording a decline, mainly due to falling oil prices. Prices in the sector of transport in Montenegro have recorded a major decrease from the beginning of 2015, due to falling prices of oil and oil products in the world market.

The central bank of Montenegro contributes to price stability, publishing reports on price stability and delivering them to policymakers. The central bank is assessed by the relevant authorities as highly independent in achieving its 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 influence the work or decision-making bodies of the central bank.

The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes.

In the first three quarters of 2016, the public revenue was €1,216.7 million, or 32.6% of estimated GDP. This is 11% more compared to the same period in 2015, mostly due to the increase of revenues from fees, revenue tax and value added tax. The revenues were 39.6% higher compared to projections.

Public expenditures at the end of third quarter were €1,242.8 million, or 33% of GDP. It represents €105.9 million, or 7.9% decrease of spending compared to the same period in the previous year. The decrease is mostly due to the spending cut in the capital budget, amounting to €72.5 million. Current expenditures were increased by €66.6 million, or 5.9% mostly due to the increase of gross earnings and contributions

Anti-inflation /
forex policy



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Macrostability



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at the expense of the employers prescribed by the new law on earnings of employed in the public sector. Another reason is the increase of social protection transfers prescribed by the amendment of the law on social and child protection.

Finally, the public deficit amounted to €26 million, or 0.7% of GDP, and represents a decrease of 89.7% compared to the previous year. However, the public debt on 30 September 2016 amounted to €2,309.23 million, or 61.83% of GDP. By the end of 2016, it is projected at over 70% due to the start of Bar-Boljare highway construction. As a measure for confronting the sudden increase in public debt, the government has introduced a tax on fuel retail price in the amount of 0.07 euros per liter.

Fiscal developments indicate a less favorable environment than in the previous period due to a sharp rise of public debt caused by the investment in highway construction. Fiscal framework of Montenegro is developing in the direction of reducing the current account deficit by trying to increase revenues and reduce current spending. The public debt is projected at over 70% in 2016, and is caused in major part by borrowing funds for financing of infrastructural projects that support long-term economic growth, such as the highway currently being built. Therefore, fiscal policy was mostly restrictive in 2015 and 2016 and focused on reducing gray economy levels, increasing taxpayers' discipline and reducing tax debt. The primary goal of the fiscal policy was rationalization of budgetary spending, which includes a reduction of unproductive current expenditure in favor of capital expenses.

9 | Private Property

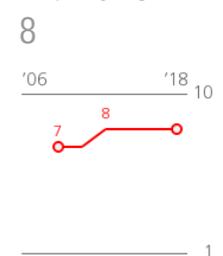
Property rights and regulations on acquisitions, benefits, use and sales are well-defined, but occasionally there are problems with implementation and enforcement under the rule of law.

In the previous years, a number of measures have been introduced to improve the protection of property rights. However, the institutional and legislative framework is developing slowly and suffers from a number of shortcomings. Additional efforts are needed in order to address pending cases in line with the national legislation and with the European Convention on Human Rights.

This process of restitution is proceeding very slowly and remains the main challenge affecting property rights. Procedures remain cumbersome, decision-making is slow and no progress has been made in the use of ECtHR case law. Displaced persons permanently residing in Montenegro still face discrimination regarding access to land. The draft law on spatial planning and construction has raised concerns about repercussions on their property rights.

The law on trademarks and regulation on the professional exam for representatives of trademarks and designs were amended to ensure better alignment with the EU's

Property rights



acquis. However, there is room for improvement. Additional work is needed to achieve full legislative alignment in matters of copyright and related rights, protection of industrial design, semiconductor topographies and patents.

Private companies are viewed as the primary engines of economic production and are given appropriate legal safeguards. In recent decades the privatization process has been intense. 90% of state property have been privatized.

Privatization has been an important source of budget revenue. Along with privatization, Montenegro introduced reforms aiming to improve the overall business environment. This facilitated the procedures for starting a business and created strong incentives for entrepreneurship.

State ownership in the economy is basically reduced to public utilities, some transport companies (i.e., the railways, one airline and four merchant ships), the postal service and some other companies. Overall, state-owned enterprises represent a small part of total employment. After being liquidated and sold to new owners, state support to the metal industry ended. The restructuring of the formerly state-owned Adriatic Shipyard in Bijela advanced slowly through the concession or sales of its different parts. The construction contract for replacing the old state-owned thermal power plant was signed in September 2016, but will come into force only in 2020. The difficult financial situation of the state-run Montenegro Airlines requires a comprehensive restructuring of the company. To this end, a cooperation agreement with Air Serbia was signed in August 2016.

In addition to state ownership in transport and utilities, a small percentage of companies in agriculture, publishing and tourism sectors are owned by the state. Partly due to its small size, Montenegro's public sector is the largest in East-Central and Southeast Europe in terms of general government total expenditure (49% of GDP in 2016 according to IMF data).

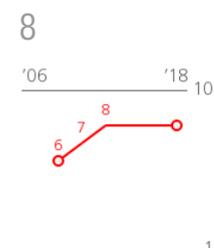
10 | Welfare Regime

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. The system of social protection in Montenegro includes health care, pension insurance, worker's compensation insurance, disability insurance, unemployment insurance, child support, etc.

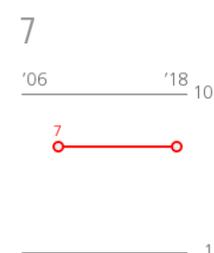
The number of recipients of social benefits and the level of the compensation they receive are unsustainable. Social transfers represent 38% of planned budget expenditures for 2017.

In July 2015, parliament adopted changes to the law on social and child welfare, ensuring a lifelong subsidy to mothers of three or more children. The government

Private enterprise



Social safety nets



strongly opposed the law, warning of potentially adverse fiscal impacts due to an unknown number of recipients. From the original estimate of 10,000 recipients, by December 2016, the actual number has grown to 21,597.

Women's groups also criticized this solution as discriminatory and disincentivizing for women's participation in labor market. Several thousand women who had already acquired right to an ordinary pension replaced it by this more advantageous subsidy. Also, a number of women opted for this subsidy and retracted from the labor market. According to the European Commission Report on Montenegro, in the second quarter of 2016, women labor force declined by 2.6 % year-on-year, while men's participation increased by 1.2%.

According to the government, 74 million euros or 1.8% of the GDP, was spent for this subsidy in 2016. As a measure of fiscal stabilization, in December 2016, the parliament voted for the government's proposal to decrease the amount of this subsidy. This will result in a saving of approximately 14.9 million euros. This decision of the government was criticized as unconstitutional, as it retroactively reduces already acquired rights. The Constitutional Court announced in December 2016 that it will assess the law's constitutionality.

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

In the total number of unemployed (39,991) in 2015, women represent 51.9% (20,749) and men 48.1% (19,242). Compared with 2014, the share of unemployed women increased by 25.2% and 6.2% for men. In 2016, the European Commission concluded that the gender imbalance worsened further as regulatory changes in the social care system, like the lifelong benefits for mothers of at least three children, provided disincentives for women participation.

In 2015, in the parliament of Montenegro 17.3% of parliamentarians were women. Also, 23.8% of councilors in local parliaments were women. 2014 changes of the electoral law prescribed that each party list must have at least 30% of candidates from the underrepresented gender (women) and that one in four candidates on ballots must be a woman. This regulation was applied for the first time in the 2016 parliamentary and local elections, and it showed some improvements. Party lists featured 32% female candidates. 23% of representatives in the new parliament are women.

The Roma population in Montenegro still experiences permanent poverty and social exclusion. This is reflected in difficulties in obtaining employment, social and health protection and education, as well as their insufficient participation in political and social life. According to a November 2015 opinion poll, the Roma are perceived as the most discriminated-against social group in Montenegro. 61.1% of respondents believe that discrimination toward Roma is distinct, and 58.2% of citizens feels that is very or fairly hard to be a Roma in Montenegro. 77% of Roma in Montenegro live

Equal opportunity

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in segregated neighborhoods, mainly in three municipalities – Podgorica, Nikšić in Berane. Over 40% of Roma households live in illegally built housing, and over 60% of households live in buildings that do not satisfy basic living conditions. Education drop-out rates in this population are still high. Employment rates for Roma remain low, with 82% of employers saying this is due to lack of education and skills within Roma population. In March 2016, the government adopted a new Strategy on Social Inclusion of Roma and Egyptians 2016-2020 that addresses these problems. Financial resources for its implementation are a challenge.

System of the affirmative action for ethnic minorities in electoral legislation is not favorable for Roma, as with around 1% share in population, they cannot meet the 0.7 minority threshold. Calls to give Roma the conditions Croats have (0.35% threshold), as they have almost the same share of population continues to be rejected by the majority of political parties. Roma remain politically unrepresented.

11 | Economic Performance

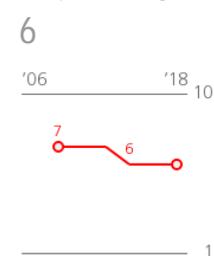
The beginning of 2015 was marked by adoption of new macroeconomic and fiscal measures and submission of the First Economic and Reform Program (2015-2017). In order to cope with unsustainable growth of public debt, the government of Montenegro was forced to introduce tax burden in favor of investments.

While 2015 has brought a moderate growth of 3.4%, the first three quarters of 2016 indicate a somewhat slower growth in Montenegro, amounting to 1.1%, 2.7% and 2.4%, respectively, or 2.06% growth on average.

The biggest portion of GDP is made by retail, wholesale and repair of motor vehicles and motorcycles (12.0%). Other important sectors are: industry (8.7%) agriculture, forestry and fishing (8.1%), services of accommodation and food (7.6%), real estate (6.4%) and construction (3.8%). Growth of GDP in 2015 was largely driven by strong growth in tourism turnover in the period first three quarters and the expected strong growth in the construction sector due to the start of the main work on the relevant highway section. The output of construction sector grew by 20 million euro. When it comes to tourism turnover increase, Montenegro was visited by 13% more tourists than in the previous year, while overnight stays recorded an increase of 15.5%.

Acceleration of economic activity and good tourist season has had a positive impact on the recovery on labor market. According to the statistical data, during the summer season of 2016 employment increased by 3.4%, compared to the previous period. However, the number of unemployed persons in the third quarter of 2016 was 47,100 persons, which represent a year-on-year increase of 3.5%. A high long-term unemployment rate, high participation of youth unemployment, disproportion between supply and demand on the labor market, increase in the number of university graduates unemployed persons, regional differences in number of employed and a large portion of unemployed persons considered hard to employ are still the biggest

Output strength



labor market problems. The planned investment projects could bring some relief on labor market, but only if the demand is not met by foreign labor force. When it comes to real wages, the inflation is offsetting nominal increases.

The average inflation in Montenegro measured by consumer prices index (CPI) in the period of January-November 2016 was -0.3%. The deflation in the respective period was mostly caused by the decline of prices of transportation (-5.3%), food and non-alcoholic beverages (-0.9%) and other services (-0.7%). In 2016, FDI inflow was 550 million euro, led by investors from Norway, then Italy, and Russia at third place. The money has been invested mostly in real estate, but also domestic companies and banks.

12 | Sustainability

Montenegro is still lacking a comprehensive strategy for the protection of the environment and against climate change, which are initiatives and long-term policies necessary to meet EU expectations.

In general, the institutions in charge of the development and implementation of environmental policies are established, but need to be significantly strengthened, especially their capacities for control and monitoring of the legislation's implementation.

The new law on the environment was adopted in July 2016 as well as the National Strategy for Transposition, Implementation and Enforcement of the EU acquis on the environment and climate change and its 2016-2020 Action Plan. The implementation constitutes a challenge because of limited administrative capacity and large infrastructure investment needs.

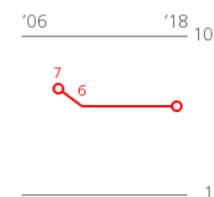
The biggest industrial polluters (the Aluminum Plant Podgorica, the Nikšić Steel Mill and the Pljevlja Thermal Power Plant) are still allowed to endanger the environment and health of people. While air quality plans for Pljevlja, Nikšić and Podgorica municipalities (where pollution levels exceed the limit), were adopted, the biggest problem of air pollution in Pljevlja was still not solved, nor was a long-term solution found to remedy the pollution in these towns.

According to the law on integrated prevention and control of environmental pollution, the biggest polluters (the Aluminum Plant Podgorica, the Nikšić Steel Mill and the Pljevlja Thermal Power Plant) failed to meet their legal obligation to obtain integrated licenses for work by January 1, 2015. Instead of prohibiting their work, legislative changes were announced to delay the deadline until 2020.

Also, the Law on Waste Management is likewise selectively enforced, another example of turning a blind eye on the worst polluters. The vast majority of municipalities disposes of waste in illegal locations, and there is no reaction from the authorities. Public awareness on this issue has not improved.

Environmental
policy

6



Education policy ensures a nationwide system of sound education and training, while research and development is deficient. Primary and secondary school enrollment rates remain high, as these segments of education are free and most job positions require at least a high school diploma.

Gross enrollment rates in upper secondary education (ISCED 3) remain, at around 90%, close to the OECD average.

The government has adopted strategies and action plans to improve elementary and higher education, but institutions charged with education need to improve the capacity of teachers in order to implement a new and revise programs. A strategy and action plan for the development of higher education 2016-2020 were adopted with the aim to harmonize the education output with labor market needs. Also, the 2016-2020 strategy for lifelong career orientation and its 2016 action plan were adopted in June.

Montenegro achieved weak results in OECD/PISA testing students, aged 15, in language, mathematics and science. Montenegrin students ranked 59 out of 72 countries in the area of scientific literacy and 51 in the field of reading literacy and mathematics.

The annual budget for education is 4.2 % of GDP in 2016 and 4% in 2015. Montenegro will invest about 3% of GDP in research and development by 2025. Based on the amended strategy for scientific research activities (2012-2016), Montenegro aims to invest 1.4% of its GDP in research by 2016. The latest statistical data (MONSTAT) indicate that the total national spending on research and development in 2014 was 0.36% of GDP. This is still much lower than the EU average of 2.07%.

There are no reliable figures available on investment in research and development by the private sector. In particular, Montenegro is an associate country to the European Research Area, which means that the Montenegrin researchers can benefit from ERA funding. However, due to the lack of competitiveness of Montenegrin researchers, only a handful have benefited from this type of funding.

Education policy /
R&D

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Governance

I. Level of Difficulty

The global economic crisis left a strong and long-term effects on the Montenegrin economy, reflected in slowing real economic growth and reduced long-term potential growth. Global economic recovery is quite slow, especially in the surrounding countries with which Montenegro has the most important economic relations.

Structural problems seen at the beginning of the decade exist even today and in sharper form: large public employment, including in state-owned enterprises and large government spending. Moving away from this model requires the creation of a favorable environment for private sector development and reduction of public sector employment, restructuring of state-owned enterprises and rationalization of public spending.

Uneven regional development and structural discrepancies between north and south are increasingly present. The construction of a major infrastructure project, the Bar-Boljare highway, has commenced, but its completion will depend on the stability of financing. The project is expected to improve Montenegro's transport connections and to facilitate its regional integration.

According to the Ministry of Interior database, there is over 4,000 registered non-governmental organizations, which is a very high number compared to the size of population.

In the last several years, civil society and its initiatives are very present in public life and media. Initiatives, proposals and comments of CSOs are the focus of media reporting on a daily basis. In comparison with the other countries in the region, civil society in Montenegro has better access and higher influence on policy-making.

Participation of CSOs in policy and decision-making is being developed through different mechanisms. The level of participation and influence varies, and in some processes it is better than in the others. CSO participation in the last electoral reform and oversight over the electoral process is a positive example.

However, sustainability of CSOs is fairly weak, as CSOs remain highly dependent on international donor funding. The EU remains a crucial source of funding for most

Structural
constraints

5

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Civil society
traditions

4

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Montenegrin CSOs, taking into account encouraging partnerships and inclusion of small local CSOs. CSOs also receive significant public funds for their activities, but it is necessary to continue with improving procedures and transparency of public funding. A current law on NGOs, in force since 2012, could be improved in terms of financing and sustainability.

Tradition of civil society organizations is fairly new, it started to develop in late 1990s. However, in this short period, civil society became an important and irreplaceable actor in all societal processes.

As a result of same-party rule for over 25 years, plus a fairly weak opposition throughout that time, CSOs are often perceived as a part of the opposition force. This sometimes puts CSOs under a lot of public pressure, but also their policy proposals are often shaping the state's official agenda.

According to CEDEM poll from December 2016, public trust in civil society organizations is 45.3%.

There were few violent incidents based on social, ethnic and religious lines, given that radical actors have limited success in mobilizing along existing cleavages. Montenegro represents a functional multicultural society, although it is still divided around unresolved ethnic/national and religious identity issues.

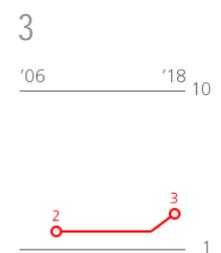
In 2015, public discussion about the law on freedom of religion triggered small-scale conflicts in Kotor and Bijelo Polje. Serbian Orthodox Church supporters tried to attack the Metropolitan of MOC and denied him from participating in the public forums.

Violent incidents occurred during October 2015 protests organized by the Democratic Front. On October 24, protesters attacked the police with poles, stones and Molotov cocktails, resulting in injuries to around 30 officers. Police used force to break up the protests. The outcome of investigation and persecution against perpetrators of violence and allegations of excessive use of force by the police is still pending.

In the reporting period, the security situation was marked by frequent murders and explosions, attributed to the ongoing conflict between mafia clans.

In 2017, the finalization of NATO integration process and expected decision of Montenegro to join NATO poses a strongest potential for conflict escalation.

Conflict intensity



II. Governance Performance

14 | Steering Capability

The government used strategic priorities for short-term political points and electoral benefits, especially during the election year 2016. NATO membership, near complete, and joining the EU are still the government's top two strategic goals – and are still being presented as only achievable if the long-term ruling coalition remains in power. NATO membership, which was used for electoral benefits more often than joining EU, is almost certain, so EU membership remains the single long-term strategic priority for the time being.

There is no unique strategy plan containing government priorities. Policy priorities are not presented directly, but indirectly drawn from exposé of the prime minister. Coalition agreements remain secret and non-transparent, so it cannot be known if policies priorities are included in these documents. Mid-term planning is not fully developed and even the mid-term budget framework doesn't have a clear projection of government's mid-term priorities.

However, steps to strengthen strategic planning and coordination of policies have been taken by adopting new Public Administration Reform Strategy 2016-2020. Newly established Ministry for European Affairs was given authority over some segments of the strategic policy planning and evaluation, while other mechanisms envisaged by the strategy should be implemented through the Secretariat General of the government. The effects are to be assessed in the upcoming years.

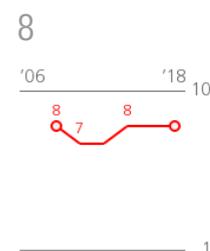
Evidence-based policy is only partially ensured. Regulatory impact assessments are being done only to meet formal requirements, not to provide quality analysis on the impact on economy and citizens. They are being prepared at the final stages of legislative process which is too late and thus affects its quality.

The EU remains the most influential actor outside the government when it comes to planning and implementing policies and strategies.

The government has limited success when it comes to implementing policies. Montenegro is deep in the negotiation process with the EU and adapting its legislation to the EU acquis, and many of the laws were reformed, new ones were adopted, but the implementation of legislations stays limited, as the European Commission also stated in the report on Montenegro. This is mainly due to lack of political will and continuous lack of administrative capacities. Implementation

Question
Score

Prioritization



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Implementation



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remains limited even without strong enough interests groups and unions to obstruct the government in implementing laws.

Montenegro has so far opened 26 of 35 chapters in negotiation process with the EU. Two of them are provisionally closed (Science and research, Education and culture). Even though some progress has been achieved, it stays limited in crucial areas like rule of law, fight against corruption and fundamental rights, mainly because of limited implementation of the action plans for these areas. Despite frequent assessments that Montenegro's progress remains limited, the country is still the furthest along among Western Balkans states in negotiations with the EU.

On the other hand, Montenegro successfully implemented all the reforms required by NATO, which resulted in getting an official invitation to join the alliance in December 2015. In May 2016, Montenegro and all the NATO member states signed the Accession Protocol. The protocol has been ratified by 22 out of 28 NATO member states so far. Public opinion on NATO membership in Montenegro is split. A December 2016 public opinion poll conducted by the NGO CEDEM showed that 39.5% of citizens supports integration in NATO, while 39.7% of them oppose NATO membership. Montenegro is expected to become a NATO member before the next NATO summit.

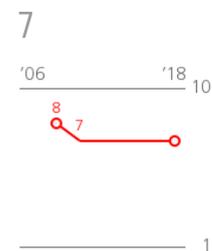
The government demonstrates a general ability of policy learning, but its flexibility stays limited. Learning processes don't seem to affect the routines and the knowledge foundation on which policies are based.

There's still no effective system for monitoring and evaluation established. However, the Action Plan for Public Administration Reform, adopted in July 2016, lays out activity on the development of the methodology for planning and assessment of performance of public policies. In addition, changes of Government's Rules of Procedure for defining procedure for planning, coordination and performance measurement have been set. Even though the deadline for implementation of these activities was the last quarter of 2016, there is no information on its realization yet.

The government continued to benefit from international cooperation and expert services from European institutions. On the other hand, as the part of austerity measures, the new Prime Minister Duško Marković has asked ministers to reduce costs for consulting services. Public consultations on legislative proposals are previously introduced by the law. This mechanism is more of formal character and beside civil society organizations, there is little evidence that citizens provide inputs.

In Montenegro there are no institutionalized mechanisms that facilitate innovation and flexibility in policy-making.

Policy learning



15 | Resource Efficiency

The government makes efficient use of only some of the available human, financial and organizational resources. Key concerns remain rapidly growing public debt, high fiscal deficits, high external imbalances and high unemployment rate.

In September 2016, public expenditure in Montenegro was 48.3% of the GDP, highest among the Balkan countries. The law on budget for 2017 was adopted with no detailed discussion, because the opposition boycotted parliament sessions. The budget revision at the end of 2016 increased public debt another 100 million euros. While in 2015 the public debt was 67.28% of GDP, in 2016 the debt was 66.52% of GDP.

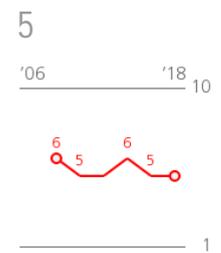
The government projection is that it will continuously rise and in 2019 will get to the highest point with 79.52% of GDP. The government expects reducing after 2019 (74.07% of GDP in 2021). In the latest report on Montenegro, it is stated that immediate corrective measures are required, due to large-scale public infrastructure investments and new expensive social expenditure programs. The particular challenge for public debt is the Bar-Boljare highway project.

Although a set of strategic documents were adopted in 2016, depoliticizing and downsizing public administration in Montenegro remains a concern. This is particularly noted by the European Commission, which constantly underlines that strong political will is needed to address stated problems. In addition, the new prime minister also stated that public administration in Montenegro is oversized and expensive. Hence the Montenegrin public administration lacks efficiency and administrative capacities. The state is the main employer in the country.

However, in 2016 the government adopted the Decision on Establishment of the Council for Public Administration Reform in order to strengthen institutional capacities and provide support for reform. The establishment of the Ministry of Public Administration will also strengthen institutional structure.

Competitive recruiting procedures are not protected against political influences. The “Audio-recording affair,” which indicated incumbent politicians’ use of public sector employment to preserve electoral support, has not yet led the government to revise the institutional framework and practices of public sector recruitment. A majority of citizens believe that being a member of political party is the main criterion for employment.

Efficient use of assets



The government tries to coordinate conflicting objectives, with limited success. Policies lack the concrete indicators that should reflect the effects and measurable results, while some are being adopted even outside plans. This makes it particularly difficult to assess their performance measurement. For instance, in 2015 the law on foreigners was adopted, but the government suspended the set of provisions as a compromise due to conflicting objectives. This was done to avoid difficulties to employers during the tourist season.

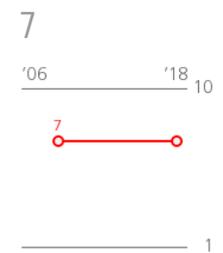
Policy coordination remains weak and insufficiently formalized. There is still no formal mechanism for planning the implementation of policies, thus the materials submitted to government do not need to include it. There is no system for analyzing and recognizing the problems in law implementation. Reporting procedures toward government are not formalized and precise. Efficient financial planning is also lacking. The new public administration reform recognizes these shortcomings in coordinating, and thus set the priorities for coordinating policy improvement in the long term.

Regarding the EU integration process, the new coordination system splits the Ministry for European Affairs from Ministry for Foreign and European Affairs. The new institutional structure reflecting the government dedication to this strategic goal was introduced in order to improve the fulfillment of EU criteria, as well as the coordination among competent ministries.

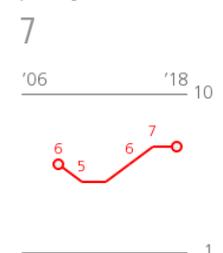
In the field of anti-corruption policies institutional progress have been made. The Special Prosecutor's Office was formed as an independent body in the fight against organized crime and corruption. The Special Prosecutor's Office has had some successes through several financial investigations against companies and dozens of individuals related to the multi-million-euro fraud in the municipalities of Budva, Kotor, Herceg Novi and Podgorica. In January 2016, Montenegro established an Agency for the Prevention of Corruption with a broad mandate to oversee the enforcement of anti-corruption legislation, preventing conflict of interest, controlling political party financing, etc. Montenegro has been seen as the most advanced in the anti-corruption reforms in the region as it has also managed to secure NATO membership, but allegations over state capture continue to plague the country.

Despite a strengthened institutional framework, European Commission Report for Montenegro repeats the same remarks as in the past years, especially when it comes to the fight against organized crime and high-level corruption. The report highlights that corruption remains widespread and constitutes a serious problem while the results in fighting corruption and organized crime remains limited. The results of the agency and prosecution are not sufficient to conclude a definitive improvement compared to the previous period, nor clear evidence of the political will to fight organized crime and high-level corruption.

Policy coordination



Anti-corruption policy



The Agency for Prevention of Corruption is responsible for implementing the law on financing of political parties and electoral campaigns since January 2016. The agency can carry out administrative investigations and administrative measures.

During 2016, the agency carried out a series of activities aimed at controlling the legal obligations of the authorities at the state and local level, public enterprises, public institutions, commercial companies with state capital and political actors. Results and impact of the activities still do not ensure an appropriate level of transparency and access to information on the use of state resources and the financing of political subjects during the election campaign.

Group of States against Corruption (GRECO) evaluation stated that the law for prevention of corruption in Montenegro contains good measures for prevention of conflict of interests, but there are also many critics in terms of real independence and capacity of the bodies to prevent conflict of interest when it comes to parliament members, judges and prosecutors. Similar to the EU, GRECO evaluators conclude that, in spite of positive legal changes that were introduced in the system, corruption remains an important topic of concern in Montenegro, which leads to lack of public confidence in some of the key institutions, primarily political organizations and the judicial system.

Amendments to the law on public procurement, which began to be implemented in May 2015, resolved a number of concerns that have previously plagued the system. Still, significant number of problems that prevent efficient and quality implementation of the law by the contracting authorities and bidders, adequate legal protection, supervision and control by the civil society, media and citizens.

The practice of violations of the law on public procurement, in terms of frequent use of direct agreements with suppliers and skipping the public procurement procedure prescribed by law, continues. Institutions often do not adopt proper procurement plans, do not submit reports on conducted public procurement, and these cases are not prosecuted.

16 | Consensus-Building

All major political actors agree on establishing democracy as a strategic, long-term goal of transformation. Consensus on democracy is very high, as there are no political actors that promote anti-democratic ideas. While all major political actors agree on democracy as a strategic, long-term goal, there are divisions over whether to embed sociopolitical safeguards, implement a neoliberal approach or pursue Euro-Atlantic integration as a key foreign priority of Montenegro.

All major political actors agree on establishing a market economy as a strategic, long-term goal of transformation. Controversies and protests intensified in past years

Consensus on goals



when a set of neoliberal economic policies was introduced to deal with the effects of the financial crisis. Problems with regard to state aid and the state's liability for loan guarantees to failed businesses also emerged.

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

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

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

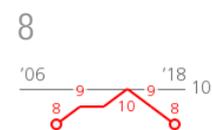
Probably the most significant “non-democratic” actors are representatives from religious communities, above all the Serbian Orthodox Church (SPC) in Montenegro. The church often publicly promotes attitudes on the verge of hate speech, opposing certain government policies like NATO integration or the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

Ethnic/national identity divisions are still important in the political and cultural sphere, which is evident in many cultural policies introduced by the government, as well as in discourse employed during election campaigns. One of the key areas of national consensus is EU integration as a strategic goal (63% strongly support Montenegrin integration into the EU, according to CEDEM, December 2016). However, with regards to NATO integration, society is severely polarized, which brings many ethnic/national differences to the surface. Following the anti-government protests in fall 2015 and the breakup of the governing coalition in January 2016, Prime Minister Djukanovic invited opposition parties to establish a “government of electoral trust” to prepare fair elections. Three opposition parties joined the government, but the more radical opposition parties rejected the prime minister's offer.

Political leadership permits civil society participation: on some issues it takes into account and accommodates the interests of most civil society actors, while on others, it tends to ignore civil society actors in formulating policies.

According to the Ministry of Interior (MoI), as of 2016 there were 4,213 registered associations and foundations in Montenegro and 115 branch offices of foreign CSOs.

Anti-democratic actors



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Cleavage / conflict management



1

Civil society participation

7

During the year, 494 new CSOs and three branch offices of foreign CSOs were registered. Most CSOs operate in the fields of culture and social services for children and youth, while crafts, consumer protection and entrepreneurship are the least represented. More than 40% of all registered CSOs are located in Podgorica.

The non-governmental sector is involved in agenda setting, policy formulation and performance monitoring. Other civil society actors – experts from academic and business sectors – are often included in policy formulation. CSOs are still recognized as valuable government partners in specific areas, such as enabling civil society participation in the EU and Euro-Atlantic integration processes and providing services to persons with disabilities. However, a number of CSOs believe the government engages in this cooperation only to satisfy Brussels, given that CSOs are generally unable to influence decision-making processes. Foreign donor support has declined, and state funds for the sector are insufficient. Additionally, the allocation of state lacks transparency and clear criteria for allocation.

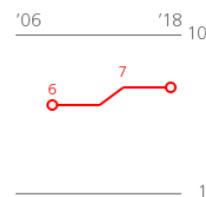
The EU is the major funding source only for the most professional CSOs. In 2014, it became clear that lack of funding is a systemic problem, rather than a threat only particular CSOs have to deal with in order to ensure the sustainability and quality of their work. Overall, the consequence is that a number of CSOs enjoy significantly lowered political capital, which is most evident in weak influence on decision makers.

A draft law on amendments to the law on NGOs was prepared in 2015 with the intention to improve the system of CSO financing from the state budget. However, the adoption of the draft law was put on hold.

The government has established several mechanisms to facilitate cooperation with CSOs, as well as the development of the sector. The Office for Cooperation with NGOs and a network of liaison officers in ministries and other state administration bodies facilitate coordination and cooperation between the government and CSOs.

The newly founded Council for Development of CSOs was generally unable to reach consensus on many issues debated during its sessions in 2015. In 2016, the members of the council boycotted sessions.

CSO representatives are also included in working groups for the negotiation process with the EU, but in this phase of the negotiation process is limited and passive. CSO representatives are also members of the Joint Coordination Body of the European Economic and Social Committee and other advisory bodies established by the government or other state entities.



Since mid-2015, war crimes are under responsibility of Special State Prosecutor Office and a war crimes prosecution strategy was adopted in September 2015. Seven new investigations were launched, although no details about the ongoing investigations have been revealed, because of legal prohibition of disclosure of information at early stage. Yet criticism remains over a lack of serious efforts to deal with war crimes cases and an absence of proactive approach of Montenegrin prosecution.

Command responsibility for war crimes is still not challenged; no high-ranking official is accused. Proceedings are conducted mainly against low ranking officers. Judgments have failed to fully embrace all responsible, whether they are in the political or command staff. Proceedings are selective, primarily include direct perpetrators, which makes the whole concept of reconciliation in Montenegro pointless in large part. CSO activists believe that the same ruling elite is present as in the time of war crimes, thus they continuously intend to reduce the significance of these offenses in public.

This topic is mostly presented in public by statements and work of NGO activists and is often neglected in official narratives.

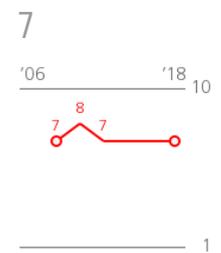
17 | International Cooperation

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

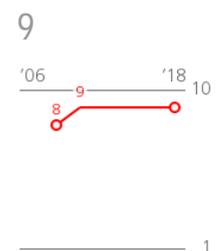
A majority of international actors consider the Montenegrin government a credible and reliable partner, but some officials and international actors express doubts regarding its reliability with regards to freedom of the press, judicial reforms and fighting against corruption and against organized crime.

In December 2015, NATO invited Montenegro to join the alliance. In May 2016, NATO member states signed the Accession Protocol for Montenegro. By the end of January 2017, 20 members states ratified the Protocol. The ratification process is

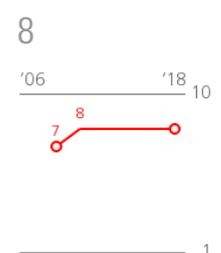
Reconciliation



Effective use of support



Credibility



likely to be completed in the first half of 2017. After that, Montenegro will be able to become a NATO member state.

The EU has expressed its confidence in Montenegro by continuing accession negotiations. Montenegro is a leading EU aspirant, with 26 negotiation chapters opened.

Regional cooperation is an important foreign policy priority. The political leadership actively promotes regional and international integration. The government cooperates with all neighboring countries and complies with the rules set by regional and international organizations. During the period under review, Montenegro joined NATO and continued accession negotiations with the EU.

In recent years Montenegro has also contributed to regional cooperation initiatives, such as the Western Balkans Six, i.e., the Berlin/Vienna and Paris process launched by the EU to build and connect transport and energy infrastructure linking the Western Balkan countries.

Moreover, the political leadership sees good neighborly relations as a strategic goal. Montenegro is the only country in the Western Balkans that keeps good relations with all its neighbors.

Montenegro has made significant progress in the area of border demarcation.

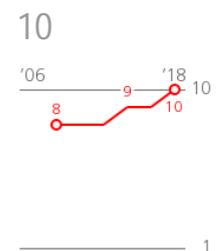
An agreement on demarcation with Bosnia and Herzegovina came into force in April 2016. Demarcation with Kosovo was signed in August 2015, but still awaits ratification in Kosovo parliament. Montenegro showed wide understanding for political implications of this topic in Kosovo, contributing significantly to reduced tensions in the Kosovo political scene and to friendly relations between two countries.

The border with Croatia is under interim regime since 2002, and both countries agreed to seek a diplomatic solution or to adhere to the decision of the international court if the agreement is not reached bilaterally. Montenegro and Croatia have strong cooperation, and both governments are expressing full commitment to solve this issue through dialogue.

After a long period of resentment, Montenegro and Serbia in recent years work closely on improving bilateral relations. In the reporting period, these relations can be assessed as cooperative. While there is no border dispute between Serbia and Montenegro, demarcation is not yet formalized, due to Serbia-Kosovo relations.

Montenegro and Albania also have strong bilateral relations and dynamic cooperation. In January 2017, two foreign ministers announced that the negotiations on demarcation of the two countries will end soon.

Regional cooperation



Strategic Outlook

Montenegro is expected to become a full-fledged member of NATO. After ratification of the Accession Protocol in NATO member states, Montenegro will have to ratify the North Atlantic Treaty. The constitution of Montenegro allows for this decision to be brought by the parliament, and parties that support membership have sufficient majority for the parliamentary vote. However, a significant share of citizens hold negative views of NATO and oppose joining the alliance. Their political representatives are demanding a referendum on NATO membership. This societal division poses a strong potential for conflict.

2016 elections have not resolved the political crisis. Opposition continues to boycott the parliament, demanding new elections in 2018. High EU officials have already stated that the parliament boycott in a country undergoing negotiations on EU membership is not a viable solution. The government and the opposition are expected to overcome the blockade. In order to find a sustainable solution, remaining problems with institutional and legal framework for elections must be resolved, so that Montenegro can finally have election results recognized by all participants.

Montenegro is expected to continue making progress in its EU accession negotiations, maintaining the position of the leading country in the process of EU integration of the Western Balkans. Montenegro has opened 26 out of 33 negotiation chapters, and the government should create conditions for opening the remaining and provisionally closing several of the chapters, particularly since no chapters were closed between December 2013 and February 2017. Improving the rule of law will continue to be one of the key challenges of EU integration process, especially when it comes to the fight against corruption and organized crime.

In the coming years, it is expected that Montenegro will struggle to keep its macroeconomic stability, manage the burden of pending debts, work on consolidating public finance and create favorable conditions for foreign investments. According to the government's prognosis, public debt will continue to grow throughout 2017 and 2018.

Improved living standard of citizens, especially economically vulnerable social groups, such as retirees, socially vulnerable persons, including a large number of employees who are financed from the state budget, cannot be expected in the short term. However, with more careful management of state resources, faster economic growth can be achieved, which is the real basis for increasing living standards in the long term.