



Government of Montenegro  
and  
United Nations Development Programme

**Crisis mitigation in uncertain times:**  
**Conflict prevention through targeted economic development and institutional building**

BRIEF DESCRIPTION

Development trends in Montenegro during recent years resemble the textbook case of a “bubble” economy, in which large capital inflows into “non-productive” sectors (e.g., real estate, finance) combined with a rigidly fixed exchange rate (due to unilateral euroisation) to produce unsustainable large current account deficits.<sup>1</sup> In a time of global deleveraging and sharp reversals in emerging market capital inflows, this leaves Montenegro extremely vulnerable to a “hard landing”, in which reductions in external financing produce punishing declines in production, incomes, and hence in domestic demand and employment—with commensurate increases in poverty and social tensions. With IMF predictions that Montenegrin economy will grow -2.7% and -2.5 in 2009 and 2010 and the actual economic growth in Montenegro in the first six months of 2009 standing at -3.5%, global economic crisis has the potential to turn pervasive underdevelopment, combined with social and political exclusion, into a potent mixture that has the potential to mutate into civil unrest, opening the possibility of derailing Montenegro's journey towards EU accession. This has already manifested itself in a wave of unprecedented wave of workers' strikes, demonstrations and civil disobedience.

The crisis has created an opportunity for Montenegro to address some entrenched, long-term developmental challenges through taking short-term steps at rapidly responding and managing the immediate effects of the crisis and committing to the long-term intervention at institutional building and capacity at the municipal level with a goal of creating an inclusive market. The crisis has had a tri-effecta on Montenegro's socio-economic picture. First, with the economic crisis negatively impacting the metallurgy sector globally, Montenegro's major industrial complex in the central region, accounting for over 60% of total exports and employing over 5,000 people, collapsed, putting a significant pressure on the Government's dwindling resources. Second, the traditionally underdeveloped north western region is undergoing a socio-economic breakdown with its unemployment and poverty rates rapidly increasing followed with the spike in the workers' hunger and general strikes and blockades of the roads. The region formerly known as supportive of and engaging in smuggling, criminal activities and politically motivated violence and currently one of the most heavily armed territories in Europe (SALW per capita) is also a home to a constituents that is downright hostile toward government's policy on issues such as NATO membership, Kosovo's independence and a restrictive policy on dual nationality with Serbia. Third, the economic crisis caught Montenegro by surprise and ill prepared to streamline its national and international resources at addressing the most pressing challenges and to provide institutional mechanisms for peaceful conflict resolution and labor disputes. Without an institutional mechanism, the workers are creating their own venues for expressing

---

<sup>1</sup> According to EIU reports, the current account deficit in 2008 was above 40% of GDP.

discontent that are getting radical with time. As an underlying current with all three conflict drivers cited, the gender element is powerful through increasing unemployment among women, decreasing participation in policy and decision making, and increasing instances of reporting violence over women in what remains the heaviest armed country in the region. The particular timing of the crisis for Montenegro is significant- further decline and downward spiral of unemployment, poverty, lack of institutional means for conflict mitigation threatens to derail the country's accession toward the EU.

In order to address this alarming trend and mitigate the local effects of the global crisis, this programme proposes the accelerated establishment of new conflict management mechanisms at the national level, a series of improvements to the business environment of the North-west region and support to the under-resourced municipal authorities in promoting social inclusion, and re-employment and vocational training for redundant workers with a goal of providing a chance for re-absorption into the labor market. The proposed programme draws on UNDP's existing strengths and programmes in governance, environment and local development but seeks to promote a rapid improvement in crisis prevention and mitigation both nationally and in the North-west of the country in particular.

## SIGNATURE PAGE

<p>UNDAF/CPAP Outcome(s) / Indicator(s):</p>	<p><b>Outcome: no UNDAF for Montenegro/CPAP Outcome (s):</b>          At the time of CDP formulation and signing, neither party could have predicted the complexity and depth of the current economic crisis and its disastrous effects on the socio-economic situation and stability in Montenegro. Therefore, there is no adequate outcome in the CDP for 2008-2011 that reflects the work performed through this program. This program is a direct response to the effects of the global economic crisis on Montenegro that both provided an opportunity to address long-term development challenges (weak or inexistent conflict prevention and resolution mechanisms as well as lack of gender mainstreaming in municipal planning and business, weak municipal capacities for project manager and strategic planning, poverty reduction through private sector development) as well as it allowed UNDP to provide short-term assistance in mitigation of the potential and management of the current effects of the crisis on socio-economic situation in Montenegro, as well as the risk posed by armed violence associated with civil unrest.</p>
<p>Expected Outcome(s)/Indicator(s):</p>	<p>Objective:          Strengthened community security and social cohesion through targeted economic development, broad-based improvement of the national conflict management mechanism and armed violence prevention capacities, generation of new employment through active green labour schemes, and increased public participation in decision making</p> <p>Indicators:</p> <ul style="list-style-type: none"> <li>• New national conflict management institutions formed and existing ones strengthened</li> <li>• Small Arms Light Weapons (SALW) Commission re-established, functioning and implementation of a National Strategy and development of Action Plan</li> <li>• Innovative model of active labour market measures for self-employment creating new jobs and SMEs</li> <li>• Vocational and re-employment training program transforming industrial labour redundancies into active employers</li> <li>• NW municipalities capacitated to create a measurable improvement in business environment and utilize EU funding for development</li> </ul>

Objective:

**Enhanced capacity of the government to effectively plan, mitigate and respond to the inter-linked threats of financial turbulence, civic unrest and the potential for armed violence**

**Baseline:**

- Montenegro, with highest SALW per capita in Europe, ranked in top 1/3 of all countries vulnerable to socio-economic unrest as a result of the financial crisis, partly due to crisis impacts on: a) 19.8% decrease in the planned Governmental budget for this year due to the crisis, b) estimated -5.1% regional growth in 2009, c) current account deficit -34% d) highest income inequality in region (inequality increased over 50% over last 4 years), e) 35% of respondents of Quality of Life survey claim that there is significant tension between rich and poor; f) 48% interviewed households have difficulties making ends meet; g) unemployment: unprecedented number of labor unrest and hunger strikes in the northern region due to rising unemployment and degraded business environment; h) industrial complex breakdown: rising tensions among soon-to-be laid off employees causing daily strikes and street blockages;

- Nonexistent high-level anti-crisis team (ACT) in charge of coordinating resources, designing responses and implementing anti-crisis measures that would address:

- Institution in charge for mediation of labor disputes (Agency for Peaceful Resolution of Labour Disputes, PRLD, exists on paper, but does not function)

**Indicators:**

Number of programs and anti-crisis measures devised by ACT addressing: rising unemployment in the industrial sector, degraded business environment, increased tensions in the northern region due to the increased unemployment, increased standards of living and economic growth

Number of cases brought before the Agency for Peaceful Resolution of Labor Disputes

Enhancements realised through the SALW Commission in the following respects:

- Enhanced capability of the Ministry of Interior and other relevant entities to control arms and enhance security and provide assistance to local communities to increase safety and reduce violence
- Enhanced capacities of relevant line ministries to input into the design of a New Law on Arms; consummate improved public knowledge of the said Law
- A measurable reduction in illicit arms possession, violence; and a consummate improvement in the perception of security nationwide
- Improved public awareness of the risks posed by firearms
- Improved public knowledge, attitudes and practices regarding firearm possession and use
- Increased engagement of civil society in awareness raising activities

	<p>Objective:  <b>Industrial redundancy-support mechanism created to avert high-risk social tensions through re-training and re-employment<sup>2</sup></b></p> <p><b>Baseline:</b></p> <ul style="list-style-type: none"> <li>- Increase in the number of strikes and labour disputes in 2009 to unprecedented level</li> <li>- Increase in the rate of reported violence (7.3% of increase in reports of physical violence against women this year)</li> <li>- At least 2,000 workers soon to be redundant with limited financial severance packages and alternative employment, re-education and business development opportunities (at least 30% women)</li> <li>- No re-employment mechanism in existence for current and potential redundancies from the industrial sector</li> <li>- Country's largest employer (next to the public sector employment) KAP operating with a loss since 2007, indicating short to medium term possibility of a complete shut-down, impacting a supply chain of over 100 SMEs and 5,000 employees</li> <li>- No analysis or baseline study uncovering the effects of the crisis on the labour market demand (no corresponding measures implemented aimed at labour market reform)</li> </ul> <p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>- Number of new fields of demand identified and training courses correspondingly developed for re-training and re-employment</li> <li>- Number of individuals recently redundant enrolled and re-trained</li> <li>- Numbers of individuals gaining employment opportunities increasing</li> <li>- Number of protests declining</li> <li>- Reported rates of violence declining</li> </ul>
--	---

---

<sup>2</sup> This output is design to provide re-employment and training opportunities for redundant employees from the industrial sector

**Objective:**

**Model for growth of family and small businesses created to reabsorb the unemployed and mitigate social unrest<sup>3</sup>**

**Baseline:**

- 18% of people living in the north are poor (62% of all poor live in the north)
- poverty risk in north is 1.5 times higher than national average
- 5.9% of households, 10.2% individuals are socially included in north
- 3.3% of those over the age of 15 is multiply deprived as opposed to 0.2% in rest of the country
- economic growth in first half of 2009: -3.5%
- unprecedented number of strikes and labor disputes in NW
- high level of bankruptcies and shut downs among larger companies in NW (wood and leather processing, mining)
- SME sector unable to absorb the increase in unemployed due to crisis impacts, low liquidity and weak banking sector
- high barriers to business on a national level (WB report): starting a business (15 procedures, 24 days); dealing with licenses (19 procedures, 185 days); registering property (8 licences, 86 days); paying taxes (372 hours, 31.6% of profit); closing a business (2 years, 8% of estate cost, 42.8 recovery rate of cents on the EUR).
- no successful self-employment model exists
- EC analysis on business barriers uncovers that the obstacles that start-ups face in Montenegro include: burdensome business regulations, an absence of business support services, lack of advice, mentoring, and best practice guidance, limited access to appropriate financial resources, and limited and/or costly access to telecom services, particularly the internet<sup>4</sup>
- no baseline or study done on business barriers on the local level, with anecdotal evidence that mayors are manipulating the tax law on the local level
- 1% of women are business owners
- rate of reported violence against women higher than national average in the north, 13%

**Indicators:**

- Number of viable business plans created through a capacity development approach with the potentially self-employed in NW
- New model for self-employment created with emphasis on business support
- Number of new registered companies and jobs created (specifically targeting those who lost jobs from the recently bankrupted companies and women)
- At risk of poverty percentage decreasing
- Number of mitigation actions devised/implemented addressing business barriers on local level

---

<sup>3</sup> This output will take in consideration the active measures for employment in the North West region as well as for all those who are currently employed in the industrial sector in the central region but opt for the government's development program for self-employment

<sup>4</sup> IPA Centralized National Program to Montenegro, CRIS number: 2008/020-316

	<p><b>Objective:</b>  <b>Municipal capacities enhanced to mitigate social unrest through increased and transparent public participation in decision making with specific emphasis on women and business environment in NW</b></p> <p><b>Baseline:</b></p> <ul style="list-style-type: none"> <li>- Lack of capacities for design and implementation of investment projects</li> <li>- Ineffective management of municipal revenue-generating tools that leads to retardation of business growth</li> <li>- Insufficient knowledge of EC IPA funding framework</li> <li>- Weak project management capacities</li> <li>- Low participation of women in business, planning, decision and policy making</li> <li>- 15% of women active in politics (national/local assemblies)</li> <li>- 85% of all FDI up until last year committed in the central and southern region</li> <li>- According to the Municipal Attractiveness survey, low/inadequate performance of local municipalities to create favourable environment for sustainable, pro-poor development</li> <li>- 39.5% of total labour force is women, 7.2% of which are in management positions</li> <li>- 30% of all women in the north are employed vs. 42.6 in other two regions</li> <li>- 1% of all women are business owners</li> <li>- 7.3% of increase in reports of physical violence against women</li> <li>- NW region is part of country with the highest ownership of SALW in the country</li> </ul> <p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>- 39.5% of total labour force is women, 7.2% of which are in management positions</li> <li>- 30% of all women in the north are employed vs. 42.6 in other two regions</li> <li>- 1% of all women are business owners</li> <li>- 7.3% of increase in reports of physical violence against women</li> <li>- NW region is part of country with the highest ownership of SALW in the country</li> </ul>
	<p>Cross Cutting Objective:</p> <p><b>Gender</b></p> <ul style="list-style-type: none"> <li>• Measurable improvement in decreasing gender-based violence and creating economic opportunities for women through strengthening cooperation between existing gender mechanisms with civil society, business associations and local government.</li> </ul> <p>Indicators:</p> <ul style="list-style-type: none"> <li>• Percentage of women in the municipal teams in charge of liaising with the SME sector and in charge of facilitation of technical documentation for large infrastructure/development programs</li> <li>• Percentage of women in the programs/trainings for SME development and employability</li> </ul>
<p>Expected Output(s)/Annual Targets:</p>	<p><b>CPAP Outputs:</b> n/a</p>

Implementing Partner:	UNDP Montenegro
Responsible Parties:	Ministry of Foreign Affairs and UNDP Montenegro

Project Period:	October 2009 – October 2013 (48 months)
Project Component:	Economy and Environment
Project Title:	Crisis mitigation in uncertain times: Conflict prevention through green employment and institutional building
Project ID:	Awaiting
Project Duration:	48 Months
Management Arrangement:	Direct Execution (DEX)

Budget:	\$3,300,000
GMS Fee:	\$231,000
Total Budget	\$3,531,000
Allocated Resources:	
Government of Montenegro	\$750,000 <sup>5</sup>
UNDP Montenegro <sup>6</sup> :	\$450,000
European Commission <sup>7</sup>	\$150,000
Requested from BCPR	\$ 200,000
Unfunded part of the budget:	\$1,781,000

**Alexander Avanesov**  
**UN Resident Coordinator and UNDP Resident Representative**



<sup>5</sup> The Governmental cost-sharing is based on a number of sources: a) Governmental commitment to fund 10% of the CPAP, b) ongoing preliminary discussions with the Governmental counterparts about the anti-crisis program and UNDP intervention

<sup>6</sup> Trac I / II

<sup>7</sup> The EC funding will come from IPA 2010 program, and this component, estimated in value, is a part of a Gender Program (total value of €800,000) and it specifically regards the economic empowerment of women



## **CONTENT**

- I. Situation Analysis**
- II. Global Economic Crisis- tipping point for social cohesion breakdown**
- III. Conflict Drivers**
  - a. Breakdown of a major industrial complex in the central region
  - b. Economic collapse of the north-west
  - c. Lack of conflict prevention and resolution mechanisms and political participation
- IV. Program Response**
  - a. Conflict mitigation and prevention through transformation of industrial redundancies into active green employment
  - b. Mitigating existing tensions and preventing escalation of future conflicts through creating a measurable improvement in the NW business environment
  - c. Establishing and strengthening institutional mechanisms for conflict resolution
  - d. Cross-cutting variable: gender context
- V. Management Arrangements**
- VI. Monitoring and Evaluation**
- VII. Resource Mobilization Strategy**
- VIII. Legal Context**
- IX. Persons Responsible for Implementation**

## **PART I - SITUATION ANALYSIS**

On March 29<sup>th</sup> 2009 in the early Parliamentary Elections in Montenegro, the Coalition for a European Montenegro won a majority of seats and a mandate to a coalition with a DPS as a senior partner to govern for another four years. However, most observers saw the early elections as a sign of bad socio-economic times ahead, which could easily be blamed on the ruling coalition and impact on its popularity. A few days later, during the build-up to the G20 Summit in London, the President of the World Bank warned that countries in Central and Eastern Europe may be the most at risk from the global economic crisis, even though their income levels are relatively higher than those in many other emerging economies and developing countries. Growth strategies in this region have been based on integration with the European Union and the global economy through trade, investment, movement of people and remittances, he observed.<sup>8</sup> So, the withdrawal of these factors will be a particularly hard hit for the regional economies.

According to a March special report from EIU, Montenegro is in the top third of all states that are vulnerable to socio-political unrest due to the global economic crisis. In Europe, only Bosnia and Herzegovina, Moldova and Ukraine are in a higher category, and Montenegro is deemed more volatile than, for example, Albania, Congo, Hungary or Iran. The indicators used for this analysis include: the level of ethnic fragmentation; trust in state institutions; and, proclivity to labour unrest.<sup>9</sup> The same report cites research at the University of California which claims that a 5% decline in national income increases the risk of civil conflict in weak states by 30%, while University of Chicago research shows that it is temporary exposure to poverty that is the primary driver of conflict, which is exacerbated by pre-existing conditions.

The global economic crisis has wrecked havoc in the SEE/CIS region. The IMF predicts that this will be the hardest hit region by the global economic crisis with -3.7% and -5.1 regional growth trend in 2009.<sup>10</sup> This impact is further evident with year-on-year changes, in value terms, in import by two largest trade partners to the region- the European Union and Russia- relative to 2008, Russia's imports from ECIS declined by -13%, and the figure for EU stood at -6%.<sup>11</sup> The knock-on effects are staggering as the crisis threatens to undo considerable achievement in human development. Most if not all countries in the region will experience recession, with worsening trends in inequality, access to healthcare and education, decline in human development indicators specifically relative to various dimension of poverty, and social strains that are likely to be more evident, apparent and frequent as a result. The implications for the feedback loops among development areas are powerful and already evident: more poverty puts a strain on sustainable use of environment for the basic needs, which will essentially lead to more poverty; higher poverty puts a strain on access to health and education, which feedback into higher poverty; and likely and somewhere already existent conflicts and social disruptions puts a strain on poverty, environment, and health. What is true for the region, applies in Montenegro- the saviour from the crisis' effects will not come from abroad since the most developed countries are also hit hard, and a domino effect of a regional downturn puts countries in a position of 'each to its own.' For the Montenegro's northern region this is significant since a large segment of the population is dependent on remittances- externally from the developed

---

<sup>8</sup> Robert B. Zoellick (President, The World Bank Group): Seizing Opportunity from Crisis: Making Multilateralism Work; Speech at the Thomson Reuters Building, Canary Wharf, London, 31 March, 2009

<sup>9</sup> EIU: Manning the Barricades; EIU Special Report, EIU London, March 2009

<sup>10</sup> IMF World Economic Outlook, April 2009

<sup>11</sup> Roskomstat, Eurostat

countries (USA, Germany, Austria) and internally (workers from the industrial sector in the country's central region).

Judging from the regional snap shot, it is not surprising that nationally, the economic situation in Montenegro today does not encourage confidence either: the country has a current account deficit in excess of 34%, while a slowdown in growth from 8% to 1% has taken place in less than one calendar year with the IMF predictions of economic growth for -2.7% and -2.5% respectively for 2009 and 2010. This represents uncharted territory for Montenegro in terms of policy response to the consequences of the global economic crisis. Just a few false moves or inaction on some simmering issues could have grave very negative consequences for the country, its neighbours and the bigger plans of regional stabilization and EU accession. . Based on the current projections of the global economic crisis and on the analysis of the drivers of the recent growth of the Montenegrin economy, it is difficult to expect anything else but a creation of a new economic model that will be based on national competitiveness and production capacities instead of on purely foreign direct investment. This translates into a policy of support to development and growth of national small and medium businesses that would reabsorb the recently unemployed individuals in those areas where Montenegro as a country has a comparative advantage (Green Jobs- tourism, agriculture, food production, wood processing, fisheries) and where specifically the north west region has the predominantly most natural resources. This policy would align the short term response to the crisis with the long term developmental challenges. The crisis in this perspective represents the major opportunity and a turning point for the Montenegrin economy. The history teaches us that each major crisis has resulted in the major reforms because of four key reasons: a) vested interests that generally slow reforms are weakened by the shock of the crisis, b) general population's threshold for risk and action grows as incomes dwindle, and c) realization that inaction will lead to higher cost (growing poverty, rising crime, economic migration).<sup>12</sup>

UNDP Bratislava Poverty Practice team for the short term response recommends policies that will keep the financial system afloat, that will address the market failures and coordinate Keynesian policies to address the cyclical downturn. In other words, short term response requires a coordinated management of national and international resources and their streamlining toward addressing the most pressing socio-economic challenges resulting from the crisis. In the long term, the Bratislava center suggests measures that will enhance inclusive markets, fiscal redistribution, legal empowerment for alleviation of extreme inequality, reform in health, pension, and immigration in order to address the demographics, and subsidized low-carbon technologies, proper energy pricing, and global political consensus for action on climate change. In other words, the long term response aims to strengthen the national systems to better weather any future crisis through focusing on empowering the bottom of the pyramid socio-economic excluded groups and climate-change proofing the economies. In addition, the long-term response ought to aim at widening the tax base, implement fiscal stimulus that will support green job creation and low-carbon technologies with bolstering demand.

### **Historical context**

Montenegro emerged as a sovereign state after just over 55% of the population opted for independence in a May 2006 referendum. The vote heralded the end of the former Union of Serbia and Montenegro - itself created only three years earlier out of the remnant of the former Yugoslavia. Over the last twenty years, during the disintegration of the former Socialist Federal Republic of Yugoslavia (SFRY), Montenegro has in turn experienced UN sanctions<sup>13</sup>, economic collapse, hyperinflation, and NATO bombing, political change and reform, economic recovery and independence, and finally a programme of pre-accession assistance from the European

---

<sup>12</sup> The data supporting this paragraph was drawn from the lecture delivered by Balazs Horvath in July 2009, jointly created with Ben Slay

<sup>13</sup> UN Security Council sanctions against FRY were imposed on 30 May 1992 with Resolution No. 757. They were lifted 1,253 days later with Resolution No. 1022, which was passed on 22 November 1995.

Union. During this time, no war was fought on Montenegro soil and there was no internal ethnic conflict. On the contrary, in 1993, there were some 64,000 refugees registered in Montenegro and during the height of the Kosovo crisis, in 1999, Montenegro hosted as many as 100,000 IDPs<sup>14</sup>. However, the ruling coalition government does not enjoy a uniform degree of support on issues such as the recognition of Kosovo and future membership of NATO where there remains substantial opposition in some areas and segments of the population.

Since 2002, there has been a period of solid economic growth. A far-reaching programme of privatization has been implemented, public debt has been reduced to a more acceptable level and legislation has been enacted to regulate and liberalize the business environment. Fuelled by a tidal wave of foreign direct investment (FDI), a construction boom, flourishing tourism and profit from capital market transactions, have ensured significant benefits for entrepreneurial and business oriented citizens. Furthermore, since 2003, the Government has pursued a Poverty Reduction Strategy through which some €100 million has been spent annually on different programmes that directly or indirectly contribute to poverty reduction. According to the forthcoming 2009 NHDR<sup>15</sup>, the HDI for Montenegro was 0.828 in 2007, which is significantly higher than in 2004 (0.804) and confirms a steady improvement in the HDI since 2002.

The country's most significant challenge remains the level of economic vulnerability or an elevated risk of becoming poor, affecting somewhat more than one fifth of the population and signalling the weaknesses of the business model that resulted in the economic growth over the previous several years. Namely, the economic growth based on large inflows of FDI into 'non-productive' sectors did result in short-term growth but did not translate into job creation, increase in domestic production capacities and competitiveness of the country's economy. The rural population faces a substantially higher risk of poverty than the urban population<sup>16</sup>. The headcount poverty rate for rural population is almost 17 percent, compared to 9 percent for residents of Podgorica city and 6 percent for residents of other urban areas. Poverty in rural areas is also more deep and severe than poverty in urban areas.

Furthermore, there is a substantial difference in the extent of poverty between the North and the other parts of the country; poverty risk in the North is more than two times higher than the poverty risk in the South and Central regions<sup>17</sup>. Around 18 percent of the population in the North is poor, meaning that the poverty risk in this region is 1.5 times the national average. The first social exclusion research in Montenegro serves to further underline the degree of disadvantage suffered by the north<sup>18</sup>. It confirms that well over half of the poor reside in the north (62%). The number of socially excluded households and individuals in the northern region is significantly higher in comparison to other regions of the country<sup>19</sup>. In total, 5.9% households and 10.2% individuals are socially excluded in the northern region. The number of multiply deprived individuals, or those excluded individuals who are unemployed or employed but social contributions are not paid, with less than 8 years of schooling and no longer in education, and with insufficient access to health services is very high in Northern region. About 3.3% of the population over 15 years old is multiply deprived in the North compared with less than 0.2% in either the Centre or South of the country.

---

<sup>14</sup> ISSP / UNDP: Household Survey of RAE, Refugees and IDPs; UNDP, Podgorica, 2003

<sup>15</sup> ISSP / UNDP: National Human Development Report – Survey on Social Exclusion – Draft III; ISSP, Podgorica, 2008

<sup>16</sup> Monstat: The Poverty Analysis in Montenegro; Monstat / WB, Podgorica, 2007

<sup>17</sup> Monstat, 2007, *ibid*

<sup>18</sup> ISSP / UNDP: National Human Development Report – Survey on Social Exclusion – Draft III; ISSP, Podgorica, 2008

<sup>19</sup> In calculating the social exclusion index for households, the households are considered as vulnerable / socially excluded if their incomes are low (in poverty), they have arrears in utility, mortgage or any other bills and face difficulties in meeting these obligations, and if their access to health services is insufficient. Individuals are considered as vulnerable / socially excluded if they are unemployed or they are employed but social contributions are not paid, they have less than 8 years of schooling and no longer in education, and if they have insufficient access to health services. See ISSP / UNDP: National Human Development Report – Survey on Social Exclusion – Draft III; ISSP, Podgorica, 2008

The privatization program that gradually transferred most of the country's resources into the hands of, often though not in all cases, dubious investors provoked substantial discontent and opposition from a wide range of political parties, media, academics, international organizations and the civil sector. Mainly in regard to the country's central region industrial steel and aluminium industries accounting for over 65% of total exports and over 5,000 employees, the opposition focused on the lack of transparency in the competitive process to select the new owners and alleged government's bias toward certain investors, invoking the charges of corruption with the prognosis that if selected, certain investors will eventually bring the country's economy to its needs through unsustainable extraction of resources, inadequate environmental investment programs, lack of respect for the already lax privatization agreements and disregard for the social aspects of the employees. The recent USAID report mainly confirmed these sentiments as its findings focused on the alarmingly low or inexistent political will to deal with corruption within the government and to improve the parliamentary oversight over the executive branch, weak institutional development of the governance organs within the State, limited political competition, convergence of political and economic elite, limited transparency of the government's work.<sup>20</sup> The report, among other things, suggest a coordinated intervention and approach by the donor community in the field of government's transparency, issuance of licences and certificates, and fight against conflict of interest.

## **PART II- GLOBAL ECONOMIC CRISIS: TIPPING POING IN SOCIAL COHESION BREAKDOWN**

Three conflict drivers are identified and analyzed in the proceeding section: economic collapse of the NW region, breakdown of the industrial centre, and lack of institutional mechanisms for peaceful conflict resolution. If any of these processes (conflict drivers) occurred in isolation, the effect might not have been as extreme. Nonetheless, the global economic crisis set in motion a set of economic, social, and political forces that led to the interplay of the three processes and resulted in a potent mix for potential conflict. A fatal mix of economic collapse of the North West region, and the breakdown in operations of the key industrial assets in Montenegro acted to accentuate the lack of institutional mechanisms for the management and mitigation of the crisis. Before analyzing each conflict driver, this document will first examine the impacts of global economic crisis on Montenegro and they way it set the stage for the conflict drivers to increase tensions.

The socio-economic picture in Montenegro in the period before the economic crisis began taking hold (2006-2007) reflected a country with a persistent level of poverty, unemployment, and a high degree of social inclusion. Even though Montenegro experienced impressive economic growth and a boom in construction, tourism, telecommunications and the banking certainly created some opportunities for human development of the poor, this did not result in poverty reduction and social inclusion. Over 35% of Montenegro's population is either at risk or lives below the poverty line. The 6 out of 10 poor people live in the north, where high illiteracy and unemployment among women and elderly coupled with persistent lack of investment in the region, stands as a red flag for the nation's future development. Accordingly, the Laekan indicators that represent a set of measures used to monitor success in meeting Common Objectives of EU Social Policy Agenda aimed at alleviating poverty and social exclusion in member states, calculated for Montenegro for the first time, indicate that the risk of poverty is highest for children, elderly and female. However, the conflict literature does not show that these groups are at risk to initiate or instigate conflict and violence. Traditional underdevelopment leads to poverty trap and more underdevelopment especially with groups that are less successful to politically organize and communicate their discontent through democratically recognized means- elections.

---

<sup>20</sup> Evaluation of corruption: Montenegro, study performed by Management Systems International on request and contract of USAID. July 2009

The tension in Montenegro, based on the jobless growth over the past few years and triggered by the global economic crisis, comes from interplay of factors relating to the aging population, income inequality, economic collapse of the key employment generating sectors in the country and inadequate or nonexistent institutional mechanisms for peaceful resolution of labour disputes.

Montenegro continues to score as a country with the highest income inequality in the region. The inequality increased from 6.0 in 2004 to 9.8 in 2008- the consumption of the richest 10% relative to the bottom 10% increased by over 50% in the period of 4 years. Income levels of the Montenegro's richest 20% are 18.84 times higher than the income of the 20% of the poorest. Not surprisingly, in the quality of life survey, over 35% of respondents claim that there is a lot of tension between the rich and the poor. The economic crisis has exacerbated the situation- on a household level, over 48% of all households interviewed during the Quality of Life survey carried out by the Institute for Strategic Studies and Prognosis, have difficulty or great difficulty in making the monthly ends meet with their income. Accordingly, a significant portion of Government's resources are allocated to social transfers and subsidies- over 25% of the total budget in 2007. The Government remains the largest employer in the country- estimated 4 out of 10 Montenegrin work as the public sector employees' wages, and 35% of the total central budget in 2007 was allocated for their wages. In addition, following the EU trends, the population growth in Montenegro is decreasing, while the share of elderly in the total population structure is projected to increase from 12.4% in 2001 to 18.4% in 2031. Coupled with the fact that 25% of population between the ages of 18 to 24 (15.5% of males and 9.2% of females) have only lower secondary education and currently are not attending school or any time of vocational training, unless the Government begin supporting growth of economic sectors that will produce jobs nationally and generate revenues, the aging population and a bloated public sector will remain a significant drain on the government's resources. The global economic crisis has wrecked havoc on the Government's finances and its budget and predictions of the negative growth this and next year coupled with the failed tourist season reflect that the socio-economic downward spiral in Montenegro has not bottomed out yet.

With the global economic crisis in full swing, the recession in the euro zone, the slowdown in economic growth in south-eastern Europe and the continuing global credit crisis pose the main challenges for Montenegro in the next few years<sup>21</sup>. The last quarter of 2008 registered a sharp decline in FDI especially in construction and infrastructure. The real estate market, which accounted for 20% of GDP in 2007 and 50% of total investments in the 2006 and 2007, is sagging. Tourism infrastructure developments have slowed down or are on hold. The banking sector is considered high risk and has already been the recipient of controversial government support<sup>22</sup>. World prices for aluminium, which generates almost half of Montenegro's merchandise export receipts, are forecast to drop by one-third year on year in 2009, which will have a severe negative impact on export performance. The prospects of further FDI decreases are real and already evident. The two largest Russian investors have already put any further investments on hold, with one of them even relishing 50% of its company over to the Government's ownership. To make matters worse, 85% of Montenegro's capital assets have already been privatized. Weighing the evidence, the IMF has revised its initial forecast of economic growth to -2.7 for 2009 and -2.5 for 2010 confirmed the earlier WB forecast that put Montenegro and the countries in the region on the sure path to recession at least this year. The only available research on what consequences the weakened economy would have on unemployment comes from 'The Montenegro Economic and Fiscal Program, 2008-2011: real and crisis scenario' that foresees the decline of employment by 3% in a scenario where the GDP growth is 2.5%<sup>23</sup>. Therefore the IMF and WB predictions of recession and an outlook of a -2.7% growth (even though these predictors are more pessimistic than those of the Government of

---

<sup>21</sup> EIU: Country Report – Montenegro; EIU, London, Jan. 2009

<sup>22</sup> Standard & Poors rated Montenegro's banking sector the riskiest in the region. See [www.standardandpoors.com](http://www.standardandpoors.com).

<sup>23</sup> Montenegro Economic and Fiscal Program, 2008-2011, Page 29

Montenegro that now predict a 0 economic growth in 2009) substantially worsens the related economic and social indicators and potential further erosion of stability. Acknowledging these problems, the government has revised downwards its GDP growth forecast for 2009 and prepared two contingency plans in case growth fall short of this forecast, including an option for negotiating a stand-by agreement with the IMF.

Measured by the Decile Ratio and Gini Coefficient, Montenegro is already one of the least equitable countries in the Balkans and this inequality is widening<sup>24</sup>. Northern participants in the 2008 NDI focus group research<sup>25</sup>, continued to maintain that the area is neglected. They complained that development plans for their region do not involve programmes to exploit the unused resources of which the north has abundance. Participants conclude that the lack of such efforts has resulted in the north's current unenviable situation and is an indication that, at the state level, there is bad economic planning, a mistaken orientation and lopsided investments. The emerging economic crisis threatens to exacerbate the poverty situation in the country and deepen regional disparities within it. In the North-west, the most immediate impact is likely to be on household incomes dependent on remittances coming from both immigrant workers abroad as well as northern workers who are employed in the central and southern region (KAP SYSTEM, Steele Factory). The recent bankruptcies of dairy producers will impact not just on farmers' incomes but the very viability of some farms. The much postponed and very unpopular privatisation plans for the Pljevlja power plant and mine are expected to go ahead, with the loss of more jobs. The opposition parties merely voice disagreement but have no coherent alternative only the status quo. Municipal authorities also seem powerless and under-resourced to make a difference. This could be the tipping point. Due to its geographical and political isolation, the population of the North-west could again turn to the grey and unregulated economy to survive, leading to conflict with local law enforcement, with a high chance of small arms being used, and the rise of corruption. The unprecedented wave of labour unrest in the urban north is an early warning sign of more widespread stress in the community. Action to address labour grievances is overdue and urgent. This should be complemented with other crisis mitigation measures. However, action to harness the sub-regions abundance of resources and unexploited opportunities is equally vital and should be a rallying call for both public and private sectors.

### **PART III- THE DRIVERS OF POTENTIAL CONFLICT**

The drivers of potential conflict in Montenegro catalyzed by the global economic crisis are grouped in three inter-linked segments that expose the country's institutional failing for strategic planning and mitigation of the crisis' effects, economic collapse of its industrial base and its north-western region.

- **Breakdown of a major industrial complex in the central region**

Since the start of its operations in 1970s, the Aluminium factory (KAP SYSTEM), and its sister companies, represented the symbolic flagship and power of Montenegrin economy. The global economic crisis exposed the inefficiencies of the KAP SYSTEM system's business model and its immense impact on socio-economic situation in the country. Prior to Government's anti-crisis measure to take over 50% of its operations in order to ensure the business continuity of the failing enterprise, the KAP SYSTEM was owned by Central European Aluminium Company (CEAC) whose majority stakeholder had taken multi-billion dollar losses due the economic crisis. KAP SYSTEM and its sister companies currently employ some 4000 people, it accounts for 50% of the country's exports and acts as an engine for a supply chain that includes 30,000 people, over 50 SMEs, and the state-owned railroad and the port of Bar. Together with the Steele Factory in Niksic, KAP SYSTEM consumes 60% of total country's energy supply. In accordance with the privatization contract, CEAC is purchasing subsidized energy produced nationally,

---

<sup>24</sup> The Decile Ratio increased from 6.0 (2004) to 9.8 (2007) and the Gini Coefficient went from 0.29 (2004) to 0.35 (2007).

<sup>25</sup> NDIIA: *ibid*

which necessitated the annual energy import at market prices in excess of €70 million and pushes the current account deficit higher. The significantly higher price of imported energy is passed on to the final consumer- the SMEs and the households.

KAP SYSTEM is considered to be the biggest regional polluter affecting central/southern region of Montenegro, south west Albanian, RAMSAR protected Skadar Lake, and indirectly the Adriatic Sea. Its technology is outdated and last investments in environmental improvements took place in the 1970s. It uses a highly toxic chemical substance, piralene, for the functioning of its electro transformers that is inappropriately stored and it remains unknown whether it is leaking into the ground water system. Pollution of the underground waters is worsened still considering that KAP SYSTEM directly discharges, without any significant filtering, technological waste into the river Moraca, Skadar Lake (the largest freshwater reservoir in Balkans) tributary. In the past 3 months, 2 serious incidents took place with the tones of caustic soda poured directly in the river. The air pollution is another significant problem, with citizens of surrounding villages exposed to polluting particles of dust (red and black) which harms food, agricultural products and the air. The surrounding area is flat with fertile land with tradition and potential for development of agriculture, but clearly functioning of KAP SYSTEM is an obstacle for more extensive utilization of this potential. Some informal sources say that the level of fluorides in the air on the vicinity of KAP SYSTEM is so high that it directly affects wine produced by Plantaze, and the level of fluorides present in actual wine is six times higher than EU standards. No officially available data exist on this issue as there are no official studies on exact extent of environmental damage that KAP SYSTEM has induced.

KAP SYSTEM has operated with a loss since 2007- a year that saw a decline of the aluminium prices on the world markets by some 50%, accompanied with the weakening USD in relations to EURO. In a response CEAC has submitted a lawsuit to the International Arbitration Court in Frankfurt, Germany seeking a compensation of €300 million from the MNE Government, claiming that it has failed to provide the correct financial figures during the privatization process. In 2009, the MNE Government provided a short term support to KAP SYSTEM: a) in the amount of €8 million so the factory can maintain basic production facilities, and b) in the form of a State guarantee for a sum of €20-40 million. During the months of April, May and June, the KAP SYSTEM employees staged daily protests in the capital of Podgorica that resulted in blockage of the traffic, increase in security personnel and police on the streets, and several arrests of the employees due to disruption of peace and order. With the absence of peaceful conflict resolution mechanisms that would provide institutional space for mitigation of this and other tensions between employees and employers and the enduring effect of economic crisis on the meagre public finances of the Government, the potential short term outcome may be the continued civil disobedience and possible influx of some 4,000 redundant workers. This is in addition to the vast supply chain of businesses that supported KAP SYSTEM operations that are incurring increased debt each month due to KAP SYSTEM's inability to finance its balance and the continued downsizing of its operations.

- **Socio- Economic collapse of the north west**

The predominance of foreign, private and public investment in Montenegro largely escaped its northern region (especially as compared with other parts of the country) for historical, geographical and political reasons. Some parts of the region were only incorporated into Montenegro after WWI. The northern region is divided into 11 municipalities and constitutes just over half (53%) of the territory of the country but is home to less than a third of the population (31%). Bijelo Polje is the largest and considered to be the centre of the northern region. After WWII the town and municipality of Bijelo Polje were transformed by the drive for industrialisation of the SFRY and, for a short period, it and the surrounding municipalities were the economic powerhouses of Montenegro.



The sub-region, north-west, comprises five municipalities, namely: Mojkovac, Pljevlja, Plužine, Šavnik and Žabljak. Geographically, they constitute a quarter (26%) of the territory of Montenegro but have less than 10% of the national population residing in them. With the exception of Mojkovac, the municipalities have no major transport corridors running through them and three have boundaries that also form part of international borders with Bosnia-Herzegovina (Republika Srpska) or Serbia. The population of these municipalities have a number of common characteristics, including: a declining and aging population, a history of migration in search of work and an ethnic diversity that has become apparent only in the context of contemporary politics of independence. The region is predominantly rural and relatively remote, with a significant dependency on agriculture. It boasts an impressive list of natural endowments, including the 390 km<sup>2</sup> Durmitor National Park which is a UNESCO World Heritage Site. Mojkovac and Pljevlja are the only municipalities with notable urban and industrial centres. Pljevlja is home to the only thermal power station in the country (built in 1982), supplying 45% of Montenegro's needs, and the biggest coal mine. Most important in recent years is that these municipalities, except for sporadic examples in Kolasin and Zabljak, have little representation in any of the sectors that have been responsible for Montenegro's impressive economic growth in recent years, namely banking and financial services, construction, retailing, telecommunications and, of course, tourism. To the contrary, in fact, the local agricultural economy is unable to compete with neighbouring Serbia, affecting especially dairy farmers and food processing industries, leading to a number of labour disputes. The local industry and manufacturing base of Mojkovac and Pljevlja is already or becoming obsolete and has been the subject of unpopular privatisation processes, leading not only to labour unrest, including strikes and demonstrations, but also civil disobedience. In this region there has been a recorded substantial increase of criminal activities and a region where it is estimated that for every household there is at least one firearm. There appears to be a potent mixture of both old and new factors, therefore, that has the potential to mutate into civil unrest in the sub-region, opening the possibility of derailing Montenegro's journey towards EU accession and fuelling discontent in bordering sub-regions of Bosnia-Herzegovina and Serbia.

The North-west has suffered from economic decline for more than two decades. The economic boom over the last five years did not significantly improve the overall socio-economic picture in the sub-region- it never extended to agriculture and the traditional northern mining and manufacturing industries nor was there a concerted effort at restructuring emboldened in an effective development strategy for this region. According to the Montenegro Investment Promotion Agency (MIPA)<sup>26</sup>, approximately 85% of FDI to the end of 2008 targeted coastal and central Montenegro. While most parts of Montenegro have enjoyed a boom in construction, the North-west of the country has actually suffered a decline in house construction<sup>27</sup>. A feature of the country's spectacular growth in tourism has been a massive increase in overnight stays by foreign visitors. In the North-west, only Žabljak, at the gateway to Durmitor National Park, has registered a modest growth in visitors, including foreigners.<sup>28</sup> Not surprisingly, therefore, the population of the north expresses indifference toward information about a successful tourist season, since experience to date shows that the quality and success of the season does not reflect in any way on their lives.<sup>29</sup> Instead, they believe it exclusively benefits those citizens and municipalities involved in tourism. The attitude is that the income from the tourism season is not invested in the north of Montenegro so they do not believe that tourism, as an economic sector, significantly contributes to a "better life" for all Montenegro. Traditional agriculture, which is struggling to adapt, is still a significant source of employment<sup>30</sup>. In the only two

---

<sup>26</sup> Consult: [www.mipa.cg.yu](http://www.mipa.cg.yu)

<sup>27</sup> Monstat: Statistical Yearbook of Montenegro 2008, Podgorica, 2008

<sup>28</sup> Monstat: Statistical Yearbook of Montenegro 2008, Podgorica, 2008

<sup>29</sup> NDIIA: What do I get out of it? Dissatisfaction and resignation: Results of 2008 Focus Group Research – General Report; NDIIA Montenegro, Podgorica, Dec., 2008

<sup>30</sup> Some 19% of persons employed in the northern region (11 municipalities) work in agriculture. The percentage of persons employed in agriculture in the central and southern regions are 3% and 0% respectively. See Monstat: Labour Market Survey, 2<sup>nd</sup> Q; Monstat, Podgorica, 2009

industrial centres of the North-west, Mojkovac and Pljevlja, the lack of recent investment is reflected in dependency on obsolete technology and processes as well as declining competitiveness in the increasingly open market. Media reports in the first quarter of 2009 alone have increasingly highlighted the growing frustration and the new militancy: dairy farmers in Pljevlja refuse to supply milk to a dairy that defaulted on payments since June 2008; a textile plant closure in December leaves workers without compensation and street barricades are erected; redundant miners in Mojkovac take to the streets and the leader of the union is arrested; of 760 miners who lost jobs in Mojkovac only 6 receive government compensation; some 1,023 former textile workers in Mojkovac threaten to destroy the factory if redundancy payments are not made.<sup>31</sup> The textile workers have since radicalized their means of expressing discontent through beginning a hunger strike in front of the municipal building claiming that they would 'either head straight to our graves or back to our homes with the money we are owed.'<sup>32</sup>

The labour market of northern Montenegro is characterised by low activity and employment rates and an unemployment rate approaching 30%<sup>33</sup>. Furthermore, on average, two-thirds of the unemployed have been without work for two years or more. While there are fewer women in the labour force of the north, the unemployment rate for women is higher than for men at 32%. The health and education indicators are also lower in the north than in the centre and south of the country.<sup>34</sup> Recognising this challenge, the Government adopted a range of policies aimed at addressing social exclusion from late 2007. The Poverty Alleviation and Social Inclusion Strategy (PASIS)<sup>35</sup> has the specific goals of decreasing the rate of economic vulnerability of the population and ensuring social stability. PASIS is composed of interventions for the period from 2007 to 2011 in the education, health, social protection and employment sectors. In the employment sector, the "Jobs for You" programme was launched on 1<sup>st</sup> September 2008 offering a series of general incentives for job creation (through the government's Employment Agency and Development Fund) and a regional development incentive for new businesses in the north (through the government's Directorate for SME Development). According to preliminary data for the first four months<sup>36</sup>, some 446 new jobs were created through the credit facility of the Employment Agency and another 253 through the facility of the Development Fund, of which 89 were created in the North-west. The Directorate for SME Development reported that, over the same period, low-cost credit was extended to some 27 new SMEs that would create 446 new jobs, mostly in the north.

While these measures are clearly reaping some benefits, the number of jobs created is modest in comparison with the challenge of existing and new unemployment. They may have seemed attractive in early 2008, in an atmosphere of rapid national economic growth. However, in the new environment of global uncertainty and possible contraction, other measures that could help keep workers in jobs would be more appropriate. Furthermore, no measures have yet been put in place to significantly reduce the barriers to doing business in Montenegro. To the contrary, doing business in Montenegro is getting more difficult not easier. The World Bank currently ranks Montenegro 90<sup>th</sup> overall out of 181 economies for ease of doing business.<sup>37</sup> However, it is only rated well (top 25% of all economies) in areas relating to protection for investors (24/181), closing a business (42/181) and access to credit (43/181). The country is rated especially badly (bottom 25% of all economies) on dealing with construction permits (167/181) and paying taxes (139/181). Also the country's performance is poor in areas such as enforcing contracts

---

<sup>31</sup> "Dan" newspaper articles: 18<sup>th</sup> Jan. – 8<sup>th</sup> Feb. 2009

<sup>32</sup> Vijesti newspaper, April 23<sup>rd</sup> 2009

<sup>33</sup> Activity, employment and unemployment rates for the north (N), centre (C) and south (S) are as follows: (N) 47.5, 34.2 and 27.9; (C) 56.3, 46.5 and 17.4; (S) 50.9, 46.5 and 8.6. See Monstat: Labour Market Survey, 2<sup>nd</sup> Q; Monstat, Podgorica, 2009

<sup>34</sup> Monstat & Strategic Marketing Research Agency (SMMRI): Montenegro Multiple Indicator Cluster Survey 2005 – Final Report, Monstat/SMMRI, Podgorica, 2006.

<sup>35</sup> Ministry of Health, Labor and Social Welfare of Montenegro, *Poverty Alleviation and Social Inclusion Strategy*, 2007

<sup>36</sup> UNDP: internal report on PASIS (Sept. – Dec. 2008); UNDP, Podgorica, 2009

<sup>37</sup> WB: Doing Business 2009; Country Profile for Montenegro; IBRD/WB, Washingtons DC, 2008. See also: [www.doingbusiness.org](http://www.doingbusiness.org)

(130/181), trading across borders (125/181) and registering property (123/181). Furthermore, in many areas the performance of Montenegro has deteriorated between 2008 (when it was ranked 84<sup>th</sup>) and 2009.

The economic situation is further exacerbated through local self-government units in capable to create a solid business environment and provide social protection for the increasing number of unemployed individuals. The Law on Local Self-Government took resulted in the increase of municipalities' responsibilities and mandate without adequate or appropriate funding mechanisms as a support- the so called unfunded mandates. This increase in local autonomy, while laudable, is severely constrained in the northern municipalities and has contributed to a dangerous decline in state control.

The 2007 Municipal Attractiveness Survey<sup>38</sup> investigated the performance of each municipality in creating conditions for sustainable, participatory and pro-poor development and ranked them according to five overarching indicators. With the exception of Pljevlja, the municipalities of the North-west consistently underperformed, with Šavnik and Plužine ranked bottom (21<sup>st</sup>) and next to bottom (20<sup>th</sup>) for four out of five indicators. Mojkovac performed only marginally better by being ranked 19<sup>th</sup> twice and 18<sup>th</sup> twice. One of the constraints facing northern municipalities is budget- most funding for the municipalities in this region comes from the Equalization Fund from the central Government (and not from the municipalities' own revenue generating sources) that is very likely to decrease as a consequence of the financial crisis. In addition, as a response to financial crisis, the central Government has continually appealed to municipalities to further reduce taxes and tariffs on businesses and investments in order to assist their growth in the economically trouble times but at the same time, stifling municipal budgets further. The combined budgets of all 11 municipalities of the northern region (€42.5 millions in 2007, and a population of 195,000) is less than the budget of Budva Municipality, on the coast, with a population of just less than 16,000 (€44 millions in 2007).<sup>39</sup>

Another constraint on performance is political. In North-west Montenegro, four out of five municipalities have a Mayor from the ruling national coalition,<sup>40</sup> but three of these municipalities have assemblies with a majority of local councillors from parties opposed to the ruling national coalition, with strong representation from the opposition Serb parties. In one of the municipalities, namely Plužine, both the Mayor and the majority of municipal councillors are from the Serb opposition. The opposition councillors are able to frustrate the wishes of the Mayor, especially in areas of recently devolved authority, and undermine attempts to implement locally unpopular national government policy. This leads to periods of local paralysis and stagnation that is neither attractive for investment nor for additional government assistance, which opens the door for a return to old-style self-sufficiency, the grey economy and criminality.

The sub-region is geographically remote and relatively inaccessible due to its mountainous terrain and poor road infrastructure. It has borders with Republika Srpska to the north-west and with the Sandžak, the poorest region of south-west Serbia with a large Bosniak minority. Both borders have in the recent past been used extensively for smuggling and criminal activity as well as politically motivated violence. Although cross-border smuggling and criminal activity has declined over the last five years, research demonstrates that it is 'not chronic poverty that has the strongest effect on crime, but temporary poverty'<sup>41</sup>, and in the case of North-west Montenegro crime is a recognised 'coping mechanism' in times of acute stress for large segments

---

<sup>38</sup> Municipal attractiveness survey – Centre for Entrepreneurship and Economic Development

<sup>39</sup> Vijesti: Poverty in the North; Vijesti, Podgorica, 17 May 2007

<sup>40</sup> The ruling national Coalition for a European Montenegro comprises the Democratic Party of Socialists [DPS] and the Social Democratic Party [SDP].

<sup>41</sup> Marcel Fafchamps & Bart Minten: Crime and Poverty: Evidence from a Natural Experiment; Development & Comparative Systems, 0409025, EconWPA, 2004.

of the population. Furthermore, crime is commonly associated with the use of small arms, which pose a problem nation-wide and are known to be readily available.

### Availability of Small Arms

Historically weak arms controls in Montenegro have created an environment where firearms are widely available to those who pose the greatest threat to human safety and state security, whether they be organized crime groups, young violent men or those suffering from Post Traumatic Stress Disorder (PTSD). The 2004 National SALW Survey of Montenegro found that the country was one of the most heavily armed territories in Europe, representing a threat to safety and stability.<sup>42</sup> While the national average of civilian gun ownership is still high, at one gun per household, the ownership rate is higher in the more traditional, rural and mountainous north. Data on suicides and domestic, as well as gender based, violence suggests that violence is common in the home<sup>43</sup> and that the gun is resorted to in response to many kinds of dissatisfaction.<sup>44</sup> When coupled with the rising unemployment, increase in relative prices of basic goods and services and decrease in purchasing power as a consequence of the economic crisis, and marked increase in discontent in the northern region, the fact that Montenegro remains the most heavily armed territory in Europe bears with it increased potential for the outbreak of conflict.

- **Lack of conflict prevention and resolution mechanisms and political participation**

According to the 2008 Economist Intelligence Unit's Index of Democracy,<sup>45</sup> Montenegro is ranked 65<sup>th</sup> out of 167 countries and falls into the category of "flawed democracies". Montenegro scores highly for electoral processes and pluralism but gets low scores for functioning of government, political participation, political culture and civil liberties. This is manifested in low levels of political participation beyond voting and very low levels of public confidence in state institutions. Over 90% of all respondents in the Quality of Life survey carried out this year in Montenegro do not think that they are sufficiently involved in the governmental decision making. Economic recession is only likely to aggravate this situation. While the EIU does not conclude that Montenegro runs a very high risk of social unrest in the near future, it places both Serbia and Bosnia-Herzegovina in this category, with the potential for a spill-over effect in to northern Montenegro. The global economic crisis burst the bubble of Montenegro's economy that, despite impressive growth over the past four years, did not result in creation of new jobs and eradication of poverty. More significantly, it exposed the weaknesses and lack of preparedness of the system that features no institutional conflict resolution mechanisms in the area of labour disputes or a coordinated, high-level governmental anti-crisis body in charge of rallying existing national and international resources in the country, managing the current and mitigating the future effects of the crisis.

Until last year, the civil court system was the only mechanism by which individual and collective labour disputes could be settled. Due to the complete absence of conciliation, mediation and arbitration services in the country, the civil court system became, and remains, overwhelmed. Simple individual disputes regularly take two years for a judgement. Collective disputes

---

<sup>42</sup> SEESAC / SAS: A house isn't a home without a gun - SALW Survey, Republic of Montenegro; SEESAC, Belgrade, 2004. According to government data, the total number of registered weapons in Montenegro in 2004 was 101,889, of which 86,000 were civilian-held weapons. This figure indicates that Montenegro has one of the highest rates of registered firearms per capita in the Balkans. Although data on illegally held SALW is sparse, it has been estimated that there are between 40,000 and 89,000 unregistered firearms in civilian possession, while the rapidly growing private security sector also appears to hold significant numbers of weapons.

<sup>43</sup> Monstat & Strategic Marketing Research Agency (SMMRI): Montenegro Multiple Indicator Cluster Survey 2005 - Final Report, Monstat/SMMRI, Podgorica, 2006. According to this MICS, one in every ten women believe that her partner is justified in beating her for domestic misdemeanors.

<sup>44</sup> SEESAC: Firearms possession and domestic violence in the Western Balkans (Report AR/107); SEESAC, Belgrade, 2007. According to this study there is evidence to suggest that domestic violence with arms is more common in the North, with some 13% of women reporting violence also reporting being threatened with arms.

<sup>45</sup> EIU: The Economist Intelligence Unit's Index of Democracy 2008; EIU, London, 2008.

commonly take ten years or more for a court ruling, by which time the company and its assets have often changed hands several times. As the economic downturn bites, redundancies and company bankruptcies are on the rise. In the absence of effective social dialogue mechanisms, therefore, there is a serious risk of social cohesion being compromised. An increasingly publicized wave of strikes and demonstrations in the north has highlighted the growing number of new and longstanding labour disputes, in some cases going back as far as the very first efforts at privatisations in 1987. However, the new militancy of the labour force heralds the end of passive resignation to the deteriorating situation.

Montenegro has witnessed its share of popular discontent with political decisions of the ruling coalition: a) the narrow margin of independence vote, albeit in accordance with a more strict definition of 'majority' vote defined by 55 percent through a 'lex specialis,' produced a wave of discontent that seized within several months of the referendum; b) a decision of Montenegro to recognize the independent state of Kosovo resulted in a number of strikes across the country, several minor incidents in the northern region (one particularly involving a stoning of an UN/FAO vehicle in Berane), and a highly publicized hunger strike by one of the key political representatives of the pro-Serb parties- all of which also seized within couple of months of the official recognition. However, a popular discontent that began in the last quarter of 2008 as an explicit response to the effects of the global crisis in Montenegro and implicit disgruntlement with the Government's response to the rising unemployment and relative prices of necessary goods and services, decreasing purchase power, inadequate social provisions has only intensified by the end of April 2009. The signs of its abatement are not in sight with the latest IMF prediction that Montenegrin economy is headed for recession in both 2009 and 2010. Instead, there is a hint of the intensification as evident by the rising number of strikes and radicalization of discontent through hunger strikes, refusal of strikers to accept medical assistance.

In Montenegro, the court system is currently the only mechanism to settle both individual and collective labor disputes and it remains overburdened and understaffed. On average, it takes years for the courts to process a labor dispute, which is both economically costly and socially disruptive with a potential to create irreconcilable damage in labor relations. International experience demonstrates that labor disputes are resolved either through Labor courts system, through alternative labor disputes resolution mechanisms (mediation and arbitration) or through combination of the both. Since the Judiciary Reform in Montenegro does not anticipate introduction of Labor Courts, the alternative labor disputes resolution mechanisms are the only alternative. Provision of a quick and effective labor disputes settlement process enable avoiding of long and costly court procedures saving time and money for both employers and workers.

In late 2007, the law on *Peaceful Resolution of Labor Disputes* was passed. The law envisages establishment of a **Mediation Agency** specialized for labor disputes by the government within 60 days as of the law's enforcement. However, the Agency has not been established yet. The Employers and Trade Unions of Montenegro are combining their efforts to support the establishment of the Agency and its work on preventing and reducing the incidences of labor conflict, disputes, strikes especially in the cases of collective agreements negotiations, redundancy plans. Given the galloping financial crises and growing redundancies, labor unrest and strikes, establishment of the Mediation Agency is critical. Peaceful labor-employer relations are also an important pre-condition in attracting foreign direct investment into the country and even in this sense the Agency establishment is particularly important.

#### **PART IV – PROGRAM RESPONSE**

The UNDP strategic response to the identified conflict drivers and escalation of the tensions caused by the global economic crisis is divided in three components that will leverage the existing country office programs and partnerships in order to assist the Government of Montenegro to mitigate the short-term effects of the crisis as well as to strengthen its capacities

to effectively respond to any future economic, political, and social catalytic events. In response to the conflict drivers, the program will seek to: a) transform the current and future redundant employers in the industrial sector into green employment through technical support, re-training, and active employment schemes; b) create a measurable improvement in the business environment of the NW through building municipal capacities and strengthening on-the-ground private sector; and c) establish high level governmental anti-crisis team that will coordinate the in and out of country resources to strategically plan for, mitigate, and manage effects of the crisis as well as strengthen the Agency for Peaceful Mediation of Labour Disputes. In this way, the program incorporates a methodology for intervention that will address the long-term developmental challenges through institution building but at the same time tackle with the imminent threat to stability caused by the rising percentage of unemployed individuals due to the crisis that neither have the institutional means for peaceful conflict resolution nor economic opportunities for a new start.

The gender perspective, which remains a cross-cutting variable underlying all three conflict drivers and responses, is mainstreamed in the proposed program through concrete and measurable gender equality, crisis prevention and recovery consideration. As such it is intended to contribute to the implementation of the **RBEC Gender Equality Strategy (R/GES)** in the context of the **Framework for Cooperation between BCPR and RBEC**<sup>46</sup>. The substance of the project is mainstreamed through utilization of the **UNDP Eight - Point Agenda for Gender Equality in Crisis Prevention** (8PA attached), with holistic approach through Point 6 and Point 8 that would infuse gender analysis into all planning tools and processes, ensure that recovery efforts provide equal economic opportunities for women including access to assets (such as land and credit), promote social protection and sustainable livelihoods. In addition this Project will contribute to building the skills and the will of men and women to prevent violence, achieve equitable post-crisis reconstruction and build social cohesion. Given the diverse cultural, political, and socio-economic characteristics of the regions in the country, UNDP will leverage knowledge transfers between governmental, CSOs, academics and other counterparts to ensure more meaningful ways to address other prioritised fields of gender sensitive intervention by: a) building capacities and promote accountability within government institutions and processes. Engage women and men to foster gender-equitable relations within these institutions. Ensure gender-sensitive resource mobilization, aid coordination, budgeting and funds allocation<sup>47</sup>; and b) working to end personal and institutional violence against women; strengthen the rule of law; increase the gender responsiveness of security institutions, disarmament, demobilization and reintegration, and small arms reduction initiatives.<sup>48</sup>

Two key segments of the proposed project (to be presented in more detail below) will be located in the North-West Montenegro region (that will include territories of following municipalities Mojkovac, Pljevlja, Plužine, Šavnik and Žabljak) that experienced strong peace building activism, particularly vibrant in the immediate post-crisis period but has since faded, with a consequent decline in real democratic interaction in the region. However, there are lots of linkages and entry points developed through recent UNDP work in the North-West region that created positive trend to leverage and build upon the experiences of governmental gender mechanisms, cross-boundary women's rights and human's rights organizations as well as peace-movements. UNDP is best positioned to establish a broader shared platform for real political change building partnerships to maximize impact on gender priorities. Furthermore, beside long-term consequences that crises wield on all spheres, the period of re-building offers a great opportunity to create more inclusive governance institutions and to transform societies. At the same time, being aware that gender ideologies significantly impact on development processes, slowing it down due to the required changes in favour of women's equality and their full emancipation, UNDP with this project, will contribute to the implementation of 8 PA, as

---

<sup>46</sup> MOU between Regional UNDP Bires

<sup>47</sup> Point Seven of 8 Point Agenda – Transform Government to deliver for women

<sup>48</sup> Point One of 8 Point Agenda – Strengthen Women's Security in Crisis

mentioned above, but additionally it will contribute to the implementation of the **Security Council Resolution 1325** incorporating gender equality priorities into advocacy and strategic planning in the development, humanitarian, peace, and security spheres and in that way strengthening human resources, policies and programmes to ensure responsiveness and accountability on gender issues.

**a. Conflict mitigation and prevention through transformation of industrial redundancies into active green employment**

Together with the Steel Factory in Niksic, KAP SYSTEM consumes 60% of total country's energy supply. It accounts for over 40% of the country's imports, employs over 3,000, and fuels a supply chain of some 50 medium and large businesses. However, KAP SYSTEM has operated and continues to do so with a loss since 2007- a year that saw a decline of the aluminium prices on the world markets by some 50%, accompanied with the weakening USD in relations to EURO. In the current situation the owner of KAP SYSTEM is unable to provide a dependable source of salaries and benefits to its employees that have resorted to strikes. In 2008 alone KAP SYSTEM incurred losses in the amount of €45 million plus the additional €13 million worth of taxes that it has not paid for 2005 and 2006. The total loss is then €57,8 million, which is thirteen times higher than the year before. The impact on the national output and economy is staggering- in the first six months this relative to the last year, the industrial output fell by 16.5%.

Subsequently, the Government has decided on a set of measures in order to maintain the factory's operations. First, it offered a bailout package for the workers in KAP SYSTEM that contains two segments: a) €31 million of severance payment package offer to those workers who register voluntarily to leave the company; and b) €10,18 million credit support for the developmental program to those workers who choose an active employment scheme involving self-employment in agriculture, a new private business, re-absorption into SME sector, self-employment for people with disabilities, and stimulation of employment for family members of those workers who leave KAP. Second, the Government signed a social bailout program for the Bauxite Mine Niksic (part of the system) whereby it allocated €18 million for severance payments to 600 employees who will lose their jobs due to downsizing of operations. This is a significant cut than what was originally agreed in the collective agreement between the union and the owner whereby the social bailout program stood at €55 million. The severance packages that will be paid to both Bauxite Mine employees and KAP workers who have volunteered to resign (total amount of 726 workers), in the absence of any other re-employment for these individuals, is likely to run out between 12 and 24 months from now based on the average consumption patterns and cost of living. Therefore it is likely that after this period of time, families of over 1300 redundant employees will lack the main source of income. Finally, as the third intervention, the government signed a memorandum of understanding with the current owner that provides the following: a) the government will take over 50% of the ownership from En Plus Group, the current owner, in both the KAP and the bauxite mine in Niksic; b) the government will provide direct financial support and credit guarantees in the amount of €135 million for procuring the necessary materials for maintenance of production, for salaries, for electricity subsidies that the government will continue to provide for an additional 4 years that alone amount to estimated €15 million. These numbers will additionally be contingent on the rebalance of the country's budget based on the difference in the initial growth projections (zero growth) and the actual growth achieved in the first six months of the year (-3.5%). On the other hand, the En Plus Group has not and is not mandated to provide any guarantees that it will, in the future, respect the privatization agreement it signed with the Government of Montenegro in 2005 especially when it comes to the investment in modernizing the factory, resolving the ecological disaster it has caused, and expanding the portfolio of production. The Minister of Finance said that the Government is playing on the trust card and hopes the En Plus Group will fulfill its promise. The Prime Minister claimed that this is a move of a responsible government taking care of its citizens, but the reaction of a number of independent media, academics, political parties, and citizens was different. Rather than understanding this

move as a responsible and effective one, the public's perception was that of doubt considering that the immense amount of tax-payers Euros coming out of the already weak government's budget is allocated for the social provisions of employees in the private enterprise.

Despite the Government's intervention, there is a real risk of the factory closing in the short to medium term. Governmental officials have mentioned this as a possibility that should not be discounted. The global economic trends coupled with the circumstances in which KAP SYSTEM has operated over the past four years necessitate a development of a strategic plan for significant downsizing of KAP SYSTEM's operations and its eventual closure. In this respect, UNDP will provide support to the Government in two aspects. First, working with the Employment Bureau, UNDP will work on strengthening the active employment schemes that will be address type of challenges that potential labor redundancies from the industrial sector are likely to face in getting reabsorbed in the employment market. Second, in implementing the Governmental development program of €10,18, UNDP will provide technical expertise and skill development for those workers willing to be self-employed.

Each of the two segments of this support corresponds with the needs of a certain demographic group of workers within the industrial sector and each requires a specifically tailored programmatic approach by the Government, assisted by UNDP, in order to critically support the scheme and in order to ensure that it does not end like other Governmental job support systems that previously did not yield the anticipated results. In general, the program will address different demographic groups of the recently redundant workers through establishment of a rapid assistance/employment facility that would help the Employment Bureaux (EB) to provide the necessary training and skill enhancement and then to connect them to nascent labour demand in the SME and other sectors, such as forestry, tourism, and agriculture. This would pave the way for longer term measures focusing on vocational training and retooling. The main objective of interventions is to keep the rise in unemployment to a minimum, in spite potential closures of the industrial sector, by increasing mobility, adaptability and employability of the labour force as well as by improving labour market information. At the same time, the program aims to address the needs of those who have lost their jobs in the industrial complex already as a result of the crisis and through opening up the new economic opportunities and new institutional venues for peaceful conflict resolution, the program aims to prevent any further escalation of tensions into an outright conflict. From this perspective, the program utilized the anti-poverty measures, that is, measures that will seek to prevent any further increase and sudden spikes in poverty in order to prevent conflict. The entire set of proposed activities aims at responding to the impact of the global crisis to the industrial sector in Montenegro and its channelling through the EBs is most likely to ensure the sustainable life of this program past UNDPs intervention.

**b. Mitigating existing tensions and preventing escalation of future conflicts through creating a measurable improvement in the NW business environment**

The northern region possesses close to 100% of Montenegro's surface water reservoirs and hydro-electric generating potential, all the country's known lead and zinc reserves as well as all known coal reserves, 67% of the cultivable land, 71% of the timber mass, 70% of cattle stock and immense resources for year-around mountain and nature tourism. In 2006, despite weaknesses in infrastructure, capacities, and environmental protection, tourism already accounted for 17% of the regions GDP. The north of Montenegro is well placed to use the environment and natural resources as a base for wealth and job creation, profit and income generation through support to small and family owned businesses. With the economic crisis in full swing in Montenegro, as we have seen in this program, the municipalities are likely to be hit in a number of ways, if the current policies and Government's strategy for mitigating the effects of the crisis remain the same: a) reduction of revenues from business operations, registration and taxing further exacerbated by administrative lack of effectiveness within the municipal authorities; b) reduction of revenues to the central government, which remains the key financial



benefactor to the 5 municipalities in the north contributing anywhere from 60% to 80% of the annual municipal budgets. This is in addition to the increasing number of unemployed individuals, many of whom are returning to the region from the central part of the country. As the article in the daily Vijesti from April 23, 2009 notes, 'After decades of work in the businesses and industries, they have returned to the abandoned land. Having been left without anything, they can hardly afford the machinery, seed, cattle and food so the access to finance remains the key problem for starting up the work and life in this area...these individuals, who have recently lost their jobs and have had to turn to agriculture and cattle raising are struggling to start up something on individual basis but this is not very simply as they cannot achieve much with one or two cows and they are quickly demoralized. On the other side those who do have larger parcel of land or more cattle face an issue of accessing markets... '

According to the World Bank's *Doing Business 2009* report<sup>49</sup>, Montenegro is ranked 90<sup>th</sup> out of 181 countries for the conditions it offers for the operation of businesses. This ranking represents a small deterioration in the operating environment compared with 2008 (when it was ranked 84<sup>th</sup>). While clearly this ranking reflects serious barriers to doing business at the national level, since September 2006, and implementation of the Law on Local Self-Government, it is within the scope of municipal authorities to influence conditions for local development. In this regard, the municipalities of the North-west have consistently demonstrated a poor performance in terms of services for business, partnership with the private sector and labour force development.<sup>50</sup> While some progress has been made, the effective and accountable delivery of quality public services at the local level still faces considerable challenges including insufficient fiscal decentralization, fragmented local governments systems, limited capacity to design and implement integrated local development strategies as well as regulatory complexity and unsustainable training structures.

The most dependable source of funding that is available for municipalities is the funding provided by the European Commission through the Instrument for Pre-Accession. The amount allocated for Montenegro in the next 4 years is the 2<sup>nd</sup> highest per capita in this region after Kosovo. However, this funding comes with a caveat- In order to avail itself of this funding that is specifically allocated for large development programs that aim to create business friendly environment, environmental protection, and capacity building, the municipal authorities need to demonstrate a significant level of ability to engage in strategic planning, program design, negotiation, implementation, procurement, and financial and administrative monitoring and evaluation.

UNDP conducted a comprehensive assessment of capacities of all eleven municipalities in the north through a combination of meetings, interviews, questionnaires and review of relevant materials. Two types of interviews were used: structured interviews, in which a carefully worded questionnaire was administered; and in-depth interviews. The data for this assessment were collected from the following main sources: a) exploratory meetings and consultations: with the senior level managers of the municipalities to get a broad overview of the current situation and previous activities and experiences (with special focus on the previous projects and cooperation with international development partners; trainings and other capacity development activities, etc); b) Analysis of existing materials, documents and available data: to gain an overview of the overall governance system in Montenegro, including developmental priorities and the context of Northern Montenegro. The documents provided information on the legal and policy framework that defines local governance in Montenegro. In addition, municipal documents provided information on the organizational structure, existing staff and their structure (gender; minority, education, etc) as well as their duties and responsibilities in the municipalities. These materials were especially valuable for the initial discussions and for preparation of questionnaires and

---

<sup>49</sup> WB: *Doing Business in 2009*; WB, Washington D.C., 2009. See <http://www.doingbusiness.org/economyrankings/>

<sup>50</sup> CEED/UNDP: Municipal attractiveness survey; UNDP, Podgorica, 2007

interviews; and c) Questionnaires/ structured interviews for the municipal officials, senior level management and professionals in the selected municipalities. The major findings of the assessment can be ground in five broad categories:

a) **Organizational capacities:** even if the legal framework was in favour of a more decentralized system, the traditional governance promotes centralized decision-making process. Individuals working in the local government today are mostly those who served under the previous rule, lacking necessary management knowledge and skills to implement a modern, democratic, client oriented administration. Hence, the reform must include modernization and improvement of business process, specifically: to improve efficiency, to reduce information gaps, to synchronize structure and functions, to induce adequate communication and cooperate among sectors and different municipal enterprises, to improve coordination of recruitment and HR procedures, to strengthen the awareness of service orientation and awareness of externalities (inter-dependencies between municipal administration, local socio-economic development, development of businesses, poverty reduction, FD, donor support and overall international relations).

b) **Project Capacities:** The capacity picture varies contingent on the size of municipality, its financial profile, the existence of an NGO sector, urbanization and experience in projects, and therefore the NW region is significantly underperforming. The assessment show that project experience does contribute to learning by doing and to project success as well as the existence of a NGO sector and the application of the partnership principle. The above differentiated picture suggests that there is a serious risk that the IPA funds and other available financial resources rather than contributing to the alleviation of regional disparities actually contribute to exactly the opposite: large and wealthier municipalities with experience in projects and capacities continue to be more successful in accessing EU funds at the expense of small and poorer municipalities with less project experience and capacities. The key challenges include: a) lack of capacities for design and implementation of investment projects; b) insufficient knowledge of the EU IPA funding framework; c) limited project management capacities, d) insufficient experience with implementation of projects/ grant management, e) no public consultation process vis-a-vis project identification and selection; f) unpredictable, unreliable and ad-hoc information channels.

c) **Strategic and investment planning capacities:** While most municipalities in the north have experience and strategic documents completed, it appears that in general these plans and frameworks are more presentational than operational documents that guide the local development in a certain time period through clear indication of strategic priorities and available resources. The inadequate implementation is closely linked with two other issues: citizen participation at the local and consultation and lobbying at the central level. Where the strategic plans were created with the assistance from the central government and NGO/business participation, implementation was far more successful than in cases where this did not take place. This suggests that 'lobbying' at the central level continues to play a crucial role in funding availability for the local level. The assessment highlighted the following challenges: a) low implementation capacity of strategic/investment plans, b) weak or inexistent link between strategic plans and municipal budgets, c) low capacities for data collection and analysis, for policy making at the local level, and partnership building in strategic planning; d) insufficient links with the national development plans and priorities; and e) absence of regional development planning perspective fuelled by the dominance of larger and wealthier municipalities.

Considering the above challenges, the proposed programme will support an economic stimulus package for the northern region that will provide on one side improve effectiveness of municipal authorities to create a better business environment and to effectively absorb EC funding, while on the other hand supporting measures for employment creation and income generation through new start-ups and expansion of small pro-poor local businesses utilizing the region's comparative advantage in natural resources and environment. Specifically, the economic stimulus will target those individuals that have lost their jobs and incomes as a result of the

crisis and present the constituents with the highest risk of starting a conflict (which essentially has already been evident with the strikes, hunger strikes, blockades of the roads) in a region with the highest armament rates and highest incidents of reports of physical violence. Through opening up economic opportunities and stimulating economic activities, the program is not only likely to institutionalize a rapid set of measures for conflict prevention but to create a base for long-term economic development of the region built on the unique environmental and natural resources in the region. The 'green economy' sector that the program will create will have a domino effect on the country's economy in general since Montenegro has the highest food prices in the region, largely based on the fact despite immense potential the lack of investment in national production has forced it to import most of its food goods, and among the highest trade imbalances/debt in the region. The Government does not have either the financial resources or the technical know how to provide the economic stimulus and create an opportunity for the disgrunteled workers who have been out of their jobs for months. Therefore the business-as-usual scenario is likely to lead to protracted discontent and escalation of tensions.

On the other hand, through creating a measurable improvement in public participation the local governments are likely to accomplish several goals: a) open the institutionally accepted venues for expressing discontent; b) demonstrate transparency and importance of feedback and participation through creating programs that will clearly demonstrate citizens' feedback; c) address gender imbalances in both business and policy making through higher emphasis on the role of women while at the same time strongly supporting the advocacy campaign against the violence toward women. As a result of these three achievements, the local self governments, in the difficult socio-economic situation that the country has fallen in, will play a crucial role in instituting a set of conflict prevention measures that are likely to draw the citizens in and generate a critical mass of support.

### **c. Creating measurable improvement in conflict management and small arms control mechanisms and capacities**

The current paralysis in labour dispute settlements is resulting in protracted conflictual relations in Montenegro and causing long-term damage to labour relations throughout the country. On one hand, Montenegro has experienced crises of different nature in its past. In terms of natural and manmade disasters, whether it is the worst train wreck in the nation's history, floods in the north, forest fires, or earthquakes, the government has a very good track record in rapid response and effective implementation of recovery measures. The global financial crisis however has exposed the Government's weakness in coordinating its national resources and streamlining the available international assistance toward addressing the most pressing socio-economic challenges. Preparedness for a severe economic collapse and its consequences was not anticipated and nothing is in place to assess risks and develop crisis prevention or mitigation measures. Prior to the economic crisis taking hold and in accordance with the Paris Declaration, UNDP partnered with the EC and the OSCE to establish the Donor Coordination System that is chaired by the Prime Minister. UNDP will utilize this institution in order to establish a high level anti-crisis team (ACT) working group within the mandate of the Donor Coordination that would focus on analyzing the current trends and effects of the crisis (stop the haemorrhaging) and mitigating any potential disruption. The ACT would encompass the highest level national stakeholders and relevant international representatives in charge of different types of assistance to Montenegro.

On the side of the justice system, the provision of a quick and effective labour disputes settlement process avoids long and costly civil court procedures, saving time and money for both employers and workers. International experience demonstrates that labour disputes are best resolved either through specialized labour courts or mechanisms such as mediation and arbitration systems, or a combination of both. However, judicial reforms in Montenegro make no provision for labour courts. Instead, the Law on Amicable Settlement of Labour Disputes was approved by parliament in late 2007 and this envisaged the establishment of a mediation system. In 2008 the first two mediation centers were established in Montenegro under the

auspices of the Ministry of Justice and with the support of, amongst others, the International Finance Corporation (IFC), the Bank of Montenegro, OSCE and UNICEF. The first center in Podgorica focuses on commercial mediation and the second center in Bijelo Polje focuses on juvenile criminal cases. The total number of cases referred to mediation in 2008 was 403, of which 238 led to an agreement. This success rate of 50% is high and shows great promise for the future. However, the backlog of labour disputes is enormous and these centres alone cannot achieve a measurable improvement in social dialogue. The European Commission, through its 2008 Progress Report, specifically addressed these issues specifically relating to the social dialogue, peaceful conflict resolution and labor legislation. The report noted that the issue of the weak bipartite social dialogue remains unaddressed. The role of trade unions is evaluated as extremely limited. In commending the Government for implementing the Law on Peaceful Resolution of Labor Disputes, the EC recognized the lack of commitment to proceed with the implementation. It notes that the Social Council established in June 2008 remains weak in encouraging peaceful settlement of collective labor disputes. Therefore the EC urged the Government to establish the Agency that would be mandated with the implementation of the law and that would provide an effective institutional venue for resolution of such disputes<sup>51</sup>. Since the publishing of the report, the Agency did have been established but the Government took no further steps to make it operational. In spite the significant increase in labour discontent expressed in the streets and through strikes, the Government, already overstretched in terms of its human and financial resources, is not likely to commit to serious empowerment of the Agency in the short term. The first appointed director of the Agency was appointed to a higher level position following the formation of the new government, with no new candidates to replace him. Nonetheless, the Agency represents the long overdue new mechanism dedicated to labour dispute resolution that would not only be separate from the civil court system but that would allow for a new, effective mechanism of labour disputes resolution. UNDP will provide assistance in empowering and operationalizing the Agency through facilitating the institutional analysis of the Agency that would yield information about the most immediate human resources and capacity building needs necessary for effective operations of the agency.

The creation of a National SALW Commission as an inter-ministerial body mandated to develop, implement, monitor and verify an integrated, holistic National SALW Control Strategy and its derived Action Plan will significantly enhance the ability of Montenegro to control Small Arms in the following ways:

- Reduction in the number of reported SALW-related crimes
- Reduction in the number of SALW and ammunition accidents
- Reduction in the SALW and ammunition surplus
- Reduction in the illicit trade in SALW
- Establishment of a unitary database on imported and exported weaponry and military equipment;
- Establishment of internationally-recognised standards and procedures regarding the safe storage of SALW in the possession of the Police Force and Armed Forces

The project component would significantly compliment work already underway in the field of demilitarisation and would thus blend seamlessly with this new envisioned area of work..

The project foresees providing strategic and technical advice on all SALW matters to the SALW Commission (relying on capacity within the region, and on SEESAC as necessary for technical expertise, where appropriate), including the development of strategy and policy papers, operating guidelines and Standard Operating Procedures (SOP). The following best-practice documents would provide the remit for technical support.

---

<sup>51</sup> EC Progress Report 2008, page 33, section 4.1.8

- The EU Code of Conduct on Arms Exports
- The UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects
- The Stability Pact Regional Implementation Plan for South Eastern Europe (2006).

Operational capacity will be developed in “key need” areas focusing on collection, registration and destruction. With enhanced SALW management capacity in place, the constituent ministries will be able to deliver enhanced SALW control within their relevant competencies in a more cost efficient and effective manner. Additional resources will be mobilised to assist the Commission with fulfilling priority commitments. UNDP will assist in legalisation support and collection campaign-support. The SALW Survey suggests that there remain in civilian hands approximately a large amount of illicit firearms and a national collection could significantly improve the situation. This can only happen with improved participation of civil society, veterans groups, the church and the media in order that these groups can assist the government in ensuring the public that the collection will be anonymous. The Project will develop partnerships with these groups ahead of the collection and will mobilise funds to ensure that an effective media campaign can reach all members of the public, including hard to reach groups such as former combatants, PTSD sufferers and those with low levels of education. A commitment to publicly destroy collected firearms will further buttress support.

#### **d. CROSS-CUTTING VARIABLE: GENDER CONTEXT**

In addition to the increase of civil disobedience through general strikes, hunger strikes and other radicalized measures of expression of discontent both nationally and especially sub-regionally (whereby the NW remains politically very fragile, most recently highlighted by the events following proclamation of Kosovo’s independence) the continuing long-term consequences of the crisis are notable in number of gender related issues.

Consequences of war, political instability, economic transition, and dramatic social changes, significantly deteriorated the position of women. Although in Montenegro, women have never had equal conditions for realizing their human rights and opportunities to contribute to national, political, economic, social and cultural development, and consequently to benefit out of it. With around 52% of female population in this country, approximately 15% of them shapes political life<sup>52</sup> and takes part in decision making in the local Parliaments. At the same time national and local governments are characterized with *lack of political commitment to address gender related issues, under-developed gender mechanisms, reduced support to CSOs to address* **gender issues from policy to grass roots level and** increasing trends of violence in families.

Estimated 39.5 % **of labor force** are women, out of which only 7,2% performing managerial tasks. As consequence of this, women experience discrimination with respect to income, opportunities for professional development, career promotions and other venues for professional development. Although women make tremendous contributions to the economy, women's contributions are not valued in the same way as men's as is indicated with the socio-economic and political statistics in Montenegro. As a result women consistently find themselves at a lower economic status than men. The fact that women as a group are poorer than men, that women's poverty is more severe than men's, and that the rate of poverty among women is increasing is referred to as the 'feminization of poverty' is applicable to Montenegro as well as to all other transitional economies. Furthermore, northern Montenegro, as traditionally less developed, with the lowest average per capita income is also perceived as more traditional and

---

<sup>52</sup> In the Assembly out of 81 MPs, only 9 are women, while within the 11 Parliamentary Committees, only 1 (Gender Equality Committee) is chaired by a female MP. In addition only 9% are councillors in the local parliaments; one is in the Government and one out of 21 mayors is women.

conservative in comparison to the central and coastal regions. There are fewer job opportunities in the north, and less concentrated investments in infrastructure and development. The percentage of employed women in the north is different than that of Montenegro's total: around 30% in comparison to 42.6% for the entire Montenegro. Only 8% of women in Montenegro are co/owners of their homes/flats, 6% are car owners and 1% business or company owners<sup>53</sup>. The **unemployment rate** remains high, while women comprise 47,2 % of the total unemployed<sup>54</sup> what is somewhat higher for women with higher education (59,1%).

While equal opportunities has been largely accepted as a socially worthwhile objective, but an objective which is still considered a burden or a constraint on economic growth and development, this view reflects a narrow and short term economic perspective which tends not only to ignore the interests and well being of the female labor force but also fails to recognize the need to develop new coherent systems of social and economic organization in the interests of both men and women. Women experience specific problems in starting up companies. They are often less informed, less involved in commercial networks of entrepreneurs and culturally less prepared. While transitional burden remains to lie mostly on the back of women, lack of key overall response is evident. There is no legal or strategic policy ground that addresses specific - gender related economic problems.

Furthermore, surveys show that every third women is being exposed to physical violence. The number of cases reported to the police remains small, but increased by 7.3% in 2008. There is overall non-supportive environment to resolve this issue that results with victims hesitant to report violence in family, while number of murders committed as consequence of long-term violence in family have increased in last 5 years. To add to the complexity of family violence problem, there is a data that the Montenegro has heavily armed population with highest number of weapons per capita in the region. Traditional, male dominated, aggressive and armed culture<sup>55</sup> fuels fear of women and children victims of violence. Statistics show that majority of murders in the family, happen with use of perpetrators legally owned fire arms. Such widespread use of guns and a widespread practice of domestic violence in Montenegro is alarming as guns have become a tool for wreaking domestic violence on women. The home is traditionally considered to be a safe heaven, and when men own gun, it's assumed that its only to secure their family and protect it, not endanger it.

Another political, security and gender dimension inherited from conflicts is vast amount of illegal weapons in the hands of civilians, mostly men. Despite the awareness raising campaigns in several arms collection actions, conducted by police, only few thousands of weapons have been turned in. Vast majority of those who own, use and are killed or injured by small arms and light weapons remain men. This is because in Montenegro, like in many countries, there is a strong social and cultural association between masculinity and possessing a gun. The widespread ownership of weapons is an obvious catalyst for escalating tension into conflict in the absence of any effective conflict management mechanism. The 2004 National SALW Survey of Montenegro found that the country was one of the most heavily armed territories in Europe, representing a threat to safety and stability.<sup>56</sup> While the national average of civilian gun ownership is still high, at one gun per household, the ownership rate is higher in the more traditional, rural and mountainous north. Data on suicides and domestic, as well as gender

---

<sup>53</sup> Survey on status of women in MNE, Government Gender Equality Office, 2007.  
Employment Agency, as of 30.03.2009

<sup>54</sup>

<sup>55</sup> Home is not home without weapons" SEESAC Survey

<sup>56</sup> SEESAC / SAS: A house isn't a home without a gun - SALW Survey, Republic of Montenegro; SEESAC, Belgrade, 2004. According to government data, the total number of registered weapons in Montenegro in 2004 was 101,889, of which 86,000 were civilian-held weapons. This figure indicates that Montenegro has one of the highest rates of registered firearms per capita in the Balkans. Although data on illegally held SALW is sparse, it has been estimated that there are between 40,000 and 89,000 unregistered firearms in civilian possession, while the rapidly growing private security sector also appears to hold significant numbers of weapons.

based, violence suggests that violence is common in the home<sup>57</sup> and that the gun is resorted to in response to many kinds of dissatisfaction.<sup>58</sup> In addition, in accordance with the SEESAC research in 2007 there is evidence to suggest that domestic violence with arms is more common in the north, with some 13 percent of women reporting violence also reporting being threatened with arms. The probability of the present situation as it relates to the ownership of weapons and data on domestic violence escalating into conflict has potentially increased with the effects of the global economic crisis as evident in increased unemployment and decreased economic growth on a national level. Therefore, within this activity, a possibility of instituting Arms for Development component will be discussed with the relevant Ministry whereby those communities that comply with the registration of their weapons and voluntary handover of arms might in exchange receive economic concessions.

The capacity assessment of the municipalities in the north uncovered that one of the main challenges for implementing gender equality in Montenegro is the fact that, besides the positive changes in legislation, there are other important documents, such as national strategies for development of the specific sectors, which continue to be gender blind. The assessment shows the following challenges related to capacities for gender mainstreaming of the local self-government units in North Montenegro leads to the following observations: a) lack of participation of women in municipal affairs; b) prevalence of entrenched gender stereotypes; and c) lack of capacities for data collection on gender balance and other gender mainstreaming issues.

Therefore, the proposed project will include a strong focus on cooperation between existing gender mechanisms with civil society, business associations and local governments to develop action to address gender-based violence (GBV) and strengthen economic opportunities including following interventions: a) sharing and building upon knowledge, experience and lessons learned from the post-conflict period to stimulate greater participation of women and civil society organizations in crisis recovery and prevention initiatives, especially at decision-making levels; b) empowering women and men to intervene meaningfully in post-crisis processes to advance women's entrepreneurship and therefore economic prosperity and independence; c) stimulating the development of a competitive, sustainable and inclusive financial policy that provides access to financial services to poor and low-income people in general and micro and small businesses in particular; d) strengthen local government and existing traditional structures in the communities, to support capacity building in planning and management of the recovery process while particularly promoting participation of women; and e) conduct awareness raising campaign to contribute combating violence in family.

## **PART V- MANAGEMENT ARRANGEMENTS**

To ensure UNDP's accountability for programming activities and use of resources, while fostering national ownership, management arrangements and oversight of UNDP programming activities certified in accordance with PRINCE2 methodology are foreseen, the following management structure will be applied:

National Program Manager will be appointed and will report directly to the Project Management Board (daily supervision will be performed by the Economy and Environment Cluster Leader). NPM will be responsible for defining, assessing, and monitoring high-level programme achievements towards country-level outcomes. This will ensure that the plan of this Programme

---

<sup>57</sup> Monstat & Strategic Marketing Research Agency (SMMRI): Montenegro Multiple Indicator Cluster Survey 2005 – Final Report, Monstat/SMMRI, Podgorica, 2006. According to this MICS, one in every ten women believe that her partner is justified in beating her for domestic misdemeanors.

<sup>58</sup> SEESAC: Firearms possession and domestic violence in the Western Balkans (Report AR/107); SEESAC, Belgrade, 2007. According to this study there is evidence to suggest that domestic violence with arms is more common in the North, with some 13% of women reporting violence also reporting being threatened with arms.

includes necessary aspects required to deliver the expected outcomes and identifies programme areas that will clearly contribute to realizing benefits and achieving outcomes. Progress will be monitored on a quarterly basis. In addition, considering that the implementation of this program will require a cross-cutting cooperation between three key departments in the UNDP CO Montenegro, NPM will be responsible for the coordination of this work and adequate, unified reporting to the project board in accordance with the completed work. The Project Board will be responsible for making executive management decisions for the project when guidance is required by the Programme Manager based on annual and mid-term reviews, including approval of substantive project revisions, and for decisions when project tolerances have been exceeded. The composition of the Project Board will include: an Executive to chair the group (representative of the UNDP), a Senior Supplier to provide guidance regarding the technical feasibility of the project, and a Senior Beneficiary (representative of the municipalities and Ministry of Foreign Affairs) to ensure the realization of project benefits from the perspective of project beneficiaries. Programme assurance reviews by this group will be made at designated decision points during the running of a programme, or as necessary when raised by the Programme Manager.

Quality Assurance will be performed on an ongoing basis by the designated UNDP Programme Officer within the Country Office, with a view to carry out objective and independent project oversight and monitoring functions, ensuring that appropriate project management milestones are managed and completed. The Programme Office will also exercise approval authority for transactions up to the levels of delegated authority.

#### **PART VI – MONITORING AND EVALUATION**

The UNDP Bureau of Crisis Prevention and Recovery (BCPR), the Regional Bureau for Europe and the CIS (RBEC) and SEESAC will be invited to conduct a formal evaluation of the project at the half-way point and at the end of the project, (if appropriate). A Government representative will be invited to form part of this team. The monitoring and evaluation process will use the quantitative and qualitative performance indicators detailed against each of the project objectives. In addition an independent evaluation will be performed both at the mid-term and final phase of the project.

Work toward the first project goal (output)- **create a measurable improvement in conflict management mechanisms**- for the start of the project will use as a baseline the fact that the high level anti crisis group does not exist and that, while the Agency for Peaceful Resolution of Labor Disputes is in place, it has not become operational. The activities that will work toward achieving this output will also yield information that will be used for monitoring the implementation of the capacity program for the Agency (institutional analysis will produce recommendations based on the national needs and international based examples), on the work of the anti-crisis group (the inventory of pipelined donor programs/resources matched against recommendations of the group on how to pair those with the most pressing needs arising as a result of the crisis). In the end the, relative to the Agency, the most adequate evaluation will arise from considering the cases to be brought to the Agency and the quality with which these have been handled (to be matched with the best international examples, to come out of the institutional analysis). The collection of the data for the anti-crisis group will be performed by the PIU together with the national/international consultants engaged and public administration team in charge of collating and analyzing the data on effects of economic crisis. The information gathered and presented to ACT is intended to increase the quality of dialogue and set of recommendations aimed at coordinating and streamlining the national/international resources toward addressing the most pressing challenges. The indicators selected for this output aim to measure: a) whether the team has been established at all, indicating the level of government's political willingness to move from the verbal pledges to concrete action, b) the effectiveness of ACT's work in pairing the available resources, national/international, with the addressed



challenges arising as the effects of the crisis, c) the ability of UNDP to assist the Government to select the most appropriate institutional set up and systematization of the Agency in order to respond to the national needs, and d) the quality of the capacity building program implemented will, among others, indicate how successful the Agency is in communicating its mandate to the unions and employers thereby creating a safe, institutional space for the cases to be brought to it.

Work toward the second project goal (output)- transform the redundant industrial workers into active employers- will use the data on the existing number of employees and those who are either already or about to be laid off plus the scope of the Government's social bail out and development plans as a baseline for initial monitoring of the program. It is premature to evaluate the effectiveness of the Government's program since the development part has not yet began (the segment on offering access to finance to those individuals who wish to be self-employed) and the corresponding re-employment and re-training schemes for those who have been laid off have not been designed. The data collection on the additional information that will provide the baseline for further monitoring will be selected from the work of the consultants engaged to provide the analysis of the market demand in terms of skills, based on which the vocational courses and on-the-job training will be designed. The indicators selected aim to measure the effectiveness of the courses designed relative to the results of the analysis of the demand and the ability of the Government and UNDP to negotiate the on-the-job training opportunities with the SMEs and large companies.

Work toward the third project goal (output)- create a measurable improvement in the NW business environment through supporting the active green employment schemes- will use the analysis of the current economic situation (performed by a number of international organizations, national/international think-thanks, UNDP), the assessment of capacities UNDP performed in the first six months of 2009 (and European Commission subsequently used for formulating the TOR for technical assistance for municipalities), and the WB report on doing business in Montenegro (the report performs the analysis on the national level, but some data and findings do apply on the local level) as a set of baselines against which the monitoring and evaluation at the start of the project will take place. Work toward the fourth project goal (output) - municipal authorities creating a measurable improvement in the public participation in decision making and business environment in NW- will use UNDP assessment of municipal capacities to draw a set of baselines against which the monitoring and evaluation at the start of the project will be performed. For both, third and fourth project goal, the PIU will work together with the contracted national/international consultants and municipalities to establish a baseline data on business barriers and economic data, gender disaggregated, on the municipal level (the evidence of which partly remains unofficial and anecdotal) and continue to maintain it for all 5 municipalities through public perception surveys, focus groups, main stakeholder interviews, public forums, official national statistics. In this manner, the program will ensure not only that monitoring and evaluation can be implemented effectively, but it will establish an early warning system through continual monitoring of key indicators of potential conflict. These data will be publically available and widely disseminated in order to better the transparency and participation of constituents in planning and strategizing of municipal authorities. The improvement of business environment, active labor schemes for recently unemployed individuals, effectiveness of the SMEs in the 'green jobs' sector will be monitored and verified through collection of data from both formal and informal sectors. The indicators selected aim to measure the effectiveness of the active market self-employment schemes developed with the Bureaus for Employment (through a number of self-employed and SMEs registered and functioning), the quality of the project management training for the municipalities (through a number of EC programs written and submitted), the quality and effectiveness of capacity building for strategic planning (through a number and quality of strategic and investment plans developed), and municipal capacity and effectiveness in introducing gender mainstreaming principles into planning, business and decision making.

The UNDP Bureau of Crisis Prevention and Recovery (BCPR) will be invited to conduct a formal evaluation of the project at the mid way point and at the end of the project, (if appropriate). A donor representative will be invited to form part of this team. The monitoring and evaluation process will use the quantitative and qualitative performance indicators detailed against each of the project objectives. The Project Manager will be responsible for regular internal monitoring and reporting, in conjunction with the CG Country Office and the SALW Commission.

**Risks:**

- **Risk:** The economic crisis may continue to impact the Government's budget in a way that whatever it allocated for severance packages cannot be paid out, in which case the country is likely to see a number between 600 and 1400 people without a job and without a severance package.
- **Risk:** The impact of economic crisis may put Government in a position that it may not be able to provide an incentive for self-employment (development program, grants, and 3-month benefits).
- **Mitigation strategy for both above risks:** these issues will be brought to the attention of ACT immediately upon its establishment with a need to agree on a set of measures to address each one.
- **Risk:** While the government, in a response to the EC critic in its 2008 Progress Report, adopted the act on establishment of the Agency for Peaceful Resolution of Labour Disputes, this institution has not started operating yet. The future effects of the economic crisis on the country's finances may result in the delay of the Agency's operationalization until 2011. **Mitigation strategy:** re-allocate the funding for 2011, while utilizing high-level ACT to lobby and support the government for the soon establishment of this institution.
- **Risk:** There exists a strong cultural bias in Montenegro against re-training and re-employment, especially within the hard-to-employ group (individuals over 40 years of age who have spent their working life in one company). This may impact the willingness to first attend the vocational and re-employment programs and re-apply for new jobs confirming the level of complacency that exists in Montenegro. **Mitigation strategy:** Work with the government and other donors to provide sufficient incentives and comprehensive advocacy campaign to break this cultural trap and motivate individual to re-join work force

**PART VII- RESOURCE MOBILIZATION STRATEGY**

The Country Office will leverage its track resources and resources allocated from its partner offices and bureaus (BCPR) over the next four years (\$450,000 +) in order to mobilize additional resources for this program. The first concrete success in terms of resource mobilization in regard to this program has come from the European Commission that has endorsed an IPA 2010 program on gender in the amount of €800,000, with estimated \$150,000 allocation purely for the economic empowerment of women. Considering that this funding will become available in the early 2011, the work performed up until that point in time is seen as crucial to create an enabling environment on the municipal level for the increase in participation of women in decision making and develop a model for economic stimulus that can specifically be applied to women entrepreneurs that can then be scaled up with the EC funding. Nationally, the Government has committed to cost-share 10% of the UNDP CPAP for this programming cycle. Given that this program is out of the CDP scope but unique in terms of its comprehensive and systematic intervention addressing both short-term mitigation of the crisis' impacts and long-term developmental challenges, the preliminary discussions with the Government are leading toward at least matching the UNDP resources invested in this program. Similarly, UNDP is currently negotiating with a number of developed municipalities in the south, who wish to provide developmental assistance to the hard-hit north, to engage in a tri-partite partnerships

(south-north-UNDP) and cost-share segments of the program specifically targeting the economic stimulus. In terms of the bilateral donors, UNDP will intensify its negotiations with the Turkish TIKA, the Swiss Agency for Development and Cooperation, and the Dutch Ministry of Foreign Affairs in order to gather a strong political support and funding for the program. Finally, UNDP will build on its rich network of both technical expertise and funding networks that its partner offices in the region and thematic practices offer- in addition to BCPR, Bratislava Regional Centre with its comparative technical expertise advantage in poverty reduction and green economy/environment.

### **PART VIII - LEGAL CONTEXT**

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement (SBAA) between the Government of Montenegro and the United Nations Development Programme.

### **Project Revisions**

The following types of revisions of the project document and budget may be made with the signature of the UNDP Resident Representative alone, provided that he/she is assured that the other signatories of the project document have no objection to the proposed changes:

- Revision in, or additions to, any of the annexes which do not involve significant changes in the immediate objectives, outputs and activities of a project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation; and
- Mandatory annual revisions, which re-phase the delivery of agreed project inputs, or reflect increased expertise or other costs due to inflation, or take into account agency expenditure flexibility.

### **PART IX- PERSONS RESPONSIBLE FOR IMPLEMENTATION**

For Ministry of Foreign Affairs

For Municipality of Mojkovac – Miladin Mitrovic

For Municipality of Pljevlja – Filip Vukovic

For Municipality of Plužine – Mijusko Bajagic

For Municipality of Šavnik – Velimir Perisic

For Municipality of Žabljak – Isailo Sljivavcanin

For United Nations Development Program

Economy and Environment Portfolio – Tomica Paovic