
Gordana Đurović*

Abstract

The main aim of the EU instrument for pre-accession assistance (IPA) is to support and assist the candidate countries and potential candidate countries in aligning with the Acquis Communautaire, democratic and economic reforms in countries including infrastructure development, strengthening of local economic development, institutional building including administrative and absorption capacities of local self-government, and improving of regional and cross-border cooperation. IPA support in MFF 2007–2013 will amount to some €11.46bn or €103 per capita in the beneficiary countries (Western Balkans, Turkey and Iceland). For Montenegro, the per capita levels of funding are higher than for the other countries, reflecting a minimum level of funding needed for building adequate central and local administrations, irrespective of the size of the country. Consequently, the EU became the biggest donor in the Western Balkans countries on annual basis.

Through the pre-accession assistance based on co-financing principle, the Union significantly supports infrastructure projects, which represent the driving force of the regional and local development. The existence of adequate infrastructure enhances economic development, trade, competitiveness, productivity, economic and social cohesion, as well as better standard of living for the inhabitants of the Western Balkans region. This paper is focused on analysis of IPA programmes in Montenegro in the area of infrastructure and capacity building on local level in the MFF 2007–2013. Main infrastructure projects are defined in the transportation sector (roads, railways) and the environment (water supply, wastewater treatment, and solid waste management) in each IPA budget year, such as support for strengthening of local self-government (capacity building, small infrastructure grants). Based on lessons learned from the previous implementation period it is possible to define challenges ahead for the next 7-years programming period and to define areas of specific interest for future economic development and better regional infrastructure networking.

Keywords: IPA, Infrastructure projects, Local development, Co-financing, Montenegro.

*PhD, full-time Professor at the Faculty of Economics, University of Montenegro, Jovana Tomaševića 37, 81000 Podgorica, Montenegro, phone: +382 69 070 452, e-mail address: gordana@t-com.me
Introduction

The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the “enlargement countries” with financial and technical help. The purpose of this instrument is to assist beneficiary countries in facing the challenges of the European integration, to implement the reforms needed and to lay down the foundations for fulfilling the requirements for achieving the EU membership (the Copenhagen criteria). The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. The main aim of the EU instrument for pre-accession assistance is to support and assist the candidate countries and potential candidate countries in aligning with the Acquis Communautaire, democratic and economic reforms in countries including infrastructure development, strengthening of local economic development, institutional building including administrative and absorption capacities of local self-government, and improving of regional and cross-border cooperation (IPA Regulation 2006 : 84-85). The preaccession funds also help the EU reach its own objectives regarding a sustainable economic recovery, energy supply, transport, the environment and climate change, etc. In the EU budget support for the enlargement countries has been included into the priority budget line called “EU global player” (Djurovic and Jacimovic 2012 : 122-123).

EU preaccession funds make political and economic reform easier in the beneficiary countries and prepare them for the rights and obligations that come with EU membership. In mentioned context, IPA projects strongly support institution capacity building at all levels including local communities, such as investments in local economic and infrastructure development. With the EU’s technical assistance, citizens in the enlargement countries can enjoy better opportunities and overall conditions. However, it is up to enlargement countries how effectively they can use this support and benefit from joint projects. This paper is focused on analysis of effective use of IPA project for local economic and infrastructure development in the Multiannual Financial Framework 2007–2013 (MFF) which is based on Montenegrin experiences and lessons learned.

Data and methodology

This paper contains (statistical and analytical) data that generally rely on official sources (The European Commission/DG Enlargement official data on the Instrument for pre-accession assistance statistics, the European Statistical Office data about GDP, population and related indicators about candidate and potential candidate countries, and official statistical and analytical data from different reports and documents about the IPA support from the Montenegrin Government/Ministry for Foreign Affairs and European Integration responsible for IPA programming, monitoring and reporting). Within this paper we attempt to present data that are consistent in definition and division of IPA components, with special focus on the co-financing principle implemented
in the Montenegrin infrastructural and local development project. It is important to mention complex structure of co-financing mechanism which includes the Central Government budget/capital budget, local municipalities’ budget, and loans from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Heritage Foundation Index of Economic Freedom is also used.

Author’s calculations are focused on following: calculation of average indicators of the EU pre-accession support by countries, total IPA/per country and IPA per country/per capita indicators (to analyze structure of pre-accession support and explain the fact that Montenegro has the most favourable IPA/pc indicator because it needs ‘relatively’ the greatest support for strengthening of the necessary administrative capacities for the process of integration and planned reforms); detailed breakdown of the IPA assistance per component and years for Montenegro and calculation of average co-financing for IPA I component per years, IPA support in comparison of the Montenegrin GDP per years and for total MFF 2007–2013 (structure in GDP), and calculation of average co-financing in total value of projects based on available data for contracted IPA programming years 2007–2011 (to analyze structure of the Montenegrin pre-accession support in the context of co-financing principle); special attention is given to calculation of project value using co-financing method – amounts and sources of financing for Montenegrin selected infrastructural projects (to explain that national co-financing in the case of Montenegro, i.e. sources of funding for IPA projects are significantly greater than the proposed minimum of national co-financing for investment according to IPA regulation – 25%); and, calculation of co-financing for so-called small grants for local economic and infrastructural projects.

Official statistics and economic and financial data, produced by mentioned EU institutions and Montenegrin government, provide an empirical basis for descriptive economic research, for assessing the reliability of empirical findings and for use in decision making as to economic policy (recommendation).

Good economic data are a precondition to effective macroeconomic management that also includes (in this paper) analysis of actual IPA management in the enlargement countries in order to define lessons learned from MFF 2007–2013 financial period and to propose set of recommendation for policy makers for the next financial perspective.

IPA 2007–2013: Beneficiaries and Components

The IPA was designed so as to address the needs of the beneficiary countries within the context of pre-accession policy in the most appropriate way. Its main aim is to support institution-building and the rule of law, human rights, including the fundamental freedoms, minority rights, gender equality and non-discrimination, both
Financing Local Economic and Infrastructural Development

administrative and economic reforms, economic and social development, reconciliation and reconstruction, and regional and cross-border cooperation.

IPA funding will amount to some €11.5bn over 2007–13 (total national components €9.94bn, Multi-beneficiary IPA €1.18bn and Support expenditures €0.35bn). (EC, IPA revised MIFF 2012 : 6-9). The beneficiary countries are: Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Iceland, Kosovo\(^1\), Montenegro, Serbia, and Turkey.

To ensure targeted, effective and coherent action, the IPA is made up of five components, each covering priorities defined according to the needs of the beneficiary countries. Two components concern all beneficiary countries (EC, MIFF 2011 : 3-4):

- The “support for transition and institution-building” component (TAIB), aimed at financing capacity-building and institution-building; Component I covers all institution-building actions and the investments related to the acquis, it helps beneficiary countries to build up administrative and judicial capacity and addresses, according to priority, cooperation measures not expressly covered by other components. It supports the transition to a democratic society and market economy. It helps strengthen democratic institutions, administrative and judicial capacity, and civil society.
- The “cross-border cooperation” component (CBC), aimed at supporting the beneficiary countries in the area of cross-border cooperation between themselves, with the EU Member States or within the framework of cross-border or inter-regional actions. Component II also covers the participation of IPA beneficiaries in EFRD trans-national cooperation programmes. Essential for promoting good neighbourly relations and regional cooperation and working towards a sustainable economic, social and territorial development of border regions. It prepares the countries for managing the Structural Funds, once they become EU members.

The other three components are aimed at candidate countries only, to prepare them for the programming, implementation and management of Structural, Cohesion and Rural Developments Funds upon accession by approximating, to the greatest extent possible under External Aid rules, the implementation methods of these funds:

- The “regional development” component (RegDev), aimed at supporting the countries’ preparations for the implementation of the Union’s cohesion policy, and in particular for the European Regional Development Fund (ERDF) and the Cohesion Fund; Participating in such programmes should help beneficiary countries to use EU regional funding more effectively once it becomes available (after they become EU member states). For investment in transport, environment and economic cohesion, and associated technical assistance.
- The “human resources development” component (HRD), which concerns preparation for participation in cohesion policy and the European Social Fund (ESF) in

\(^1\) This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.
the framework of the European Employment Strategy; Supports the development of human capital and helps reduce social exclusion. IPA assistance in this area contributes to improving work skills, creating more and better jobs, and increasing social inclusion and equality.

- The “rural development” (RurDev) component, which concerns preparation for the common agricultural policy and related policies and for the European Agricultural Fund for Rural Development (EAFRD). Contributes to sustainable rural development. Assistance for restructuring agriculture and adapting it to EU standards (EC and MIFF 2011: 3-4).

According to revised Multi-annual indicative financial framework for 2013, structure of IPA support per countries and components in MFF 2007–2013 is given in the table below:

<table>
<thead>
<tr>
<th>Component</th>
<th>HR</th>
<th>MK</th>
<th>IC</th>
<th>ME</th>
<th>TR</th>
<th>SR</th>
<th>AL</th>
<th>BA</th>
<th>XK2</th>
<th>IPA</th>
<th>IPA (\text{WB})</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAIB</td>
<td>277.4</td>
<td>244.1</td>
<td>29.8</td>
<td>166.5</td>
<td>1667.5</td>
<td>1307.5</td>
<td>529.2</td>
<td>621.4</td>
<td>627.6</td>
<td>5471.1</td>
<td>3773.9</td>
</tr>
<tr>
<td>CBC</td>
<td>98.0</td>
<td>30.3</td>
<td></td>
<td>30.3</td>
<td>20.6</td>
<td>78.1</td>
<td>65.3</td>
<td>34.1</td>
<td>7.8</td>
<td>364.5</td>
<td>343.9</td>
</tr>
<tr>
<td>RegDev</td>
<td>344.9</td>
<td>200.4</td>
<td></td>
<td>22.7</td>
<td>1778.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2346.5</td>
<td>568.1</td>
</tr>
<tr>
<td>HRD</td>
<td>94.4</td>
<td>54.4</td>
<td></td>
<td>5.6</td>
<td>474.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>628.5</td>
<td>154.4</td>
</tr>
<tr>
<td>RurDev</td>
<td>182.9</td>
<td>85.6</td>
<td></td>
<td>10.5</td>
<td>854.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1133.7</td>
<td>279.1</td>
</tr>
<tr>
<td>Total IPA per country</td>
<td>997.6</td>
<td>614.9</td>
<td>29.8</td>
<td>235.7</td>
<td>4795.2</td>
<td>1385.7</td>
<td>594.5</td>
<td>655.5</td>
<td>635.4</td>
<td>9944.3</td>
<td>5119.3</td>
</tr>
<tr>
<td>in%</td>
<td>10.0%</td>
<td>6.2%</td>
<td>0.3%</td>
<td>2.4%</td>
<td>48.2%</td>
<td>13.9%</td>
<td>6.0%</td>
<td>6.6%</td>
<td>6.4%</td>
<td>100%</td>
<td>51%</td>
</tr>
<tr>
<td>Population (2011. Eurostat)</td>
<td>4.412</td>
<td>2.057</td>
<td>0.318</td>
<td>0.620</td>
<td>73.723</td>
<td>7.276</td>
<td>2.832</td>
<td>3.843</td>
<td>1.794</td>
<td>96.876</td>
<td>22.83</td>
</tr>
<tr>
<td>in%</td>
<td>4.6%</td>
<td>2.1%</td>
<td>0.3%</td>
<td>0.6%</td>
<td>76.1%</td>
<td>7.5%</td>
<td>2.9%</td>
<td>4.0%</td>
<td>1.9%</td>
<td>100%</td>
<td>24%</td>
</tr>
<tr>
<td>IPA countries/ per capita</td>
<td>226</td>
<td>299</td>
<td>94</td>
<td>380</td>
<td>65</td>
<td>190</td>
<td>210</td>
<td>171</td>
<td>354</td>
<td>103</td>
<td>224</td>
</tr>
</tbody>
</table>

Source: EC, 2012, pp. 6-9 with Author’s calculations.

The table 1 provides the figures in current prices and in Euro. It shows the allocations by country and by component, i.e. allocation of national IPA per countries (without the multi-beneficiary programme – MB IPA, as kind of joint support for horizontal and vertical activities of the beneficiaries, such as without support expenditures). In 2013, the EU is dealing with 5 candidate countries and 4 potential candidates.

2 “XK” is used by some international organisations as a temporary country code for Kosovo. HR – Croatia, MK – Macedonia, IC – Iceland, ME – Montenegro, TR – Turkey, SR – Serbia, AL – Albania, BA – Bosnia and Herzegovina.
Croatia will officially join the Union by July 2013. Candidate countries are FYRoM, Turkey, Montenegro and Serbia. The accession negotiation with Turkey started in 2006, with Montenegro in June 2012, with Iceland in July 2010 (but was temporarily frozen by Iceland), while accession negotiation with Serbia will probably start in early 2014. The accession negotiation process with Macedonia is blocked because of country name dispute with Greece. The European perspective for Albania, Bosnia and Herzegovina, as well as Kosovo is confirmed. Albania has the Stabilisation and Association Agreement in force and expects candidate status soon. Bosnia and Herzegovina also has signed SAA and will achieve its implementation and candidate status after realisation of set of defined political criteria. Kosovo is focused on preparation of SAA negotiation process after signing of Belgrade-Pristina agreement in April 2013 and adoption of an Action plan for its implementation).

Socio-economic indicators show that, with the exception of Iceland, enlargement countries are still well below the EU average (GDP/pc in PPS is between 25 to 61 of the EU average) and even below the level of the weakest Member States. This low level of socio-economic development calls for substantial investments to bring these countries closer to EU standards and allow them to take on board the obligations of membership and to withstand the competitive pressures of the single market. In addition, the countries in the Western Balkans are still relatively young states formed after the disintegration of the former Yugoslavia. Political stability, the full establishment of the principles of democracy and respect for human rights and good governance – all fundamental values of the EU – still need to be strengthened. Most lack the capacity to finance by themselves the institutional reforms and public investments necessary to stabilize their societies and economies and put them onto a sustainable development path (Proposal of IPA II 2011 : 2-3).

According to 2013 Heritage’s indicators of economic freedom, rank of the countries are as follows: 1. Iceland is only enlargement country located in the group of mostly free countries (from 79.9 to 70) on 23 position and score of 72.1; 2. in the group of moderately free countries (score 69.9-60) are: FYRoM – 43 position with score of 68.2, Albania – on 58 position with score of 65.3; Turkey – 69 position with score of 62.9; Montenegro – 70 position with score of 62.6; and Croatia – 78 position with score of 61.3. 3. In the group of mostly un-free countries (59.9-50) are Serbia on position 94, score 58.6 and Bosnia and Herzegovina on position 103 with score of 57.3. Kosovo is not ranked (Heritage Foundation 2013). All above mentioned stress the importance of IPA technical assistance to the Western Balkans as valuable EU financial instrument to support deeper integration.
The global breakdown of funds between countries (Figure 1) has been respected according to defined criteria in IPA legislation package. National IPA for Turkey, taking into account the size and absorption capacity of the country, presents almost half of the total amount. As for Iceland, the degree of its alignment with EU legislation through the European Economic Area Agreement and its level of economic and social development make the country an exception among candidate countries. For this reason it was agreed that the country will receive IPA assistance exclusively under component I, managed by the Commission. The funding covers three years and began in 2011.

The following graph presents figures for average level of national IPA per capita for mentioned period. For Montenegro, the per capita levels of funding are higher than for the other countries (€380 in Montenegro in comparison with €103 of average IPA/per capita level; at the same time, average national IPA/per capita for the Western Balkans is €224), reflecting a minimum level of funding needed for building adequate administrations, irrespective of the size of the country.
Financing Local Economic and Infrastructural Development

The EU pre-accession assistance in financing of local economic and infrastructure development: case of Montenegro

Montenegro is receiving EU financial assistance by the Instrument of Pre-Accession Assistance that has the aim to support the reform process in the country in the context of European integration with a focus on institution building, introduction of the EU *acquis* and improvement of socio-economic conditions as well as environmental protection and sustainable development.

For the mentioned period (2007–2013) Montenegro is receiving support in the amount of €235.7mn which represents 1.1% of Montenegrin GDP on annual level, while the national institutions are providing co-financing.

**Table 2: IPA support for Montenegro per components in MFF 2007–2013 (excl. MB IPA)**

<table>
<thead>
<tr>
<th>Component</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAIB</td>
<td>27.5</td>
<td>28.1</td>
<td>29.8</td>
<td>29.8</td>
<td>16.3</td>
<td>5.1</td>
<td></td>
<td>166.5</td>
</tr>
<tr>
<td>CBC</td>
<td>3.9</td>
<td>4.5</td>
<td>4.7</td>
<td>3.7</td>
<td>4.3</td>
<td>4.6</td>
<td>4.7</td>
<td>30.3</td>
</tr>
<tr>
<td>Reg. Development</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8.0</td>
<td>14.8</td>
<td>22.7</td>
</tr>
<tr>
<td>Human Resource D.</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2.8</td>
<td>2.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Rural Development</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3.3</td>
<td>7.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Total national IPA for Montenegro</td>
<td>31.4</td>
<td>32.6</td>
<td>34.5</td>
<td>33.5</td>
<td>34.2</td>
<td>35.0</td>
<td>34.6</td>
<td>235.7</td>
</tr>
<tr>
<td>Co-financing for IPA I component</td>
<td>18.3</td>
<td>13.1</td>
<td>23.6</td>
<td>18.3</td>
<td>13.8</td>
<td>n.a.</td>
<td>n.a.</td>
<td>34% (average co-financing 2007–11)</td>
</tr>
<tr>
<td>GDP of ME /mn €, current prices, ME Statistical Office/</td>
<td>2,680</td>
<td>3,086</td>
<td>2,981</td>
<td>3,104</td>
<td>3,234</td>
<td>3,276</td>
<td>3,446</td>
<td>–</td>
</tr>
<tr>
<td>IPA as % of ME GDP</td>
<td>1.17%</td>
<td>1.06%</td>
<td>1.16%</td>
<td>1.08%</td>
<td>1.06%</td>
<td>1.07%</td>
<td>1.00%</td>
<td>1.10% (average)</td>
</tr>
</tbody>
</table>


In the period 2007–2011 around 85 different projects are contracted, co-financing is almost 34% of total value of projects, while IPA support is about 66%. In comparison with the region, this structure of co-financing presents strong commitment of Montenegro to proposed joint projects, not only from State capital budget but also from international financial institutions (loans).

As it is presented in Table 2, annual IPA support is gradually raised per year in this financial perspective. Montenegro had access to the first two components (TAIB
and CBC) till 2011. In the programming period 2012–2013 EC decide to re-allocate amount of €38.9 mn for preparation of future development and infrastructure projects in components III, IV and V.

Priorities for infrastructural and local developments and co-financing principle in national IPA for Montenegro

Dynamic European integration process in Montenegro in previous period is realised partly due to the significant IPA support in different areas related to the fulfilment of political criteria, social and economic development (including infrastructural and local development) and EU standards. At the same time, all operations receiving assistance under IPA, in principle, require co-financing by the Beneficiary and the Union, unless otherwise agreed upon in a Sectoral Agreement or Financing Agreement. In this part of our research we are focused on analysis of IPA support i.e. impact of IPA project on infrastructural development in Montenegro. Following table presents main infrastructural project supported by IPA in mentioned period.

Table 3: IPA support for Montenegrin infrastructural development: selected projects

<table>
<thead>
<tr>
<th>Social and economic development – priority area</th>
<th>Project</th>
<th>EU IPA</th>
<th>%</th>
<th>MNE Co-financing (€ mn)</th>
<th>%</th>
<th>Total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPA 2007 Transport</td>
<td>Bypass Podgorica</td>
<td>4</td>
<td>19%</td>
<td>From Budget</td>
<td>17.2</td>
<td>81%</td>
</tr>
<tr>
<td>IPA 2008 Environment – Waste water treatment</td>
<td>Municipality Niksic</td>
<td>3.5</td>
<td>28%</td>
<td>Loans – EIB</td>
<td>8.9</td>
<td>72%</td>
</tr>
<tr>
<td>Border-crossing with Serbia</td>
<td>Municipality Bijelo Polje</td>
<td>2.45</td>
<td>74%</td>
<td>Budget</td>
<td>0.85</td>
<td>26%</td>
</tr>
<tr>
<td>IPA 2009 Transport</td>
<td>Reconstruction of the railway</td>
<td>5</td>
<td>33%</td>
<td>Loans – EIB 7 and EBRD 3 mn</td>
<td>10</td>
<td>67%</td>
</tr>
<tr>
<td>Environment – Waste water treatment</td>
<td>Municipality Berane</td>
<td>4.8</td>
<td>47%</td>
<td>Loan – EIB*</td>
<td>5.5</td>
<td>53%</td>
</tr>
<tr>
<td>IPA 2010 Transport</td>
<td>Reconstruction of the railway</td>
<td>5</td>
<td>42%</td>
<td>Loan – EIB</td>
<td>7</td>
<td>58%</td>
</tr>
<tr>
<td>Environment – Waste water treatment</td>
<td>Municipality Pljevlja</td>
<td>3.5</td>
<td>32%</td>
<td>Loan – EIB (part of) + Municipal Win, MB IPA (1,5)</td>
<td>7.5</td>
<td>68%</td>
</tr>
<tr>
<td>IPA 2011 Environment – Waste water treatment</td>
<td>Municipality Cetinje and Bijelo Polje</td>
<td>6.8</td>
<td>51%</td>
<td>Loan – EIB</td>
<td>9.4</td>
<td>49%</td>
</tr>
<tr>
<td>plus MB IPA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry for Foreign Affairs and European Integration, Government of Montenegro, 2013, with Author’s calculations.

Note*: EIB loan for Waste water treatment in Berane is not realized due to problem with location. IPA 2009 grant is redirected to purchase of equipment for Utility companies in the Northern region of Montenegro.
Priorities are defined between Montenegrin government as beneficiary and the Commission. In IPA 2007 programming period, the most important investment was in the transport (Bypass Podgorica, with national co-financing achieving 81% in total investment due to previous investment of Podgorica municipality, calculated in total investment of this project). If we calculate only phase IV of this investment, national co-funding could be much smaller. In IPA 2008 programming period, the most important investments were in the environment – wastewater treatment and in the area of integrated border management – building of Border-crossing near the border with Serbia. Wastewater treatment in Niksic municipality is realized with strong support of EIB loan (72% of national co-financing) instead of State budget support. In IPA 2009 programming period, co-financing in infrastructural project is also high: 67% in transport through loans of EIB and EBRD and 53% in planned building of waste water treatment in municipality Berane. Unfortunately this environmental investment is not realized due to problems with location of WW-treatment and reaction of local community. Grant was redirected to purchase of equipment for Utility companies in the Northern region of Montenegro. In IPA 2010 programming period, co-funding in infrastructural project was also high and fully realized through loans of EIB for transport and environment. In IPA 2011 programming period infrastructural projects in the area of environment still dominated with same model of national co-financing through loans. Building of wastewater treatment in two Montenegrin municipalities is supported with additional direct grant from Multi-beneficiary IPA (€2.8mn).

**Potential risks in implementing of IPA projects for infrastructural development**

Based on previous analysis, it can be concluded that the national co-financing in the case of Montenegro, i.e. sources of funding for IPA projects were significantly greater than the proposed minimum of national co-financing for investment according to IPA legislation (25%). At the same time, national co-financing is substantially covered by loans from IFIs. This model of financing of infrastructural project carries the following risks:

- Risk of premature withdrawals of IPA in the case of unprepared projects ("n+2" rules is final date for contracting following the date of signing of annual financial agreement) – risk of late contracting or “disappearing” of grant. Possible reasons for delay are following: unregulated ownership relations on project location, inadequate location for building of some wastewater treatment plants, lack of technical documentation and feasibility studies for the projects, lack of financial support in State capital budget, etc. These potential problems are just some of the reasons that could postpone realization of the project. Risk of automatic de-commitment of IPA funds in “n+2” rules occurs after three years of initial commitment (signing of annual financial agreement).
• Mismatch between withdrawn EIB/EBRD credit lines with the project realization
dynamic – continues to have a negative impact on overall management of public
debt and planning of future infrastructural and local development projects. Lack
of harmonization of project priorities and available financial resources for them.
• Possible risk of request for return of IPA funds in cases of their misuse – benefi-
ciary country is obliged to keep full accurate and systematic record and accounts
of the activities implemented under IPA projects. Such records must be kept for
7-years period after the last payment made under the project. Misuse of fund or
failure to maintain such records constitutes a breach of obligations and will result
in the termination of EU funding or request for refund of part or all funds to the

The Commission proposed additional support to beneficiary countries to avoid
time lag between programming and implementation dynamic of infrastructural pro-
jects. In other words, project preparation for bigger infrastructural project is real-
ised with support of IPA. In national IPA components project preparation is sup-
ported by Technical Assistance and Project Preparation Facility (TA&PPF) and
Support Measures Facility (for public institutions only). Furthermore, under Multi-
beneficiary IPA special instruments are also created for project preparation, for so-
called “bankable” infrastructure projects: Western Balkans Investment Fund (WBIF)
and Municipality Windows.

Priorities for small infrastructural projects on local level for municipalities
in national IPA for Montenegro

Strengthening of administrative and financial capacities of Montenegrin local gov-
ernment is also important part of jointly defined priorities in pre-accession support
and, at the same time, it is important area for fulfilment of Copenhagen criteria at
local level for all potential candidates and candidate countries in current enlargement
cycle. For mentioned priority areas analysis is focused on two IPA projects:
• IPA 2008 “Support to local government reform” (€4.3 million EC contribution,
  €1.75 million national contribution, i.e. co-financing) and
• IPA 2010 “Support to local self-government for implementing the National trai-
ning strategy (NTS) and provision of grants to municipalities” (€3.5 million EC
  contribution, €0.44 million national contributions).

“Support to local government reform” project is designed to help improve the legal
framework for the decentralisation of powers to local government. It also helps to
build municipal administrative capacity, fight local level corruption and upgrade the
local public investment programmes. Under decentralisation, municipalities have
been given important devolved powers (e.g. education, primary health care and so-
cial welfare) but the sectoral laws need to be amended to reflect that new reality.
Financing Local Economic and Infrastructural Development

Similarly, financial resources need to be transferred to municipalities to enable them to deliver the services they have now become responsible for. And municipalities – particularly those in the poorer central and northern regions – need to improve their administrative capacity and gain access to additional funds in order to invest in key local public infrastructure.

IPA package, i.e. concrete IPA project, before signing of a financial agreement, should be accepted from both sides – the Commission and the Beneficiary. Based on that approach, the following project activities are jointly defined in mentioned IPA 2008 project:

1. Supporting the harmonisation of local government and sectoral legislation, through providing assistance to the legislative working groups, as well as training and awareness building on fighting corruption at local level. There will also be support to strengthen the Coordination Committee for Local Self-Government Reform in its role of distributing competences and resources between the central and local levels. This grant is directly awarded to the Council of Europe to implement this part of planned activities in cooperation with the major stakeholders, addresses the local democracy problems in line with CoE recommended criteria. CoE should ensure continuity and coherence of actions thanks to previous successful cooperation with Montenegrin municipalities. Grant contribution to CoE for €0.15 million and a technical assistance contract of approximately €0.65 million.

2. Training and advice for the Union of Municipalities and individual municipalities in identifying priority investment projects; preparing proposals, economic feasibility studies and environmental impact analysis; financial and investment planning, etc. in order to be better able to attract investments from IFIs and others.

3. Preparing and monitoring a call for proposals for municipalities, to be launched by the EU delegation. Exploring the possibilities for setting up a trust fund (to operate in tandem with Ministry of Finance’s own Equalisation fund) which would be able to receive EU funds for municipal investments once Montenegro is granted decentralised implementation system (DIS). A grant scheme for municipal small infrastructures and investments should be managed by the ECD. There will also be grants for an amount of €3.5 million for the small municipal infrastructures, expected to be launched later, together with additional IPA project in 2010. Co-financing will be provided by Ministry of finance out of the existing Equalisation Fund and/or Municipalities, up to €1.6 million for investments and €0.15 for institution building (Financial proposal 2008: 2-3).

IPA 2010 “Support to local self-government for implementing the National training strategy (NTS) and provision of grants to municipalities” presents the continuity of support to local self-government reform and support to local economic and infrastructure development thought small grants. Beneficiaries are Montenegrin municipalities, Ministry of internal affairs and public administration, Union of municipalities of Montenegro (UoM) and Human resources management authority (HRMA).
The purpose of the projects was to support UoM and its members in implementation of capacity building programmes in line with the NTS and its Action plan, while continuing support to priority municipal investment in line with EU best practice in local governance (Financial proposal 2010: 5-6).

The EU Delegation and Montenegrin Government created very ambitious plan which should be realised in three cycles – call for proposals under the grant scheme for small infrastructural projects for municipalities. They established Municipal Development Grant, fully committed for quality projects in line with the municipal strategic plans. Total EU contribution for small grants is integrated from IPA 2007 and IPA 2010 programming years (approximately €3.5 and €5.5 million). The first call for proposals was launched in June 2010. National co-financing is planned to be covered by Ministry of finance, instead of municipality’s budget (approximately €0.75 million annually in next two fiscal years – 2011, 2012).

Realisation of this project is still ongoing, but same important small infrastructural grants are realised till fiscal year 2013, which is presented in the following table:

<table>
<thead>
<tr>
<th>Small grants for local economic and infrastructural development</th>
<th>Priority areas</th>
<th>Total investment</th>
<th>IPA % of IPA in total investment</th>
<th>National co-financing</th>
<th>% of nat. co-financing in total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 municipalities (11 municipalities from the Northern region, Old Royal Capital Cetinje, Danilovgrad and Ulcinj)</td>
<td>Local transport, Environment (waste water treatment, sanitation), Social infrastructure, Tourism</td>
<td>7,852,008</td>
<td>5,453,585</td>
<td>2,398,423</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: Ministry for Foreign Affairs and European Integration, Government of Montenegro, 2013, with Author’s calculations.

Most of the projects are realised in the Northern region of Montenegro (14 municipalities are awarded with small grants). Average amount of endorsed small grant is €560.00 per project. Implementation of the EU small infrastructure projects is great experience for municipalities and could serve as solid base for preparation and implementation of other projects, including IPA CBC projects.
Based on the analysis of existing challenges in realisation of above mentioned projects/small grants on local level (in the context of serious economic and financial crisis), it can be concluded that main problems in realisation of small grants for municipalities were following:

- Co-financing problems for the grants to municipalities due to fiscal problems (budget deficit on national and local level, reducing of capital budget, saving measures due to serious economic crisis, lack of financial resources); risk of possible reduce of co-financing obligations;
- Lack of prepared project for local infrastructure (need to re-allocate part of grant for project preparation and technical work);
- Lack of administrative capacities for project preparation and project management on local level (including lack of English language knowledge and computer skills).

In addition to presented IPA project, in 2011 IPA programming period, support to UoM is planned for further realisation of the National training strategy for municipalities (€1.9 million from IPA and €0.13 million national co-financing). During project preparation, municipalities received support from special technical support team, Union of Montenegrin municipalities and trainer’s team (mentorship).

*Capacities of Montenegrin municipalities to participate in cross-border cooperation projects*

European integration process is not exclusively in the competence of central authorities of the country, despite its level of decentralization and/or regionalization. Participation of local authorities in generation of national policies and establishment and implementation of local policies with EU standards and norms is called “Horizontal Europeanization” (Capacities of Montenegrin municipalities 2011 : 2-3).

Montenegro participates in six neighbour programs within second IPA component (five bilateral programmes with Croatia, Bosnia and Herzegovina, Serbia, Kosovo and Albania and one multilateral programme – Adriatic Neighbourhood Program) and two trans-national programs financed also from EFRD (South East Europe – SEE and Mediterranean Space – MED).

The main goal of regional and cross border cooperation is to harmonize differences among neighbour countries and to stimulate cultural, social, economic and scientific cooperation among local and regional communities. Within Western Balkans, this program has an aim to promote good neighbourly relations, strengthening the stability and prosperity of respective countries as well as connection of the people in bordering regions through joint projects on sustainable development. More concrete
goals are defined based on specific needs of every (country) cross border program. Generally speaking, Montenegro participates in programs with following goals:

- Stimulation of cross border initiatives in area of social development, economy and environment protection in border regions;
- Promotion of legal and administrative cooperation;
- People to people activities.

Number of municipalities involved in bilateral CBC projects is growing. In 2012, there are 36 bilateral neighbour projects (first cycle), 16 trans-national projects and 17 projects in programme Adriatic, with total amount of €16.62 million (Djurovic 2012 : 217). 7 municipalities have participated in IPA CBC projects as well (out of 38 projects endorsed for all five CBC programs. Municipalities Andrijevica, Berane, Bijelo Polje and Pljevlja participate in implementation of more than one IPA-financed project in the same time (small infrastructure projects and cross border cooperation projects). However, data on number of endorsed projects do not address the question about success of the project implementation. Number of municipalities that are lead project applicants could help in this anticipation, because leading applicants usually put more effort in project preparation. Municipalities of Pljevlja and Berane are the only leading applicants in projects endorsed by first round (CBC Montenegro – Serbia). Still, municipality of Berane received significant support during project preparation from international organizations, i.e. UNDP and SNV.

In next part of the paper we will present an overview of endorsed projects in which municipalities are participating:

**Cross border program Montenegro – Albania:** Capital City Podgorica participates in project “Building roads for tourist cooperation, through development of handicraft products”. Project goal is “contribution to revitalization, development and promotion of traditional, local art production in bordering area”. Leading applicant is from Albania.

**Cross border program Montenegro – Bosnia and Herzegovina:** we can say that municipalities were more active in this program. Municipality of Kotor participates in project “Sustainable waste management in border area of Bosnia and Herzegovina and Montenegro”. Goal of the project is “to promote joint sustainable development and increase efficiency of the waste management in border area, through capacity building activities and establishment of joint institutional networks in business, public and civil sector”. Municipality of Pljevlja participates in project “Growing Sustainable Practices for protection, promotion and management of natural resources” with goal to “contribute to protection, promotion and capacity building for sound management of selected areas of outstanding nature value, aimed to increase tourist offer and other alternative activities”.

Local Economic and Infrastructure Development of SEE in the Context of EU Accession
Cross border program Montenegro – Croatia: municipality of Bar was the most successful one. It is partner in project “Olive production as part of cross-border tourist offer”. Leading applicant is SNV – Development agency from Netherlands. Goal of this project is to “create joint platform for cooperation in olive and tourist sector, in border area, through capacity building of olive growers and tourist workers, in order to increase economic potentials in respective sectors”. Project, also, has to “promote existing and create new tourist offer, including small infrastructure interventions, as well as development of joint promotion and marketing of olive products that represent unique sense for location and tradition”. Town Library Kotor is leading applicant in project “Dubrovnik and Kotor – towns and books”.

Cross border program Montenegro – Serbia: in this program municipalities showed the best creativity. Municipality of Berane is leading partner in project “Sustainable tourism for equal opportunities”. Project activities include procurement of IT equipment for tourist organization Berane, production of photo album with tourist potentials of Berane, catalogue of joint tourist values of respected area and maps based on GIS as well as publication etc. Municipality of Andrijevica participates in project “Zlatibor – Kom pastures” aimed to contribute to milk production. Three experimental centres for buying up milk will be equipped with IT and laboratory (milk analyze). The centres will analyze thousand of samples in order to increase quality. Municipality of Bijelo Polje participates in project “Without borders, for the sake of children” aimed toward establishment and development of participatory network as source for poverty reduction, creation of conditions for experience exchange, increasing the level of social activity of marginalized children and youth, joint activities of youth, raising awareness on poverty as Human Rights category. Municipality of Pljevlja is leading applicant in project “Sustainable development of bicycle sport” aimed toward development of infrastructure for mountain motor and bike sport in Pljevlja and Kraljevo, to promote mountain motor and bike sport as new tourist offer, and to raise awareness of public, especially youth, on bicycle sport advantages. Within this program, Public Communal Enterprise from Nikšić is leading applicant in two projects with Public Communal Enterprise from Užice (Capacities of Montenegrin municipalities 2011 : 24-25).

Cross border program Montenegro – Kosovo: projects will be realised in the framework of programming period 2012–2013.

Beside municipalities, other local stakeholders took part in IPA CBC projects. They are as follows: Public Communal Enterprise Nikšić, Mountain Rescue Service Nikšić, Cultural Centre Pluzine (leading applicant), and Town Library Kotor. In transnational programmes 3 municipalities are involved (Ulcinj, Cetinje and Niksic).

For better evaluation of the results in first call for intra Western Balkans CBC projects, it is valuable to add some results of NGO surveys. Activists of NGO Citizen Information and Education Centre had interviews and polling with local government
civil servants. Based on their information, 3 out of 21 local governments haven’t participated in first call for IPA CBC proposal: Kolašin, Danilovgrad and Šavnik. Some of answers led to the conclusion that there were no enough capacities for project preparation but some stated that all IPA components are pure “boredom”. Arguments were given as follows: CBC programs are too complicated, project preparation is time and energy consuming and funds are small. Therefore, from the point of view of some local governments, participation in CBC projects is irrational, especially in comparison with funds for infrastructure projects from first IPA component (Capacities of Montenegrin municipalities 2011 : 27).

The significance of these projects is undoubtedly remarkable, but not sufficient. Local governments must further develop their absorption capacities for EU funds in order to achieve targeted goals of local economic development.

To conclude, implementation of projects under IPA CBC program remains great challenge for municipalities with lack of previous experience in cross-border project implementation, according to EU system of public procurement.

Conclusions from Montenegrin pre-accession assistance experiences in MFF 2007–2013

Lessons learned

This analysis shows that there is a quite strong link between strengthening of administrative capacities of all level for IPA management and effectiveness of selected project, i.e. their impact on local economic and infrastructural development. Based on lessons learned from the current financial perspective in using IPA funds as incentive for faster local development, we can conclude the following:

• The overall IPA envelope for Montenegro in the Multi-annual financial framework 2007–2011 is €235.7 million which represents about 1.1% of Montenegrin GDP (average);
• Co-financing of the IPA projects (institution building and investment) are realized significantly above proposed minimum (for institution and for investment 10 and 25% of public expenditures respectively); In some cases co-financing is more than 70% which confirms importance of selected project for infrastructural development of Montenegro;
• Infrastructural projects in transport and environment are followed by credit lines from EIB and EBRD;
• EU became main donor in the Western Balkans region and in Montenegro with leading role in donor coordination initiatives;
• Main administrative structures for programming of IPA projects are established, such as their monitoring in a decentralized management system;
Financing Local Economic and Infrastructural Development

- First CBC projects are realized, on bilateral and multilateral level;
- The Joint Consultative Committee (JCC) between the Committee of the Regions (CoR) and Montenegrin local authorities is established and held its second meeting in June in Podgorica with focus on effective use of pre-accession assistance and area of wastewater investment;
- Good regional cooperation in the field of IPA management coordination is established;
- Accreditation process for decentralized management system of pre-accession assistance is in final phase;
- Great number of trainings are realized, including trainings for programming and project management; methods of multi-annual programming and monitoring of project cycle are developed;
- Till now, there are no detected misuses of IPA funds in Montenegro and disbursement dynamic is in planned framework (gradual raise of absorption capacities);
- Serious economic crisis, since 2009, strongly reduced State capital budget and questioned numerous infrastructural projects at local level; almost all Montenegrin municipalities entered in the era of financial insolvency and indebtedness;
- At the same time, priorities in the Multi-annual programming document are too general and not enough number of projects is prepared for next programming period.

Recommendations

Accreditation for DIS – European support is of great importance for beneficiary countries. In the same time, managing of the support (funds) is a great challenge for public administration as well as local governments, civil society organization and business. Establishment of above-mentioned structures, setting up rules and procedures are necessary to obtain EC accreditation for decentralized management of IPA. It is very complex and demanding task for Montenegro.

Administrative capacities of municipalities – Local Governments are not obliged to establish new administrative (accredited) structures. European integration process supports municipalities to better perform their roles. However, building local capacities is not a new task for local governments. On the contrary, it is local governments’ genuine necessity in order to be a service to the citizens. EU Integration process serves as a catalyst for better recognition of necessity for capacity building activities and its better implementation.

Financial and fiscal capacities of municipalities and central government budget – After the short-lived recovery, Montenegro ended up in recession again in 2012. Although the government expects the output growth rate of 3.0-3.5 percent over the medium term, supported by FDI in energy, tourism and construction, there
are substantial downside risks to the government fiscal and macro framework. Montenegro’s public debt, including guarantees, has risen rapidly since the crisis, from 32.4 percent of GDP in 2008 to over 61 percent in 2012. State debt is 51.1 percent and guarantees are 11.2 percent on spring 2013, with serious risk of KAP guarantees activation because of possible opening of programming bankruptcy procedure in company in July. It will cause problems with co-financing for IPA programmes, together with raising level of Montenegrin public debt including issued public guarantees (World Bank 2013 : 3-5).

Further regional development analysis and regionalisation – Strategy of regional development of Montenegro, adopted in 2010, followed by Law on Regional Development in 2011, perceive Montenegro as one statistical region (NUTS 1, 2 and 3), but three geographical regions: maritime region (Ulcinj, Bar, Budva, Tivat, Kotor, Herceg Novi and Cetinje), middle (Podgorica, Cetinje, Niksic and Danilovgrad) and continental region (Šavnik, Žabljak, Plužine, Pljevlja, Kolašin, Mojkovac, Berane, Bijelo Polje, Rožaje, Andrijevica and Plav). In order to better utilize EU funds for regional development, it would be important to perform additional analyzes on needs and possibilities for definition of more detailed statistical regionalisation. In addition, increasing quality and accessibility of statistic data on local level would support strategic planning process in local governments.

Having in mind poor capacities of smaller municipalities, it would be necessary to think about establishment of regional development agencies. Their task would be to support process of development planning and project preparation in several municipalities with one geographical (or, eventually statistical) region. Development of local capacities, to prepare and implement IPA funded’ projects, is very important issue. Therefore, Government of Montenegro should consider possible options for additional support to municipalities in project management.

Inter-municipal cooperation needs to be promoted as a tool for compensation of missing resources.

Strengthening of the local human resources – Concept of human resource development in local government was usually based upon ad hoc trainings, organized by donors. The lack of quality implementation of National Training Strategy for Local Government (2008) supports this statement. It is very important to ensure preconditions for implementation of above-mentioned strategy. Therefore, it is necessary to develop modern, merit-based human resource management system on local level.

Preparation of CBC projects in future – Experiences of municipalities that received grants from first call for proposals are valuable to other municipalities for preparation of IPA project proposals. Therefore, it would be good to establish model of information exchange and exchange of best (or eventually bad) practices. In addition,
Financing Local Economic and Infrastructural Development

it is necessary to determine CBC potentials and to include them in strategic development plans, budgeting and implementation of these plans.

Local Government Development – It is necessary to introduce innovated methodology and strategic planning concept in all municipalities. In addition, it is necessary to ensure participation of business and civil sector in local planning processes, and to define strategic local priority issues that can be addressed through support of EU funds. Municipalities need to improve process of planning and coordination of activities with cross border partners, in order to harmonize development’ plans, to choose priorities and to adopt planning documents.

Union of Montenegrin Municipalities (UoM) – Ministry department in charge of local government and UoM should put more effort in strengthening human, organizational, technical and financial capacities for effective planning, preparation and implementation of cross border cooperation projects. Local governments should be more active in process of programming of EU pre-accession funds, with support of UoM.

References

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