



**UNITED NATIONS  
MONTENEGRO**



**UNITED NATIONS  
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UPDATE 2022**

**MONTENEGRO**



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## Introduction

The United Nations in Montenegro released its first iteration of a new generation of Common Country Analyses (CCA) in March 2021. The CCA is an integrated, forward-looking, and evidence-based analysis of the country context for sustainable development. The main goal of the CCA is to analyse the development and human rights context and provide an analytical basis for the UN's work in Montenegro, articulated in the new UN Sustainable Development Cooperation Framework (UNSDCF). It is the UN's independent, impartial, and collective assessment of the country's progress towards the Sustainable Development Goals (SDGs). The CCA is a live document that the UN will update on an annual basis to take account of changes and developments and guide UN policy and support to Montenegro. The CCA is structured around the three key strategic priorities of Montenegro's UNSDCF:

- 1 Inclusive economic development and environmental sustainability;
- 2 Human capital development, reduction of vulnerability and social inclusion; and
- 3 Social cohesion, people-centred governance, rule of law and human rights.

The original CCA, developed by a UN multi-disciplinary team, outlined the sustainable development challenges in Montenegro, root causes for them and identified potential remedies and opportunities to accelerate the SDGs. Whilst there had been overall progress towards a more

inclusive society there were groups identified as being at risk of being left behind. Under the UN's mandate of Leaving No One Behind (LNOB) and supporting the most vulnerable first, the analysis focussed on these groups and the deprivations they face. At the heart of all of this were 10 vulnerable groups who are affected most by these issues, which were identified in a UNCT commissioned background paper on Social Inclusion and Leave No One Behind<sup>i</sup> and are as follows:

- Roma and Egyptian community in general and Roma and Egyptian women and girls;
- Persons with disabilities;
- Children, victims of violence and exploitation, without parental care, living in poverty and street children;
- Older persons, especially with deteriorated health, disabilities and / or in need of long-term care;
- Refugees from former Yugoslavia, foreigners seeking international protection and persons granted international protection and stateless persons/ persons at risk of statelessness;
- Informal workers, workers with temporary contracts and seasonal workers;
- Women experiencing domestic violence;
- Victims of trafficking;
- Lesbian, gay, bisexual, transgender, intersex (LGBTI) persons;
- Homeless persons.

<sup>i</sup> The Leave No One Behind paper was not published and is not publicly accessible.

This CCA update is designed to be a light-touch update and will focus on the key contextual changes or issues that have occurred since the original CCA. The analysis captures the main findings of the original CCA; two new important contextual changes that have occurred since the last iteration of the CCA: (i) an assessment of the impact of the war in Ukraine and (ii) the changing political context; other contextual changes set against the strategic priorities of the UNSDCF including update on the situation following the COVID-19 pandemic, and provides an analysis of regional dynamics. Finally, the update provides a conclusion on Montenegro's 2nd Voluntary National Review (VNR), the SDG financing landscape, and provides a forward look. The forward look assesses how the gaps and challenges, and root causes are evolving, and whether the original recommended actions, from the first iteration of the CCA are still relevant, providing recommendations on what new elements need to be included. This update's forward look is designed to identify further SDG analyses that can be conducted to support advocacy, policy, and programme development, while supporting further CCA updates under the new UNSDCF. Alongside this iteration of the CCA, there is a database listing the indicators that should be monitored (both SDG and non-SDG) to inform future iterations of the CCA.





## Executive summary

The COVID-19 pandemic had a profound impact on all societies of the world, but Montenegro has seemingly exited the pandemic and begun a robust recovery. The pandemic reversed several key indicators, such as poverty and employment, by around 6 or 7 years, but a better-than-expected tourism season coupled with a recovery in domestic demand has spurred on Montenegro's progress. As the pandemic continued, more data became available on its impact on different elements of sustainable development in Montenegro. The pandemic put an unprecedented strain on Montenegro's public services with health bearing a substantial burden, as Montenegro had one of the highest global incidence rates at the beginning of 2021.<sup>i</sup> The education sector was similarly put under strain with school closures and teaching moving online. And the lockdowns and curfews saw a spike in the incidence of gender based- and domestic violence.

The war in Ukraine is now jeopardising Montenegro's robust recovery following the pandemic. Rapidly rising inflation because of the conflict, coupled with supply chain disruption in China and rising US demand, has put pressure on vulnerable groups across the world. Montenegrins are facing rising food and fuel prices which is squeezing their purchasing power. The "Evropa Sad!" programme<sup>ii</sup>, launched at the beginning of 2022, which increased the minimum wage from €250 to €450 per month has offered some support to those in formal employment. But even that increase is now being put under strain from the increased cost of living. Political developments, with two changes in Government in the space of 6 months, have not helped to spur progress on the SDGs and EU accession.

<sup>ii</sup> Now referred to as the "New tax, minimum wage reform programme"

Vulnerable groups have experienced mixed fortunes in the face of these global and national developments, with some trends improving and others worsening. Some of the gaps between men and women have reduced, even if those gaps themselves continue to exist. The gap fell between male and female employment and activity rates, measuring women's participation in the formal labour market. While gender disparities are improving, sub-national disparities are worsening. The disparity between the north and south is growing, manifested in a growing gap in the respective risk of poverty rates. The north's employment and unemployment rates lag other regions. Added to that, evidence suggests that persons with disabilities are still facing substantial disadvantages in terms of accessing programmes and policies which would support them and help them access the labour market. While pensioners were not one of the groups that initially saw their incomes increase under the "New tax, minimum wage reform programme", which left them at risk of the rising cost of living, although subsequently they will see their pensions increase in 2022 and 2023.

Montenegro's 2nd VNR has highlighted some of the progress made in terms of the SDGs. While certain factors have improved the outlook remains vulnerable to many of the challenges and gaps that were highlighted in the first iteration of the CCA, 18 months ago. Montenegro will have to deal with these and the new challenges of the war in Ukraine and political instability to accelerate progress on EU accession and the 2030 agenda.



## I Summary of first iteration of the CCA

The first iteration of the CCA outlined how Montenegro has made progress against the SDGs.<sup>2</sup> The CCA identified that, prior to the COVID-19 pandemic, Montenegro had made notable progress on the SDGs and was arguably one of the frontrunners in the non-EU Western Balkans in achieving the SDGs. In 2019, Montenegro had achieved a very high human development category score in the 2021/22 Human Development Index (HDI) and was the highest ranked in the non-EU Western Balkans.<sup>3</sup>

The original CCA highlighted how Montenegro's EU accession process is closely correlated with Agenda 2030. The Mainstreaming, Acceleration and Policy Support (MAPS) exercise, implemented in 2018 (Unravelling Connections: 2030 Agenda and EU Accession),<sup>4</sup> mapped synergies between the 2030 Agenda and the EU accession process. It showed that by achieving all EU accession benchmarks, the country will address almost 65 percent of SDG targets. Montenegro has opened all 33 chapters of the Acquis Communautaire, and successfully closed three, which is the most progress of all EU accession candidate countries.

Despite this progress, the CCA underlined how the COVID-19 pandemic has reversed much of this progress with around 7 years of progress undone in terms of the HDI, but other key indicators have experienced reversals such as employment and poverty. Some significant development challenges remained, synonymous with those in an upper-middle income country. A common cross-cutting theme is the challenge of implementing the necessary reforms to accelerate EU accession and the SDGs.

The gaps and challenges of the first iteration of the CCA were outlined against 3 areas. These chapters identified, in detail, the main challenges and gaps to achieving the SDGs and, later, formed the basis for the three strategic priorities of the UNSDCF. To see more detail on the gaps and challenges outlined in the first CCA more information can be found on the UN in Montenegro website. The three strategic priority areas are as follows:<sup>5</sup>

- 1 Inclusive economic development and environmental sustainability;
- 2 Human capital development, reducing vulnerability and social inclusion;
- 3 Social cohesion, people-centred governance, rule of law and human rights.

The CCA identified root causes, cross-cutting through the three strategic priorities that drive the challenges to accelerating progress against the SDGs. These were identified as:

- An unfinished transition to a market economy (part of EU accession process);
- Governance, implementation, and accountability gaps;
- Demographic trends are starting to create challenges for Montenegro;
- The availability and the use of finance hinders the ability to drive forward the 2030 Agenda;

- Attitudes, social norms, and level of awareness shape how the population respond to certain challenges;
- Insufficient data and evidence prevent the effective formulation of policies, measures, and programmes.

The CCA identified actions Montenegro needs to take to accelerate progress against the SDGs. The COVID-19 pandemic had complicated the outlook and reversed some of Montenegro's development trends, which would require strengthened efforts to build back better. To accelerate progress on the SDGs, Montenegro needed to continue to strengthen the implementation of critical reforms, and enhance policy design, monitoring, and financing of key initiatives to accelerate and sustain progress towards the 2030 Agenda and to reach the political priority of EU accession. In the short-term this meant addressing the issues created by the COVID-19 pandemic and ensuring that people are at the centre of the recovery. While in the medium- to long-term it meant reducing the overall vulnerability of Montenegro to external shocks and putting in place the building blocks to a more inclusive and prosperous society. The CCA made recommendations under the three strategic priority areas.





## II Major sustainable development contextual shifts

Since the first iteration of the CCA in 2021, there have been two major developments of consequence for Montenegro's overall sustainable development context, namely the impact of the war in Ukraine and changes of Government. The impact of both factors has been especially pronounced as they have exacerbated Montenegro's fragility as it recovers following the COVID-19 pandemic either through the impact on shared prosperity or political decision-making and Montenegro's reform agenda.

### 2.1 Impact of the war in Ukraine on Montenegro

Following the COVID-19 pandemic, Montenegro's economic recovery in 2021 was stronger than expected. The Montenegrin economy experienced growth of 12.4 percent, following a 15.2 percent contraction in GDP in 2020. The 2021 growth was the highest rate within the Western Balkans. In absolute terms, real GDP remains below its pre-pandemic level and is not set to hit its 2019 level until 2023. The recovery was driven mainly by a strong tourism season and partly an improvement in domestic consumption. The better-than-expected tourism numbers came despite concerns of further COVID waves. Many of the tourists came from the Western Balkans sub-region, with Serbian tourists alone accounting for 32.6 percent of all overnight stays in 2021. The strong recovery in tourism stimulated a recovery in the labour market, which prior to the tourist season, had failed to "reignite".<sup>6</sup> Employment rose to 46.5 percent in quarter 3 2021, after falling to 38.5 percent in quarter 1 2021, the lowest level in over 10 years.

Despite the recovery in growth and jobs, supply chain constraints, caused by continued lockdowns in China had increased inflationary pressures and stifled the burgeoning global recovery following the pandemic. The war in Ukraine and sanctions imposed against Russia have had a substantial impact on the global economy triggering accelerating inflation, through commodity prices, that is now pushing higher energy and food prices onto vulnerable households. The war is leading to disruption in trade and investment flows, putting the Western Balkans' recovery at risk. As the conflict becomes more protracted, the possibility increases of higher inflation being a more permanent trend. Central banks have responded to the rising inflation by increasing policy rates. But whilst central banks have responded to ease inflationary pressures these moves increase concerns around debt sustainability and Montenegro already had limited fiscal space to respond to the crisis.

Many countries, especially low-income countries, are at risk of being seriously affected because of their simultaneous exposure to multiple transmission channels affected by the war and through their high structural sensitivity to external shocks.<sup>7</sup> Montenegro was itself not immune. It was vulnerable to this further shock due to its structural vulnerabilities. There were three main transmission channels that the Ukraine war has impacted upon Montenegro; two direct and one indirect. The main direct channels are through tourism and FDI. Russian tourists accounted for 24.9 percent of all overnight stays in 2019, although Russian tourists had been on a trend



of declining importance prior to the pandemic (see Figure A). Russia was the largest single source and accounted for 18.3 percent of FDI to Montenegro in 2021, mostly in the form of real estate purchases. Montenegro had a lower direct exposure to the war in terms of goods exports and imports since its fuel and food come from other sources. The inflationary impact of commodity price volatility and the impact of imported inflation is the main indirect transmission.

The impact on tourism is hard to estimate since the tourism season occurs between June and September. However, initial indications are that the season has experienced decent numbers of tourist arrivals (see Figure B), which goes against initial expectations that the season would struggle. The main tourist centres known for Russian and Ukrainian visitors, such as the town of Budva, may have experienced reduced numbers of those tourists, but overall tourist arrivals in Montenegro remained robust for the summer tourist season. In 2021, Russian tourists accounted for only 12.1 percent of overnight stays. Ukrainian tourists were of growing importance, rising from 3.8 percent of overnight stays to 9.2 percent between 2017 to 2021. The number of overnight stays by tourists in collective accommodation from Russia in May 2022 was 1.3 percent of the total number of overnight stays, while this percentage in the same period last year was 7.2 percent. The number of overnight stays by tourists from Ukraine in the same period decreased from 4.9 percent to 2.6 percent. While the importance of Russian tourists to the

tourism season was decreasing between 2017 and 2021, the importance of tourists from the EU was growing. Prior to the pandemic, tourists from EU countries made up 35.3 percent of total tourist arrivals in 2019, and, at that time, was the fastest growing tourism market. Western Balkans tourists remain the most important source of tourists, with tourists from Serbia, Bosnia and Herzegovina (BiH).

Figure A: Overnight stays as percentage of total<sup>8</sup>

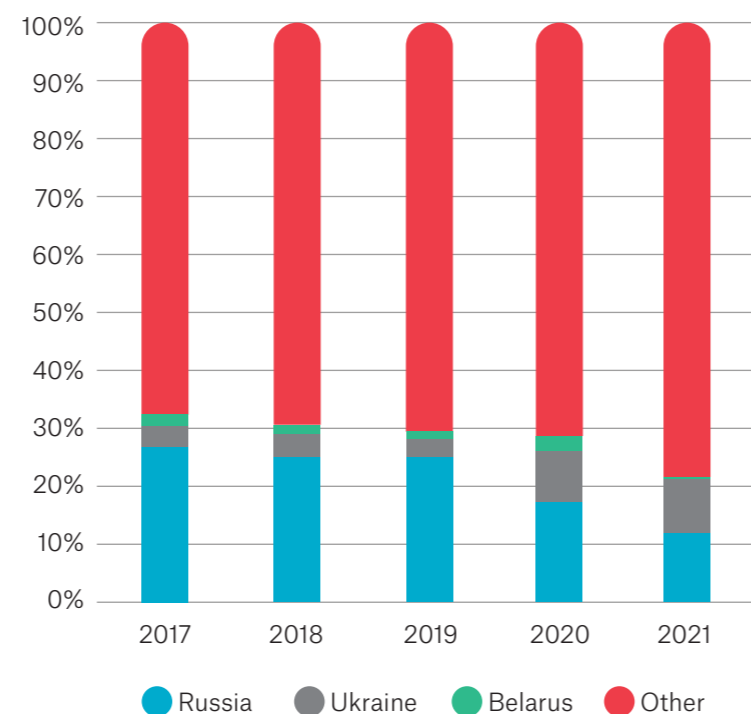
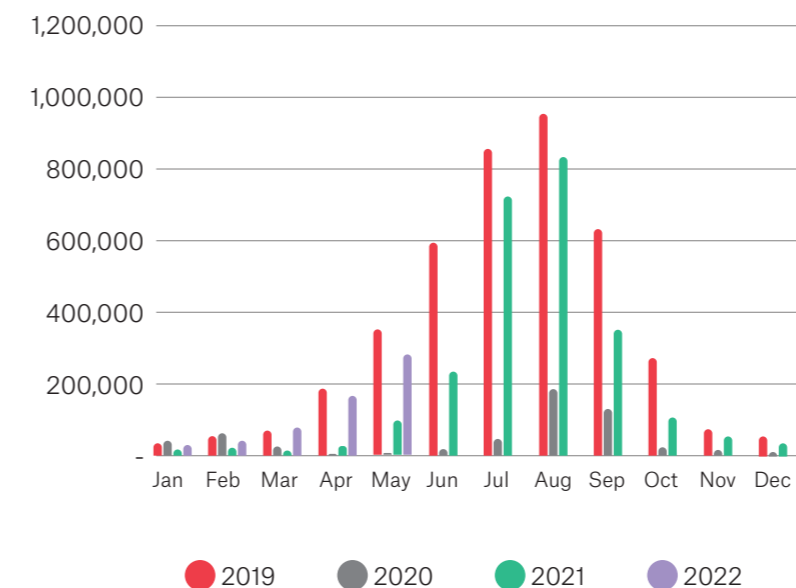


Figure B: Overnight stays by month<sup>9</sup>



The impact on FDI is also contrary to expectations that Russian investment would dramatically taper off. In the first 5 months of 2022, Russian FDI amounted to €48.5 million, 25.2 percent of Russia's 2021 total FDI to Montenegro. Around 49.4 percent of Russian FDI during this period was in the form of real estate purchases, while most of the remainder was in the form of intercompany debt or establishing companies. This suggests that the trend for Russians was to continue to purchase real estate in Montenegro, especially at the coast and in Podgorica, but also supports some of the anecdotal evidence that some Russians are settling or moving their businesses to

Montenegro. Ukrainian FDI shows a similar trend. It was 59.2 percent of its 2021 total during the same period. Real estate comprised 86.6 percent of total FDI in those five months. In terms of all FDI during January to May 2022, real estate was 57.1 percent of 2021's total, while overall FDI was 45.3 percent of 2021's total. This data suggests that the war in Ukraine, whilst having impacts through inflation, is not resulting in a slowdown in investment in Montenegro's real estate.

While the impact on tourism and FDI are contrary to expectations, the impact on inflation is worse than initially expected. Inflation has accelerated to 13.5 percent in June 2022, the highest level in 15 years.<sup>10</sup> In the same period inflation in the Eurozone was 8.6 percent. This reflects the strong rise, but also volatility in commodity prices that have occurred since the start of the war. In the immediate aftermath of the outbreak of the conflict Brent Crude oil prices rose to \$130 per barrel. Since then oil prices have stabilised and reduced to \$103 per barrel in July. This then caused subsequent increases in petrol and diesel prices. However, this did not translate into immediate changes at the Montenegrin pumps since prices are set on a fortnightly basis and regulated by the state. At the beginning of July a litre of petrol was €1.78. This reflects a 25.3 percent increase on prices at the beginning of the year.

Inflation and the rising cost of living is having the greatest impact on vulnerable groups, since those on lower incomes spend a disproportionately larger share of their disposable incomes on essential goods such as food and

fuel. The increasing fuel prices has a knock-on impact to other prices through increased transportation costs. June year on year food price inflation was 22.5 percent which reflects the increasing fuel costs and Montenegro's dependence on imports for food. The price of edible oil in the previous year increased by 37.6 percent and had the greatest impact on the annual inflation rate in Montenegro.<sup>11</sup> Although flour, cereals, edible oil, and animal feed are mostly imported from Serbia by domestic traders, these products are traded on stock exchanges, so prices depend on developments in the international market. The Russian Federation and Ukraine are prominent sources for some key commodities in the global trade of food and agricultural products. Nearly 50 countries depend on the Russian Federation and Ukraine for at least 30 percent of their wheat import needs.<sup>12</sup> However, Montenegro has not yet increased energy prices, which are set by a state regulator. Montenegro is not dependent on natural gas for its energy generation with coal, hydro and wind being the three main sources, which means that it is less impacted by the rapidly rising cost of wholesale gas prices, which is driving up electricity prices in other European countries.

Since the beginning of the war, over 62,000 Ukrainians have arrived in Montenegro, while 24,958 Ukrainians remain in the country, out of whom 6,118 Ukrainians have applied for temporary protection (status as of 22 August 2022). Nonetheless, it is expected that, in case of protracted conflict, more refugees would seek assistance and support from Montenegrin authorities. As of 22nd August 2022,

over 14,000 Russians are residing in Montenegro. These households require support and social services supporting them with their access to education and health, putting further pressure on public services. The housing market has also seen rising rents and rising prices per square metre of property as a result of the increasing pressure on housing. Rents in Podgorica rose 300 euros per square metre since the start of the war, while property prices at the coast have risen by between 50 and 100 percent by August 2022.

The Government of Montenegro (GoM) has taken measures to alleviate the impact of the increasing cost of living on the Montenegrin economy and households (limited prices of basic food items, reduction of excise duty on fuel). However, inflation is expected to particularly affect those segments of society that are not beneficiaries of the "New tax, minimum wage reform programme", such as those in the informal economy. Under the "New tax, minimum wage reform programme" those in formal employment have seen the minimum wage increase from €250 to €450 (see Box 1 in section 3.1 for more details) which is supporting their purchasing power in the face of the accelerating inflation. The GoM has made the following adjustments to support households:<sup>13</sup>

- 50 percent less excise duties on fuels (with the introduction / increase of excise duties on plastics and various types of tobacco and alcohol)
- Introduction of excise duty for yachts

- VAT on essential food products (flour, oil, milk, eggs, sugar) reduced from 7 percent to 0 percent
- VAT on salt reduced from 21 percent to 7 percent
- Limits on the prices of basic products: flour, oil, sugar, and salt

Despite the amount of data already generated there is insufficient data to fully estimate the impact of the increasing cost of living on the vulnerable groups. As already mentioned, there are some groups who are not in formal employment who could be affected by the rising cost of living but who did not see the same increase in incomes that those in formal employment have seen from January, for example pensioners.<sup>iii</sup> However, the extent, to which the increased incomes from the "New tax, minimum wage reform programme" are still sufficient in the face of the rising cost of living, remains unclear.

## 2.2 Political and governance developments

The past 18 months have been tumultuous in terms of the political context and have seen further political polarisation. The Government, formed following elections in August 2020, had appointed experts to key Ministerial positions, rather than politicians. The parties were bound together in their opposition to the rule of the previous 30 years ruling majority. However, the new ruling coalition

became dogged by disagreements soon after the election and resulted in the impaired functioning of the Parliament in obtaining enough of a majority for voting on policy. The competitive clientelistic behaviour<sup>iv</sup> of the previous Governments continued. This was mainly manifested in the appointment of politically affiliated persons to key positions within Government and State-Owned Enterprises (SOEs); a means to provide employment to (potential) voters and party members, and to control important economic assets.

Political tensions and two votes of no confidence in February and August 2022 have slowed Government decision-making. Between January and April 2022, while the minority Government was taking shape, key decisions were not made, which resulted in delays, including in aligning with the EU's sanction regime against the Russian Federation. In 2021, local elections were held in five municipalities (Niksic, Herceg Novi, Cetinje, Mojkovac and Petnjica). Despite cross-party agreement to hold all local elections on the same day, the legal framework still provides for these to take place on a rolling basis, leading to nearly constant pre-electoral campaigning at national and local level.<sup>14</sup>

Throughout the 18-month reporting period there were flashpoints that demonstrated the tensions and polarisations between political groups. One flashpoint occurred

iii Although Government subsequently announced that pensioners will see a special increase in pensions by 10 percent in September 2022, and 10 percent in January 2023, which would bring the minimum monthly pension to €270.

iv Often associated with the politicisation of positions and processes and providing employment/contracts in return for votes to maintain power.

around the enthronement of the new Metropolitan of the Serbian Orthodox Church (SOC) in September 2021. The enthronement took place in the former capital city Cetinje, which is synonymous with Montenegrin national identity, provoking the two ends of the political spectrum and resulted in protests.

After 18 months of continued political tensions and perceived slow progress to resolve the deadlock, the Black on White coalition withdrew its support for the 42nd Government, triggering a vote of no confidence. Supported by the opposition the vote of no confidence passed resulting in the fall of the Government in February 2022. The mandate to form a new Government was handed to the former Deputy Prime Minister, Dritan Abazovic, leader of the Black on White coalition. The 43rd Government (a minority Government) was voted in in April 2022, with the support of the biggest opposition party, the Democratic Party of Socialists (DPS). The minority Government included small parties including the Social Democrat Party (SDP), Socialist People's Party (SNP) and Bosniak party. The minority Government's aim was to accelerate the pace of EU accession, which around 70 percent of the population support.<sup>15</sup>

In June 2022, tensions rose again when Prime Minister Abazovic announced that the Government would sign a fundamental agreement with the SOC. The main source of contention was the powers that were given to the SOC in the agreement, while the preamble to the agreement contained some disputed issues around the

SOC's history. Soon after the signing of the fundamental agreement, on 3rd August 2022, the biggest party, DPS, stated that it would withdraw support for the minority Government. On 19 August 2022 the Democrats and DPS (along with smaller and some minority parties) voted to oust the Government, less than four months after having taking office. Following the vote, the Government was in a technical, or caretaker mandate, leaving Montenegro in political limbo until a decision on a new Government or early elections take place. A technical government can be appointed, or a new mandate can be given to a political party to form a government. If neither can occur, general elections will be called. Subsequent government formation negotiations could risk further delays in key political decision-making processes

The political turmoil involving disagreements within ruling coalitions, votes of no confidence and changes of ruling coalitions has had a paralyzing impact on the functioning of Government and institutions, hampering the implementation of the reform agenda. There was limited progress in the judiciary, notably concerning the appointments of Constitutional Court judges, although some progress was made in combatting organised crime (see Section 3.3).





# III Strategic priorities of the UN Sustainable Development Cooperation Framework

## 3.1. Inclusive economic development and environmental sustainability

In 2021, the Montenegrin economy experienced a robust recovery after suffering the largest contraction in economic growth, of 15.3 percent, of all European countries in 2020, due to the pandemic. According to preliminary data, based on quarterly estimates, real GDP growth of 12.4 percent was recorded in 2021 (see Figure C).<sup>16</sup> There were positive trends in most economic sectors, and the highest growth was achieved in the tourism sector and related activities, which was the most affected sector by the pandemic in 2020. The labour market “reignited” following the tourism season. The number of employees in 2021 averaged 188,964 and was 6.9 percent higher than the average number of employees in the previous year. The highest growth in employment was recorded in the agriculture, forestry and fishing, and information and communication sectors (17.3 percent each).<sup>17</sup> The average unemployment rate in 2021 was 16.6 percent, compared to 17.9 percent in 2020. The unemployment rate among women was 18.4 percent in 2020, but decreased to 15.8 percent in 2021.<sup>18</sup> Among men, it remained at a similar level – 17.5 percent in 2020 and 17.1 percent in 2021 (see Figure D).<sup>19</sup> The Gender Equality Index for 2021, shows that the burden of the care economy still

falls predominantly on women. The data show that 42.7% of women spend time taking care of children, the elderly, the disabled, relatives, etc. compared to 23.8% of men.

Figure C: Growth decomposition (% of GDP)<sup>20</sup>

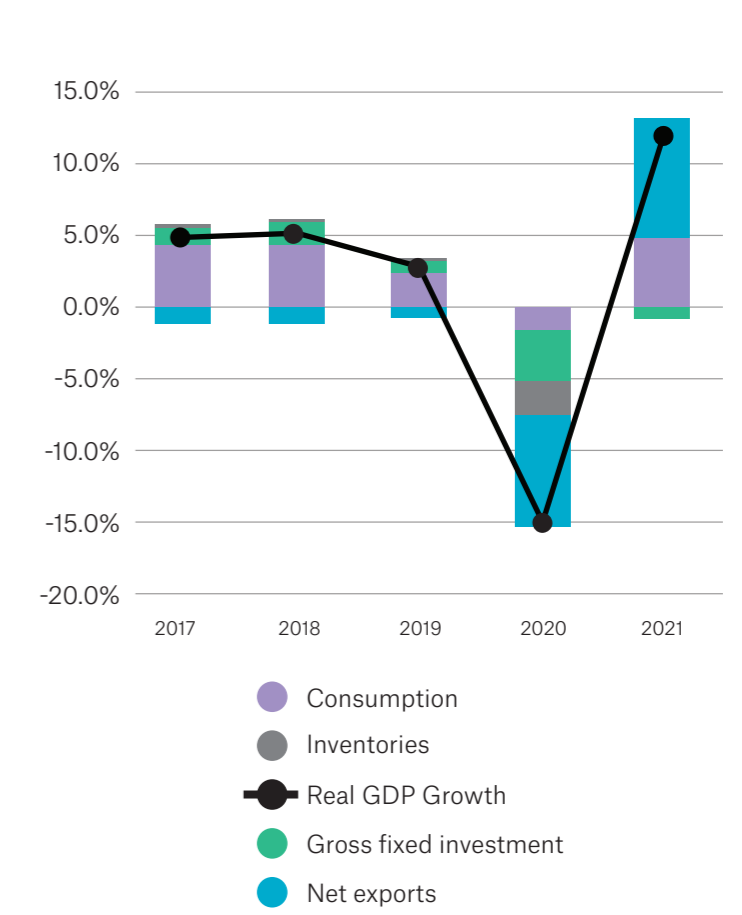
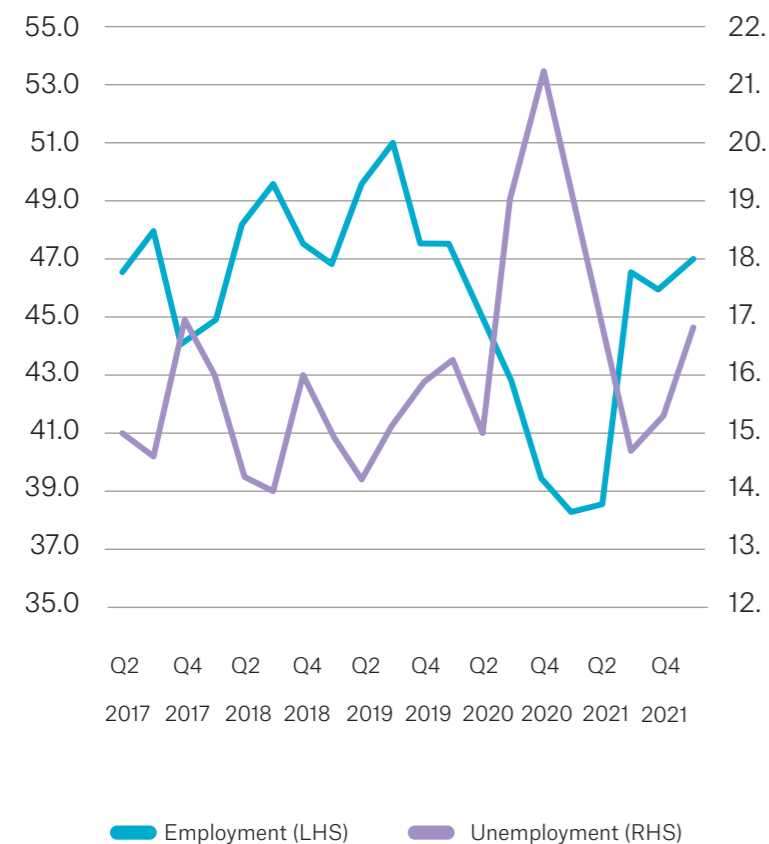


Figure D: Unemployment and employment rates<sup>21</sup>



The recovery, although positive, continued to highlight Montenegro's reliance on imports. The recovery spurred a narrowing in the current account deficit to 9.2 percent of the estimated GDP with 26.1 percent of GDP in the previous year, which is the lowest deficit since the independence

of Montenegro (see Figure E). While the tourism season contributed to this, inward remittances and goods exports were two main drivers in the lower current account deficit, with around 2 percentage points increases each, respectively. Despite Montenegro's improved performance on the current account, vulnerabilities remain with goods imports still at 50 percent of GDP, highlighting Montenegro's dependence on food and fuel imports.<sup>22</sup> Foreign direct investments were €580.9 million, constituting 10.4 percent of GDP, 23.5 percent more than in the previous year.<sup>23</sup> While the tourism season was better than expected, it continues to demonstrate Montenegro's reliance on it to generate growth and prosperity. Around 1.7 million tourists visited Montenegro in 2021, which was approximately 77 percent of the 2019 season but a three-and-half-fold increase on the 2020 season. In 2021, there was a total of 9 million overnight stays- a four-fold increase on 2020.

Despite the recovery, numerous challenges remained or were created. Pandemic-related factors, even prior to the war in Ukraine, opened new disruptions in global supply chains from February 2022, triggering higher inflation through new increases in energy and food prices (see Figure F).<sup>24</sup> Prior to the war in Ukraine inflation had increased to 5.7 percent in January because of the supply chain disruption, GoM programmes ("New tax, minimum wage reform programme") and the war in Ukraine on inflation due to them occurring at similar times.

Figure E: Composition of the current account (% of GDP)<sup>25</sup>

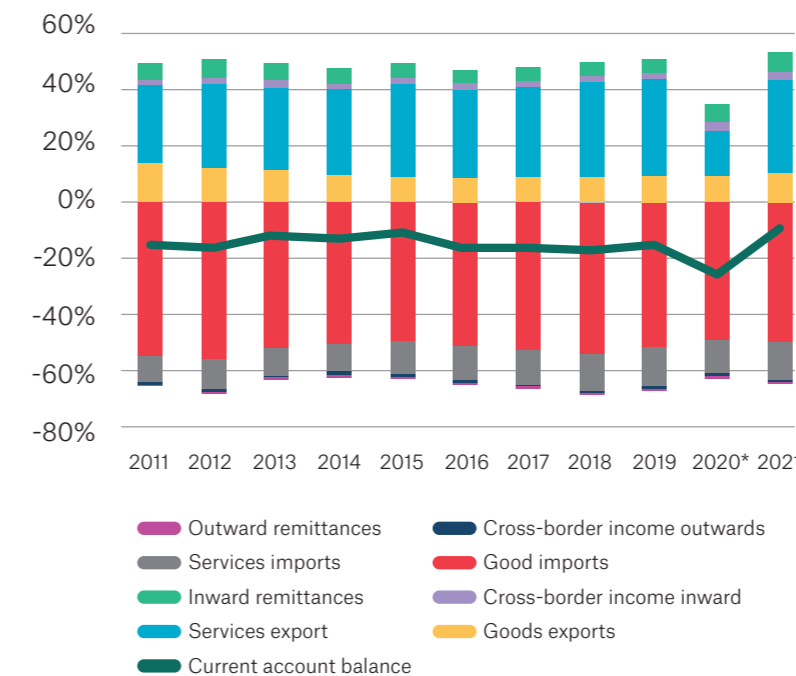
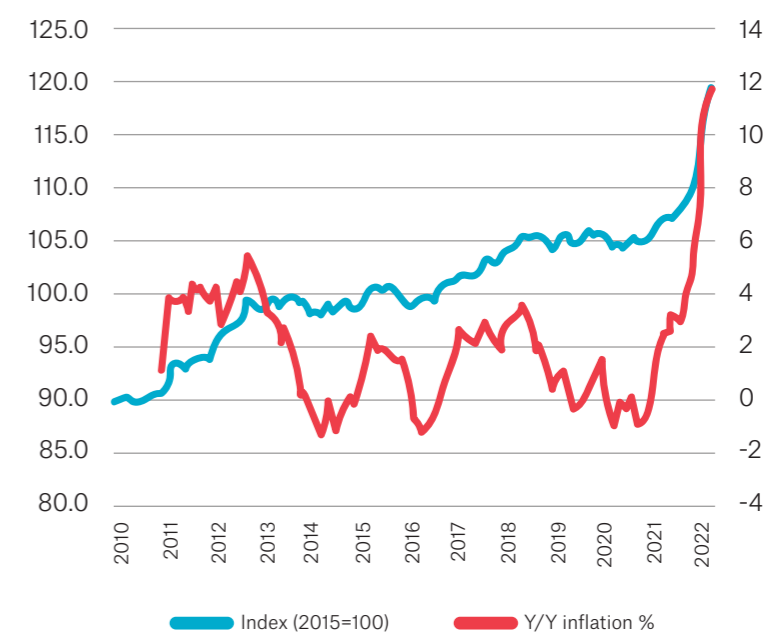


Figure F: Year on year Consumer Price Index<sup>26</sup>



**Box 1: “New tax, minimum wage reform programme”**

“Evropa Sad” was launched to “achieve smart, sustainable and inclusive economic growth contributing to the improvement of the quality of life of its citizens”<sup>27</sup>, accelerating the alignment of Montenegro’s standard of living with that of the European Union. There are four main elements of the package that came into effect on the 1st January 2022: Firstly, increasing the net minimum wage from €250 to €450 per month. Secondly, the introduction of zero personal income tax on income up to €700. Thirdly, an increase in personal income tax to 15 percent on income greater than €1000 per month. Finally, all national health contribution obligations on income have been abolished.<sup>28</sup> Montenegro had the highest labour tax wedge in the Western Balkans region at 40 percent. The “New tax, minimum wage reform programme” is estimated to have reduced this by around 20 percentage points. The labour tax wedge was seen as one of the main impediments to the formalisation of jobs. The programme had positive impact on the net average monthly salary that increased from €537 in December 2021 to €710 May 2022.<sup>v</sup> With the “New tax, minimum wage reform programme”, the whole policy was changed, switching from proportional tax system to the progressive tax system.

While the “New tax, minimum wage reform programme” does address some of the concerns with the previously more regressive tax system, it created risks to fiscal sustainability, related to a projected increase in the budget deficit. The launch of the “New tax, minimum wage

reform programme” meant that any fiscal adjustment to build fiscal space was deferred until after 2024. The “New tax, minimum wage reform programme” was projected to increase the deficit to 5.1 percent of GDP in 2022, mainly down to a shift in the burden of taxation. The reduction in the labour tax wedge involved the removal of health insurance contributions, but they were equivalent to around 3.8 percent of GDP in 2021. The economic recovery of 2021 had stabilised public finances and moved these towards a more sustainable path. The 2021 fiscal deficit narrowed to 2.9 percent in 2021, down from 10 percent in 2020. The better-than-expected tourism season generated subsequent higher actual revenues than were planned. Montenegro’s fiscal adjustment was the largest in the Western Balkans and brought debt down from 105.1 percent of GDP in 2020, to 83.3 percent of GDP in 2021. However, the conflict in Ukraine, coupled with the “New tax, minimum wage reform programme” has resulted in better-than-expected fiscal performance. In the first 7 months of 2022, the budget has shown that revenues were higher than planned, and expenditures lower than planned. Government revenues were higher thanks to VAT revenues at 98.2 million higher than planned.<sup>29</sup> Whilst it is not possible to fully determine what is the cause of the higher VAT revenues, it is likely caused by inflation pushing up prices and the “New tax, minimum wage reform programme” pushing up employment and economic activity. This fiscal performance also lowered the fiscal deficit to 1.1 percent of GDP, rather than the planned 3.6 percent between January and July.<sup>vi</sup>

v Decision-makers in Montenegro used the Beveridge model, which is implemented in the UK, as a reference point for the new healthcare financing system.

vi Since writing the Government has announced a budget rebalancing which reflects higher planned expenditures for the remainder of the year.

Montenegro’s structural vulnerability leaves it open to commodity price inflation. Montenegro’s overall shock vulnerability (a composite of structural and direct vulnerability) does not compare to other economies in the Europe and Central Asia region, such as those in Central Asia who have both a higher structural and direct exposure to the consequences of Ukrainian crisis. Montenegro’s small, open, and tourism-dependent economy is reliant on imports for several key foodstuffs, such as wheat, cooking oil and sugar. Around 50 percent of Montenegro’s fertiliser used in domestic agriculture is imported. These factors are reflected in one of the highest structural vulnerabilities. Montenegro is, however, not directly exposed to Ukraine and Russia for these essential imports. In fact, its direct vulnerability is one of the lowest in the region.

The COVID-19 crisis and Ukraine war have highlighted the need for increased diversification of the economy, to reduce its vulnerability to such shocks. However, it has also highlighted the importance of maintaining countercyclical fiscal policy to build fiscal space; where fiscal surpluses are built at times of economic expansion and fiscal deficits are used at times of recession. The impacts of the COVID crisis and the war in Ukraine are felt differently at the sub-national level. The impact of the decline in tourism was felt most directly at the coast, while the increasing cost of living, caused by the accelerating inflation is felt more in the northern region where there are lower incomes. While there were unintended positive consequences due to the war in Ukraine as several ICT and high-tech companies have relocated from Russia and Ukraine. The Montenegrin ICT

sector continues to show growth as a result, and domestic ICT companies are increasing in size and engaging in more cross-border activities.

During 2021, further efforts were made to Montenegro’s resilience and environmental management. Measures to improve waste management including the separate collection of municipal waste, organic waste management and composting waste, as well as eliminating plastic bags and other plastic materials from waste, were implemented.<sup>30</sup> In 2021, the water supply of rural areas was increased by 20 percent compared to the period 2016-2020. Also 30 percent more water supply facilities in rural areas were financed compared to the previous year.<sup>31</sup> Two hundred twenty-five tons of polychlorinated biphenyl (PCB) contaminated waste was disposed of in 2021, which means that, together with previous interventions, 85 percent of the identified PCB in the country have been disposed of. The potential exposure of humans and environment to this hazardous chemical has, therefore, been significantly reduced.

Montenegro has seen increasing average annual temperatures which has increased the risk of forest fires. A significant increase in the forest area under fire was noticed in 2021, in comparison to 2020. According to the report of the Forest Management Service, in 2020. There were 146 fires in state forests covering an area of 1,497,59 ha, while there were 74 fires in private forests covering an area of 2,146,09 ha. In 2021, there were 72 fires in state forests in an area of 2,376.95 ha and 81 fires in private forests in an area of 14,725.05 ha.

The GoM declared three protected marine areas in 2021: Platamuni, Katič and Stari Ulcinj. In addition, the locations of Dražin vrt and Sopot in Boka Kotorska were placed under preventive protection as special nature reserves. These decisions increased the area of protected areas in Montenegro by 4,764.7ha, and marine ecosystems were protected for the first time, including narrow coastal land. The proportion of the marine area of Montenegro protected in this way is 1 percent. The GoM created these protected areas after it identified numerous pressures on the ecosystem including wastewater, solid waste, fishing, anchoring, maritime traffic, invasive species, illegal construction – linked to the tourism industry.<sup>32</sup>

Montenegro was among the first Balkan countries to undertake additional obligations regarding climate change through the reduction of CO2 emissions, through its Nationally Determined Contribution. Having achieved the goal of reducing carbon emissions by 30 percent, set in 2015, Montenegro increased this year (2022) the goal of reducing carbon emissions by 35 percent by 2030.<sup>33</sup>

Climate change still poses a significant risk to Montenegro’s long-term development and consequently the GoM has taken several steps to develop a long-term adaptation planning process, anchored in the National Climate Change Strategy by 2030 and Montenegro’s National Communication. Over the last 10 months the focus was to enhance action, coordination, and accountability by updating the mission and mandate of the National Coun-

cil for Sustainable Development (NCSD). A multi-stakeholder coordination mechanism that includes the private sector as well as women and other vulnerable groups is essential for achieving the goals set in the National Strategy for Sustainable Development (NSSD). One of the key results of this process, is that the NCSD is now part of the General Secretariat of the GoM and is chaired by the Prime Minister, securing a greater connection with the executive branch of government. The Secretariat of the Council led the process of preparing the second Voluntary National Review. Appointment of Council members was halted by the August vote of no-confidence.

### 3.2. Human capital development, reducing vulnerability, and social inclusion

The COVID-19 crisis has had a significant impact on Montenegro. Whilst the economic impact is predominantly highlighted in the data produced since the previous iteration of the CCA, there are other impacts which remain hidden. In 2020, the expectation was that inequality would grow and poverty indicators worsen. Poverty, in terms of the World Bank \$5.5 per day (2011 PPP), is estimated to have worsened to 19.9 percent in 2020 during the height of the pandemic, from 15.6 percent in 2019, but improved to 16.2 percent 2021, in line with the economic recovery. The level of poverty is estimated to return to its 2019 level in 2022. While the poverty indicator worsened during the

pandemic, the at risk of poverty rate<sup>vii</sup> narrowed prior to it. Preliminary data from the Survey of Income and Living Standards in 2021 showed that the 2018 at risk of poverty rate was 24.5 percent (24.9 percent male, 24 percent female), while in 2019 it decreased to 22.6 percent (23 percent male, 22.2 percent female).

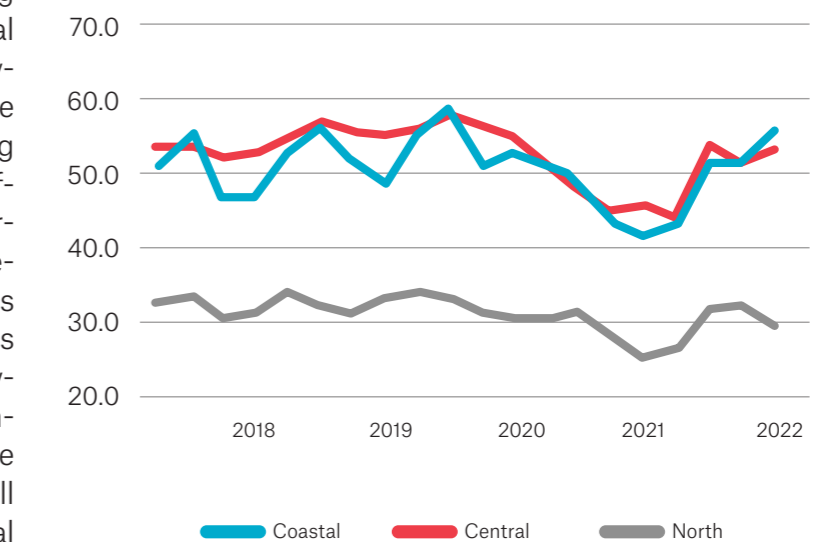
Sub-national disparities of risk of poverty are widening and poverty is increasingly becoming a northern and rural phenomenon. Table 1 below shows how the at risk of poverty rate is worsening in the north while improving in the coastal and central regions. These data tell a contrasting story. Whilst the tourist dominant coastal region was affected by the decline in tourism in 2020, its relative vulnerability went down. The north, by contrast, was not so dependent on tourism as a region, but the pandemic appears to have worsened overall vulnerability there. The north has lower levels of employment and higher levels of unemployment compared to the central and coastal regions, meaning that the increased earnings for formal employment, due to the “New tax, minimum wage reform programme”, will not have such a strong distributional impact until formal employment rates equalise with those in the central and coastal regions. Coupled with this, the north also has a higher rate of unemployment than employment, 36.7 and 28.7 percent in 2021 respectively (see Figure G). Employment in the north has also not experienced a strong recovery following the pandemic. This is in stark contrast with the coastal and central regions which have seen employment and unemployment return towards their pre-pandemic levels.

vii The share of persons with an equivalised income below a given percentage (usually 60 percent) of the national median income.

Table 1: At risk of poverty rate by region<sup>34</sup>

	2016	2017	2018	2019(p)
Centre	17.1	14.4	16.6	14.8
Coastal	19.6	23.2	19.9	11.6
North	37.9	40.0	41.2	44.5

Figure G: Regional employment (percent)<sup>35</sup>



There are other measures which show positive impacts and a narrowing of inequality and risk of poverty prior to the COVID pandemic. These data are shown in Table 2. The relative at risk of poverty gap<sup>viii</sup> fell. The Gini coefficient, a traditional statistical measure of income inequality, also fell in 2018, from 34.1 in 2019 to 32.9 in 2019. These trends were continuing the trend prior to the pandemic of narrowing inequality in terms of the Gini-coefficient, but showed a reversal in the trend of rising relative poverty, as shown by the at risk of poverty rate.

Table 2: Other indicators of inequality<sup>36</sup>

	2016	2017	2018	2019(p)
At-risk-of-poverty rate, %	23.6	23.8	24.5	22.6
Relative at risk of poverty gap, %	34.0	35.3	33.1	28.2
Income distribution inequality – quintile ratio (S80/S20)	7.6	7.4	6.7	6.0
Gini coefficient	36.7	34.7	34.1	32.9

Table 3: Employment groups at risk of poverty rate<sup>37</sup>

	2016	2017	2018	2019(p)
Employed by employer	5.9	6.1	7.0	7.0
Self-employed	19.8	16.4	19.9	22.7
Unemployed	44.8	47.5	45.5	42.8
Pensioners	13.6	11.7	11.4	12.2
Other inactive	31.0	31.1	35.9	29.5

viii The difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold

The data does suggest that some groups are becoming more, while some less, vulnerable than others. The risk of poverty rate for children fell from 33.7 percent in 2018 to 32.6 in 2019. Montenegro's youth unemployment level was 27.4 percent in 2020 (rising from 22.3 percent in 2019), while the overall unemployment level was 17.9 percent. This is then reflected in the fact that youth have the highest percentage at risk of poverty of those of working age (25.2 percent) in 2019. However, this figure was lower than the 2018 rate of 30.5 percent. In 2021, following COVID, youth unemployment rose to 32.5 percent. The data also suggests worsening risk of poverty for pensioners and those who are self-employed (see Table 3). People working in the informal economy remain vulnerable. While those formally employed will at least receive €450 per month, due to the "New tax, minimum wage reform programme", those in the informal economy are not subject to the same measures and data are not available on how their incomes have been impacted.

The previous iteration of the CCA noted the expectation that women's labour market indicators would worsen due to the pandemic as women disproportionately bear the burden of the care economy. However, the data does not fully reflect these expectations and some gender disparities narrowed. The gap between women's and men's employment reached its lowest level, since Q1 2016, and in Q1 2021 stood at 9.4 percentage points difference (see Figure H). Similarly, the participation rate narrowed to 11.6 percentage points in Q1 2021 (see Figure I). However, the data

have limitations. For example, the data cannot show the percentage of women who are dependent on the informal economy vs men or how the pandemic has affected those who were not in formal employment.

Other gender data show improvement, although it should be noted that gaps still exist despite narrowing. The Global gender gap index of Montenegro improved from 0.69 in 2015 to 0.73 in 2021.<sup>38</sup> This places Montenegro 54th globally, behind countries such as Albania - 18th, Serbia - 23rd, Slovenia - 39th, but ahead of some EU countries, such as Italy - 63rd, and other Western Balkans nations, such as North Macedonia - 69th and BiH - 73rd. Data for the gender pay gap, to compare gender disparities in income, are not available.

Figure H: Gender employment gap<sup>39</sup>

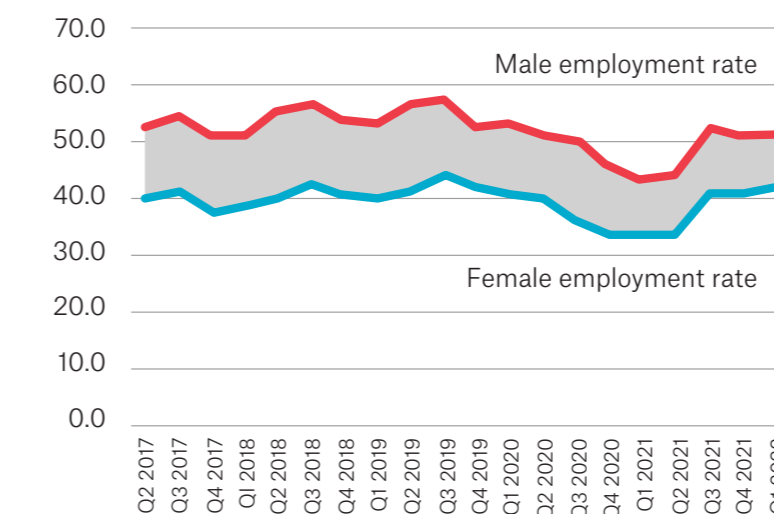
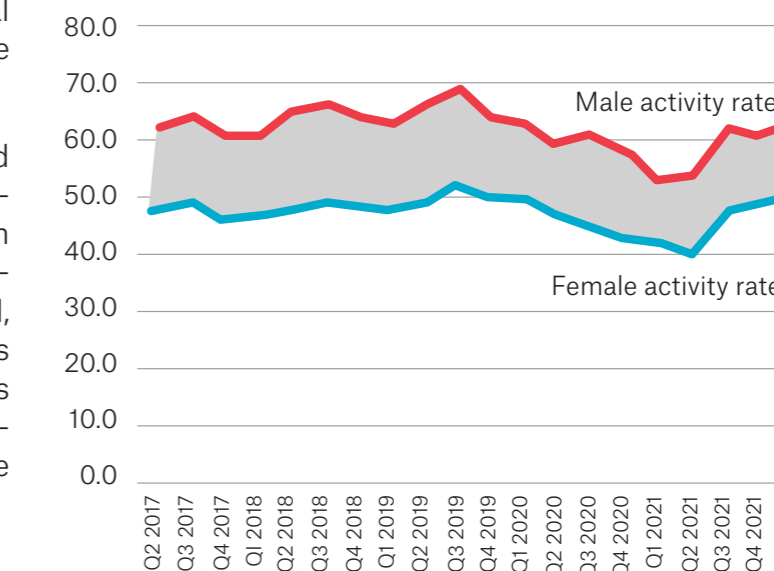


Figure I: Gender activity gap<sup>40</sup>



During the pandemic, expectations were that inequalities would widen, and new vulnerable groups would emerge. The evidence cannot fully attest to this, as seen above. While income inequality may appear to have gone down in 2020, the reality is probably that with so much data hidden, e.g. due to the large informal economy, some trends are not being tracked. The full impact of the war in Ukraine is difficult to estimate until more data becomes available on the purchasing power of Montenegrins and how this has been developing since the end of February. The price level indices for consumer goods and services in Montenegro were 60 percent of the EU average in 2021, and 57 percent of the EU average in 2020.<sup>41</sup>



Other vulnerable groups have experienced both positive and negative trends. A survey<sup>42</sup>, conducted in 2021 by the Association of Youth with Disabilities of Montenegro, concluded that several positive changes were made in the support system for children with disabilities and persons with disabilities, especially in national harmonization, compliance with adopted international documents, development of new support services in local communities, inclusion of children with disabilities in the educational process from kindergarten onwards. The survey points out that the public's attitude towards persons with disabilities has changed, prejudices have decreased, their visibility in society has increased, they are increasingly involved in social activities, and there is a higher, although still inequitable, degree of respect for rights, such as the right to a dignified life, the right to education, the right to work, the right to choose and participate, the right to family life, the right to accessibility, participation in traffic. However, persons with disabilities still face challenges such as entering the labour market. Data shows decreasing employment of persons with disabilities.<sup>ix</sup> Through the Employment Agency of Montenegro, in 2021, 17,961 persons who were on the unemployment register, were employed (13,664 in 2020), of which 10,317 (8,149 in 2020) or 57.4 percent were women (59.6 percent in 2020). Of this number, in 2021, only 717 or less than 4 percent were persons with disabilities (977 in 2020) and of those 381 persons or 53.14 percent were female (576 in 2020, or 58.9 percent).<sup>43</sup> Some challenges in social and child protection of persons with

disabilities, were highlighted through the 2021 "Research on the needs of professional workers in the field of social and child protection with special reference to the rights of children with disabilities and persons with disabilities"<sup>44</sup>. It identified the:

- Necessity of organizing continuous trainings for persons working with children and persons with disabilities;
- Low level of interdepartmental cooperation, as well as low coverage of support services for persons with disabilities over the age of 26, especially for those with mental/psychosocial and intellectual disabilities;
- Necessity of better evaluation criteria for assessing the success of training programs;

The GoM adopted measures to support its citizens in 2021. These were not without controversy. Firstly, in May 2021, the Parliament of Montenegro adopted amendments to the Law on Child and Social Protection, which relate to child allowance. Child benefits are being received for all children under the age of six, regardless of the social status of the household (as of 1st October 2021). Previously, child allowance was also given for children who are members of a household receiving family allowance or other social benefits (such as personal disability allowance and care allowance) and children without parental care. The decision has consequences, in terms of opportunity costs and fiscal burden, and estimates vary on the proportion of

ix The reduction in the number of employees who live with a disability was probably influenced by COVID. Restrictions in terms of mobility were in force at the beginning of the 2021, dealing with inter-city movement and working hours of business premises. Mass immunization of the population started from May and most measures dealing with mobility were abolished, which consequently led to strengthening of economic activity and increasing the number of employed on the labour market.

allowances that were received by vulnerable households and the appropriateness of the size of the monthly allowance. Additionally, since affluent households with children can receive the allowance it creates inequities, especially as poor households are paying taxes to support wealthier households with children. Better targeting of GoM support is needed. Secondly, in March 2022, the GoM announced a temporary measure for 2022 to encourage population growth, through a one-time monetary compensation of €1,000 for babies born this year in Montenegrin municipalities that had negative population growth in 2020. New-borns from other municipalities would receive €500. However, the measure is currently not being implemented. As with the child allowance, the measure has been criticised for numerous reasons. For example, some criticism has been levelled at the appropriateness of a one-off payment that is not sufficient to cover the cost of the additional child.

As per the recent World Bank Social Protection Situational Analysis for Montenegro<sup>x</sup>, spending on the only poverty-targeted cash transfer has remained constant at low levels. This is the only social assistance benefit for people who are assessed as being poor and identified through a means-test. The material support cannot cover a household's basic needs. Benefit amounts of the material support match the income eligibility threshold, i.e., the maximum income an application unit may receive to not be ineligible for the program. The eligibility threshold for an individual is €63.50 (average of the past three months), slightly less

x Document not yet made public

than 15 percent of the current minimum wage of €450. The material support's coverage is low due numerous exclusionary criteria, such as the eligibility threshold, which prevent the programme from being expanded. In 2019, a maximum of 30,286 individuals received the material support per month, slightly less than 5 percent of the population. The number of beneficiaries reduced to a four-year low in September 2021, with 26,250 beneficiaries covered. The combination of rigid exclusionary criteria and means-testing with a low threshold is preventing poor families from receiving it.

The GoM has since announced that all families with children until 18 years of age will be eligible for child allowance. As a result, social assistance spending is estimated to increase to 3 percent of GDP, among the highest in the Europe and Central Asia region. In contrast, 2019 expenditures on education (3.9 percent) and health (5 percent) were below the average spending in EU countries. On a positive note, around an estimated 40 percent of the budget will be spent on the poorest quintile of the population. Beyond the immediate effect on increasing welfare, the universal child allowance offers the opportunity to help build a comprehensive social protection system across the lifecycle, although important gaps will remain. The universal child benefit can be an incentive for families to stay in contact with the state and services, if designed to encourage such interactions; it can also provide a vehicle to reach eligible households with additional support in response to a shock.

Gender-based violence continued to be one of the main human rights violations in the country. In the last 5 years the number of reported cases of domestic violence increased. According to official statistics, there were 1,198 occurrences of domestic violence in 2021, with 1,273 victims identified, of which 108 were children, and 55 percent of the victims were women and girls. Concerning the type of violence, the data shows that dominantly, victims reported emotional violence (60 percent) and physical violence (31 percent). The Police registered 251 cases of domestic violence (and 38 cases of violence among relatives) against 340 victims, of which 62.6 percent were women and girls. Criminal charges were raised against 294 persons, of whom 88.4 percent were male, and 11.6 percent were female. In addition, the Police processed 1,632 misdemeanours under the Law on Protection from Domestic Violence. The police data reported there were 1,680 victims of these misdemeanours, of whom 56.7 percent were women and girls. Charges were filed against 1,554 persons, of whom 79 percent were male.

The Prosecutor's Office data shows that out of 259 indictments for domestic violence in 2021, 142 went to trial. Of these, 57 resulted in imprisonment sentence and 69 in probation. The High Misdemeanour Court's data shows that the Misdemeanour courts processed 1,916 cases relating to the Law on Protection from Domestic Violence, of which 62 percent of cases were finalised. Among the finalised cases, there were 1,502 perpetrators, of whom 79.3 percent were male; and 1,497 victims, of whom 66.3

percent were female. In terms of sentences, 28.7 percent of finalised cases resulted in imposed fines, 7 percent in prison sentence and 19.1 percent in probation, whereas in 71 cases the proceedings were suspended, acquittals were handed down in 286 cases, while 71 cases were resolved in another way. In addition, the Court imposed 340 protection measures.

A survey on the perceptions of violence revealed that 92 percent of citizens rated violence in family as significantly present, while only 13 percent felt comfortable to talk or report it. The same survey confirmed a high tolerance for violence in family in society in general, as 1 out of 4 citizens said that violence is justifiable, but also, only in 36 percent of cases, extended families were ready to provide support and protection to victim of violence. Although the legal framework to address GBV has been significantly improved since 2010, and the Istanbul Convention was ratified in 2014, there is room for its further improvement and stronger implementation.

Violence against children (VAC) was recognized as an area of concern in the 2021 EU Commission's Montenegro Progress Report. The number of children victims and witnesses of crime reported by the judicial system was 282 in 2021. In 2021, the number of cases of VAC reported to CSWs was 455, where 307 cases happened in the family and 57 outside the family environment (the rest of the cases were either online or peer violence).

Strengthening the social service workforce, cross-sectoral cooperation, coordination between health and education sectors and expanding family and community-based services and parenting programmes remain ongoing challenges. Progress toward de-institutionalization occurred in 2021. There was an 11 per cent decline in the number of children in institutional care compared to 2020. Evidence generated during 2021 suggests that justice officials require further training in the application of child-friendly justice principles. Montenegro has not yet acted on recommendations by UN monitoring bodies to raise the minimum age for marriage. The practice of arranged child marriages in Roma communities remains prevalent. Children's increased reliance on digital solutions highlighted the need for strengthened online protection.

The COVID-19 crisis exacerbated weaknesses in the healthcare system. By the summer of 2021, Montenegro had one of the highest incidence rates of COVID-19 globally. Despite an initial successful programme of vaccination, by July 2022, more than 50 percent of Montenegro's population remained unvaccinated, meaning that vulnerability remains to any further virulent waves of COVID-19. This comes after a successful initial programme of vaccination. Evidence suggests that COVID-19 changed the way that primary healthcare was delivered with a shift from clinic visits to home visits, telephone consultations and e-services, without physical contact.<sup>45</sup> During the pandemic life expectancy fell. Life expectancy prior to the pandemic was 79.5 years in 2019,

and fell to 78.8 years in 2020. The life expectancy fell for both men and women. The burden for non-communicable diseases (NCDs) remains high. Montenegro's rate of diabetes, at 9.1 percent in 2021, is equal to that of Serbia and BiH but is higher than the EU average. Coupled with the burden of NCDs, Montenegro has faced challenges in accessing essential medication for the treatment of these diseases which represent a risk to public health.

COVID-19 sparked a continuing drop in demand for child health services in 2021, putting vaccination and other preventive measures at risk. Immunization rates were already dropping. The coverage for the first dose of measles, mumps and rubella fell from 90 per cent in 2010 to 19 per cent in 2021. Breastfeeding rates remain low. Only 24 per cent of new-borns were breastfed within the first hour after birth and just 20 per cent were exclusively breastfed for six months as per MICS 2018.<sup>46</sup> Adolescents and youth requiring mental health support face stigma and challenges accessing services.

The education system in Montenegro continues to face complex and multi-faceted challenges, as indicated by the results of the Education Sector Analysis related to access, quality, equity, governance, infrastructure, and financing. Throughout 2021 the education system continued to operate under constraints due to the pandemic. A partial re-opening of schools occurred during the first semester, although most students over the age of 11 attended online classes. Class-time was set at 30 minutes, reducing instruction and learning time. In 2021, preschool education

coverage returned to 2019 levels (72 per cent of children aged 3-6), and the number of children with disabilities in preschool and primary education rose by 21 per cent and 7 per cent, respectively, compared to 2020. While the number of Roma students in secondary education increased by 18 per cent in 2021, Roma preschool attendance fell by 8 per cent between 2020 and 2021. Amendments have been made to the Law on General Education, so that from September 2021 all pupils of public primary education institutions, have free textbooks.

Concerns regarding quality education and inclusion persist as elaborated in the first iteration of the CCA. The COVID-19 crisis highlighted the challenges related to school infrastructure (particularly in central and coastal regions) and the conditions for the safe return to schools for all students. (Education Sector Analysis to be published end 2022). 13 percent of primary schools enrol almost 70 percent of all primary school students in Montenegro, while 87 percent of primary schools operate at or below group size of 28 students per classroom. 33 percent of secondary schools operate above the norm, enrolling over half of all secondary school students in Montenegro, while 67 percent of schools operate at or below a group size of 28 children per classroom. Although more research is needed to determine the exact needs for preschool infrastructure, current findings show that preschools operate above normative group size on average and that more capacities are needed in anticipation of a further increase in enrolment. Montenegro is among the

five lowest ranking countries in OECD PISA in terms of numbers of school computers per student. In 2021, the computer per student ratio stood at 1:16.<sup>47</sup>

### 3.3. Social cohesion, people-centred governance, rule of law and human rights

As mentioned above, political tensions and changes of Government have delayed progress in improving governance in Montenegro (see section 2.2). EU membership remains one of the top foreign policy priorities in Montenegro. However, the GoM has not closed any further chapters of the EU *acquis Communautaire* in the past 18 months. The war in Ukraine heightened domestic tensions. Two pro-Russia rallies were held in Podgorica and Niksic, early in the war, and numerous rallies were held in solidarity with Ukraine.

Periods of political uncertainty in 2021 and 2022 were accompanied by increased societal tensions. While exact data is not available, divisive narratives and hate speech were regularly observed, coming from some political and religious leaders, and citizens, mainly online. Hate speech-affected persons of different political groups, religious backgrounds, ethnic groups and was also based on gender, gender identity and sexual orientation. Investigations were opened into some cases. The Special Adviser on the Prevention of Genocide, who visited Montenegro in late November 2021, noted the increasing use of divisive

rhetoric and narratives and warned of the risk of growing polarisation of society in Montenegro. She called on persons in positions of authority to ensure the respect for differences in society, and for concerted and sustained efforts to prioritise trust-building and promote inclusive and respectful dialogue among top leaders, and between leaders and civil society, including youth.<sup>48</sup>

The Ombudsperson reported an increase in the number of reports of hate speech it received, from 3 in 2020, to 14 in 2021, most of them being nationality based, followed by gender and political affiliation/opinion<sup>49</sup>. Hate speech predominantly occurs in the online space and is easily transferred from the online world to the offline world, i.e. from virtual to real life. It is particularly expressed in tense and sensitive times when topics such as identity and other issues come up on the agenda which deeply divide society.<sup>50</sup> Research conducted in 2021, pointed out that hate speech is mostly present towards the Roma (49.4 percent) and LGBTI persons (44.4 percent), following persons with disabilities (34.3 percent) and women (28.8 percent)<sup>51</sup>.

The 2021 EU report notes that “incidents of ethnically and religiously motivated attacks, hate crimes and hate speech continued to rise, and that more efforts are required to limit the effects of disinformation and on-line harassment and hate speech, while ensuring that such measures do not limit disproportionately freedom of expression”.<sup>52</sup> The report also notes an “increase in smear campaigns, hate speech and instrumentalization of gender-based violence against women in politics and public life”.<sup>53</sup>

Vulnerable groups, including Roma and Egyptians, persons with disabilities and the LGBTI community continued to experience multiple forms of discrimination and challenges in exercising their rights on an equal footing with others. Women continued to experience inequality in participating in political and public life. Gender-based violence and violence against children, as described in Chapter 3.2, remain issues of serious concern.

Police forces faced criticism, particularly for excessive use of force and ill-treatment during the protests against the inauguration of the Metropolitan of the Serbian Orthodox Church in September 2021 in Cetinje, as well as for their response to a mass shooting by a civilian male on 12 August 2022 in Cetinje that left 11 persons dead. Investigations into police (in)action were opened internally by the prosecution. Results were pending by September 2022. No one had been prosecuted by August 2022 for the alleged serious ill-treatment by police of three men, one of them who was under treatment of the psychiatric hospital, in May 2020. The allegations were raised with the Government by the UN Special Rapporteur on Torture and the Working Group on Arbitrary Detention in 2020.

Parliament elected five lay members of the Prosecution Council end 2021 while in March 2022, a new Special State Prosecutor was appointed. Other key appointments were overdue. The Constitutional Court functioned but by August 2022, consisted of four of seven members only, with the risk of it becoming dysfunctional for not having quorum, due to upcoming retirement of one judge.

The Parliament has failed to elect Constitutional Court judges, as well as a Supreme State Prosecutor for some time, due to Parliament's inability to secure a qualified majority for these appointments. Lay members of the Judicial Council which, among other things, oversees the functioning of the judiciary, also continued to awaited election by Parliament.

The GoM took part in an interactive dialogue with the UN Committee Against Torture in April 2022. The Committee found, among other things, that reports of physical and psychological torture persisted. Despite some improvements, overall, there was slow progress in improving conditions of detention in Montenegro. Regarding transitional justice, while welcoming certain efforts to address impunity for war crimes the Committee expressed continued concern at the slow progress in prosecuting persons who are under Montenegro's jurisdiction, accused of war crimes in the 1990s. The Committee made recommendations, calling for prompt and independent investigations into all instances of ill-treatment of torture, suspension of officers accused of torture, addressing overcrowding in pre-trial detention, renovation of existing detention facilities, and stepping up efforts to fight impunity for war crimes, among other things.<sup>54</sup> One war crimes trial was scheduled to commence on 30 September 2022, the first regarding alleged sexual violence that took place in Bosnia and Herzegovina, in addition to charges of murder. Amendments to criminal legislation that would allow the use of evidence collected

by the International Residual Mechanism for Criminal Tribunals remained, were pending adoption by the GoM. These amendments are expected to facilitate progress on a file that was handed over by the ICRMT to Montenegro's Prosecution in November 2020, among other things.

The Parliament of Montenegro adopted a resolution in July 2021 condemning the genocide in Srebrenica in 1995, and all war crimes that occurred in the wars in the Balkans in the 1990s. The Special Adviser on the Prevention of Genocide commended the Parliament on the resolution, including as it emphasizes individual accountability as opposed to attributing collective guilt, and called it a model for the region.<sup>55</sup> She had earlier expressed concern about officials in Montenegro questioning the commission of the crime of genocide in Srebrenica.<sup>56</sup> The resolution was adopted on the same day that Parliament dismissed the Minister of Justice, who had relativised the Srebrenica genocide and cast doubt on the rulings on the case by the International Tribunal on the Former Yugoslavia and the International Court of Justice.

Montenegro submitted its third periodic report on the implementation of the Convention on the Elimination of Discrimination Against Women, after consultations with civil society and the Protector of Human Rights and Freedoms (Ombudsperson) in November 2021.<sup>57</sup> There was no progress in drafting pending treaty reports under the Core Covenants on Civil and Political Rights, and Economic, Social and Cultural Rights that were due in 2021 and 2019 respectively.

The Special Rapporteur on the Sale and Sexual Exploitation of Children visited the country in September 2021 and found that there is a insufficient data and low levels of understanding in Montenegro of the phenomena of child sexual abuse and sexual exploitation. The number of cases in which victims are identified is relatively low, and there are few prosecutions and convictions in cases related to child sexual abuse and exploitation. Specialised support services and the number of trained professionals to deal with cases of sexual abuse are limited. The Special Rapporteur called on the Government to put prevention and protection, care, recovery, and integration of victims of sexual exploitation and abuse, at the forefront of child protection policies and initiatives. She called on Montenegro to address the sale of children and allocate more resources to tackle the sale and sexual exploitation of the most vulnerable children. She also noted the need for a more robust and child friendly criminal justice response, that upholds the interests of the child systematically.<sup>58</sup>

Space for civil society to freely express itself generally exists, however, some civic activists and human rights defenders were subjected to verbal attacks, hate speech and death threats over the reporting period. Threats and attacks, including hate speech against journalists continued to be regularly reported. While high-level officials promoted the importance of freedom of expression, there were instances of office holders making threats and unsubstantiated allegations against the media. The media continued to suffer from polarization,

affecting quality, independence, and impartiality in reporting. New members of the commission monitoring investigations into attacks on journalists were appointed in mid-2021. Between June 2021 and April 2022, the Commission monitored investigations into 23 incidents of threats, attacks, and damage to property of journalists, and concluded that in only four cases had the police and prosecution taken all measures and actions within their competence. While noting improved collaboration between the police and prosecution with the Commission, it concluded that they need to accelerate efforts to resolve cases and prosecute all responsible persons.<sup>59</sup>

In 2021, the 42nd Government, committed to results-oriented policy planning, based on measurable data, in line with the recommendations from the "Report of the European Commission on the progress of Montenegro". Measurable indicators were defined, to track progress in the implementation of the goals. The GoM's Medium-term Work Programme 2022-2024, adopted in early 2022, reiterated those principles. Ten focus groups discussing GoM priorities were organised with: representatives of civil society, business, the academic community, students, local self-governments, and state bodies.

There were some positive legal and policy developments to better protect, promote and further the realization of human rights. In December 2021, Parliament adopted amendments to the Criminal Code to provide stronger punishment for those who endanger the safety of journalists. Higher sentences are stipulated for child

molesters and paedophiles and for every form of sexual violence, including against minors. In April 2022, the GoM reinforced the stature of the Council on the Rights of the Child, as the main child rights governance body in the country, by placing it for the first time at the Prime Minister level.

Montenegro has achieved some progress in the fight against organised crime and corruption. The GoM made some headway in addressing recommendations in the 2021 EU Commission's Montenegro progress report to improve access for law-enforcement agencies to key databases. It also increased the number of investigators and experts in key areas. The number of organised crime cases investigated and prosecuted continued to grow, and the number of cases adjudicated at courts nearly tripled.<sup>60</sup> The authorities conducted several raids to tackle drug and cigarette smuggling. On August 27, 2021, police seized 1,400 kilograms of cocaine near Podgorica. In January 2022, around 400 kilograms of cocaine were found in a banana shipment. Two significant seizures of illegal cigarettes occurred in the reporting period, in June 2021 and September 2021, both worth dozens of millions of euros.<sup>61</sup> Since mid-April 2022, there have been notable arrests and prosecutions in several cases of former or current high-level office holders or others who held positions under previous administrations.

Montenegro has continued to move digitalisation and innovation forward. The Innovation Fund of Montenegro was established to significantly strengthen innovative

entrepreneurship in the country, contribute to a more efficient implementation of the Smart Specialization Strategy, and increase absorption capacity in attracting EU funds and preparing for European Structural and Investment Funds.<sup>62</sup> In September 2021, the GoM adopted the Operational Programme for the implementation of the Smart Specialization Strategy 2021-2024. In 2021, 11 start-ups were in the early stage of development, 3 pre-acceleration programs and 22 start-up teams were supported.<sup>63</sup> Some public services, including eStudent, eFirma and eDormitory moved online. The international community continued efforts to establish a strategic partners platform with the GoM. This, however, faced further delays due to two changes of Government in 2022. The platform for coordination would enable both Government and strategic partners more transparency regarding their development operations.

### 3.4 Montenegro and the Western Balkans sub-region

Some countries in the Western Balkans have enacted export bans/controls to prevent the loss of key raw materials and agricultural commodities. In early March 2022, Serbia banned exports of wheat, wheat flour, rye, corn, cornmeal, and sunflower oil. By the end of March, Serbia amended the decree to allow the export of wheat and corn but only as per contracts signed before the original export ban. North Macedonia similarly enacted a 10-day export ban on cereals in March 2022 to protect

domestic supply. Serbia is Montenegro's largest source of imports and exports, 26.9 percent and 23.1 percent of total imports and exports respectively.<sup>64</sup>

Electricity interconnectivity is an important source of trade between Montenegro, Serbia, BiH, Kosovo and Albania. Montenegro is both importing and exporting electricity to these countries, as the interconnection infrastructure was constructed when part of Yugoslavia, and now exporting electricity to the EU through the electricity interconnector to Italy. Electricity exports were Montenegro's second largest goods export after aluminium in 2020. Electricity exports were 0.9 billion kilowatt-hours in 2019, growing to 5.9 billion kilowatt-hours in 2020. In 2021, Montenegro's net electricity imports fell to zero meaning domestic supply totally met domestic consumption. In the same year, Montenegro's electricity generation came from hydroelectric power (55.8 percent), coal (35.4 percent), wind (8.7 percent) and solar (0.1 percent).<sup>65</sup> However, in December 2021 the aluminium plant was closed, which consumed 16.6 percent of Montenegro's electricity in 2021, increasing Montenegro's potential to export more electricity to the region.<sup>66</sup>

Efforts at accelerating regional integration have somewhat stalled. Montenegro has been giving further consideration to joining the Open Balkans initiative. However, in September 2022, Montenegro's Deputy Prime Minister accused the EU of sending mixed signals over the Open Balkans initiative and the country remains to formally join the process. Only Serbia, Albania and

North Macedonia have joined the initiative to date. The benefits of freer trade appear to favour those who are net exporters, such as Serbia. However, Montenegro is a net importer of goods, with a goods export to GDP ratio of just 10.8 percent in 2021.<sup>67</sup> Montenegro's goods imports constituted 50 percent of GDP.<sup>68</sup> The German Chancellor, Olaf Scholtz announced that he will give the Berlin Process new impetus at a summit in November 2022. The Berlin Process was launched in 2014 to improve and intensify regional integration.



## IV Montenegro and the SDGs

### 4.1 Montenegro's second Voluntary National Review<sup>69</sup>

Agenda 2030 and the SDGs are integrated into the national framework through the NSSD. A draft report on the implementation of NSSD shows that, despite significant successes, there are numerous challenges to achieving the SDGs: progress has been achieved in four of the 17 goals<sup>70</sup>, while an assessment of the trends for the remaining goals was not possible due to a lack of data. In the last two years progress has been made in financing and coordinating sustainable development through the gradual introduction of programme budgeting and establishment of the Eco Fund as well as through the restructuring of the National Council for Sustainable Development and organizational changes at the technical level (positioning the Office for Sustainable Development (OSD) in the Secretariat General of the Government).<sup>71</sup> Across all the SDGs, insufficient data remains a challenge to effectively monitor results and implementation.

Montenegro's progress on the SDGs was presented during its second VNR at the High-Level Political Forum in New York in July 2022. The Second Voluntary National Review: Montenegro and Sustainable Development Goals 2016–2021 was prepared based on analyses and inputs from monitoring and reporting on the implementation of NSSD 2030. It focused on 6 SDGs; 1, 4, 5, 14, 15 and 17.

**SDG 1 (no hunger/poverty):** SDG 1 is recognised as one of the SDGs that has been achieved in Montenegro. In

terms of progress, as highlighted above, the at-risk-of-poverty rate, i.e. share of population with an income below the national poverty threshold (€2,347 for a one-member household) dropped to 22.6 percent in 2020. A positive trend has also been recorded for poverty, social exclusion and material deprivation of children, but the rate (38.6 percent) remains high compared to EU comparators. Poverty is increasing in the north with the at-risk-of-poverty rate (44.5 percent) four times higher than in the southern region. Achievement of SDG 1 requires effective interventions in the field of social policy and regional development policy.

**SDG 4 (education):** Although it is evident that education is becoming more inclusive and fairer, there are still inequalities in access for vulnerable groups, and an increasingly important issue is quality, both in terms of the infrastructure of educational institutions and in learning results and outcomes. Significant efforts have been invested into making education fully accessible. Primary and secondary education are free-of-charge and since the school year 2021/2022 textbooks have also been provided free-of-charge for all pupils of primary schools. Education remains expensive for families with low incomes due to the costs of school materials, clothes, footwear, and transport to school.<sup>72</sup>

**SDG 5 (gender equality):** Improvement of gender policies has continued, and these have significantly contributed to higher participation of women in political and social life. Some positive trends (albeit with certain fluctuations)

have been recorded in the representation of women in the parliament and in processing of cases of violence. Nevertheless, society is still dominantly patriarchal; traditional gender roles and stereotypes persist in all spheres of life, particularly at home, but also in politics and in the labour market.

**SDG 14 & 15 (life under water and on land):** The development of the legal and institutional framework for the conservation of marine and terrestrial biodiversity (SDG 14 and 15) is largely driven by the EU accession process. The GoM declared three protected marine areas in 2021, Platamuni, Katič and Stari Ulcinj, as highlighted in section 3.1. Progress has been achieved in the designation of protected areas: in 2020, 13.4 percent of the land area was designated for protection based on national legislation. As of 2021, a protection regime was introduced for the first time for 1 percent of the coastal marine area. Challenges remain, in particular with the management of protected areas, sustainable management of forests, protected species, and certain land and freshwater ecosystems.

**SDG 17 (partnerships):** An analysis of fiscal expenditures shows that between 2015-2020, around €1.6 billion was allocated to finance institutions, programmes and measures linked to the implementation of SDGs 4, 5, 14, 15 and 17. Most of that, 78 percent (€1.2 billion) was for education. Expenditures on gender equality during this entire period amounted to €4.2 million (0.3 percent of the total amount for the five observed goals) and had a strong declining trend. Expenditures on marine and terrestrial

biodiversity protection were around €112.4 million and doubled in the observed period. Almost €222 million was allocated for various interventions aimed at achieving goal 17.<sup>73</sup> The main progress in meeting the SDG funding targets concerns the implementation by GoM of a programme-based (and gender sensitive) budget starting in 2022.

## 4.2 SDG financing

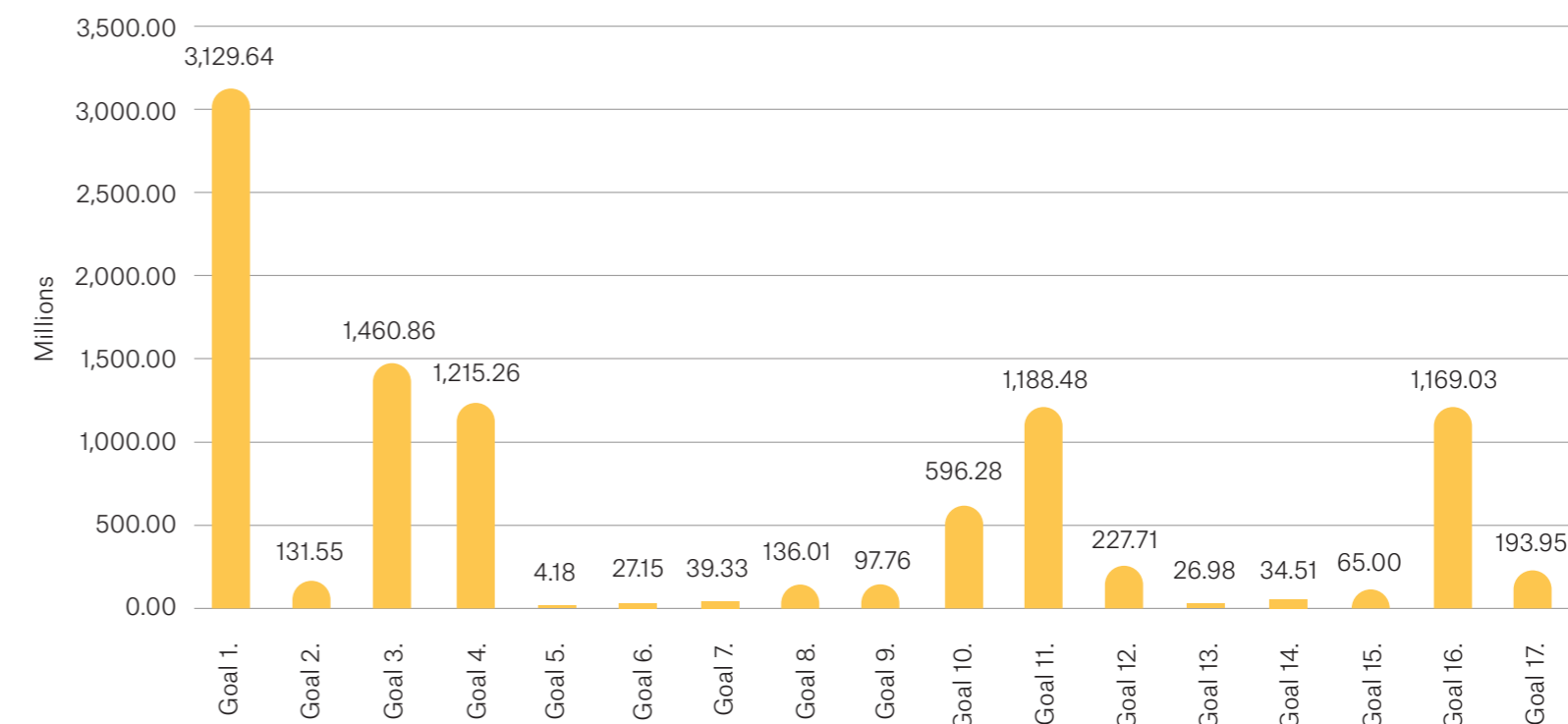
In 2021, the UN commissioned a report on Montenegro's expenditures against each of the 17 SDGs to support the VNR process, but also to better understand the expenditures that are made on the SDGs. This exercise analysed expenditures of central/state budget and mapped them against the targets of the SDGs, based on the organisational, economic, and functional classification of central budget expenditures. The methodology will be subject to further scrutiny of PFM experts to increase the credibility of these findings.

During the analysed period (2015-2020), the GoM invested 9.7 billion euros in expenditures related to SDGs. The most significant spending was noted for SDG 1 on eradicating poverty at around €3.1 billion (see Figure J), with the average annual growth of 3.2 percent. In the Montenegrin institutional framework, these expenditures are related to the Ministry of Labour and Social Welfare and their programmes, National Red Cross, Social Council, Labour Fund, certain capital investments related to social and child protection, and the Fund for Pension and Disability

Insurance. Other significant expenditures were related to SDG 3 on health, SDG 4 on education, SDG 11 on improving livelihoods in cities and SDG 16 on peace, justice, and strong institutions. All the aforementioned SDGs had more than €1 billion of investments for the observed period. These expenditures were related to maintaining and improving the systems of education, health, public and judiciary, as

well as investments in rail, road, and other infrastructure. The current analysis does not differentiate between the expenditures for maintenance and improvements/capital investments. This dimension will be subject to further analysis of public finances, with the aim to determine the level of efficiency and effectiveness of public spending on SDGs and SDG indicators.

Figure J: Central budget expenditures per SDG (2015-2020)



### 4.3 New gaps, challenges and root causes

Progress against the SDGs has continued, albeit with speedbumps due to the pandemic, the war in Ukraine, and political uncertainty. Following the height of the pandemic, Montenegro has shown a robust recovery, reversing some of the losses. However, it may take until 2023, or potentially longer, to return some of the reversed indicators to their pre-pandemic levels, meaning that even greater effort is needed on the SDGs. However, Montenegro still finds itself as closer to achieving the SDGs than some of its non-EU Western Balkans peers. EU integration continues to offer one of the best vehicles to accelerate progress towards the SDGs, considering the strong synergies between the two processes.

The above reflects that much of the original CCA is still valid in terms of gaps, challenges and root causes. Vulnerability remains Montenegro's main issue, not only in economic terms, but also in terms of climate change, social inclusion and governance. The COVID-19 pandemic only highlighted how vulnerable Montenegro is to such social and economic shocks. Now that the focus is shifting away from the pandemic many of the original challenges are coming back to the fore. The health system's resilience to major emergencies has been severely tested. The health system faced a large burden of COVID-19 cases to treat but the challenge has now shifted back to a growing burden of NCDs, as highlighted above and was a challenge

highlighted in the original CCA. There are also falling rates of demand for child health services and immunization rates. The education system was similarly tested, with days of schooling lost because of curfews and lockdowns. The lost days of education will need to be made back up to continue improving educational outcomes.

Some of the gaps and challenges have evolved. The COVID-19 pandemic and war in Ukraine have not only exacerbated and exposed structural economic vulnerabilities, but these vulnerabilities are also evolving as the divide between the north and other regions appears to be widening. This is being exacerbated by low employment rates in the North where poverty and risk of poverty are increasingly becoming northern and rural phenomena. As highlighted above, these evolving gaps and challenges exist both as improving and worsening trends. Whilst gender gaps remain, they have been narrowing, especially in the labour market where women saw a stronger improvement in unemployment and employment. However, gender-based or domestic violence persist and worsened during the pandemic. Equally, the vulnerabilities to climate change are evolving. While wildfires are not an uncommon occurrence during the summer months 2021 and 2022 saw two of the worst summers on record for wildfires as average temperatures have risen.

There are now some substantial new challenges that need to be overcome. Most notable among them is the increasing cost of living, which could jeopardise Montenegro's recovery from the pandemic. The high inflation that has

been recorded in the months following Russia's invasion of Ukraine has eroded purchasing power and left many facing difficult choices. The increasing cost of living is being exacerbated by the war in Ukraine and supply chain disruption in China, due to COVID-19 lockdowns. While Montenegro is not as directly vulnerable to these factors, the overall structural vulnerability has resulted in an inflation rate higher than in many EU countries, which is particularly damaging to vulnerable groups purchasing power. The outlook remains uncertain. With the situation remaining fluid, the growing cost of living and rising energy and food prices in the EU will have a knock-on effect to the Montenegrin economy. The arrival of Ukrainians and Russians who have fled the war and its geopolitical consequences, creates new complexities for the GoM in terms of service delivery, as those seeking temporary or permanent residence will need access to education and health services.

There are also new risks on the horizon of which Montenegro will need to be mindful. The political situation in Montenegro has been fractious and the periods of uncertainty, and thereof an uncondusive sustainable development bargain, has stifled progress on the SDGs and EU accession. However, the votes of no confidence, coupled with the increasing cost of living, poses a growing challenge to political stability in Montenegro and the ability to accelerate the progress on these processes. While the signing of the fundamental agreement with the SOC has the potential to calm some of the tensions for those at one

end of the political spectrum, the risk remains that it could antagonise the group at the other, giving rise to further tensions. The economic impact of further purchasing power eroding could lead to further discontent. Across Europe there is already industrial action occurring as households face an increasing cost of living, as wages are not keeping pace with inflation.

While the nature of the gaps and challenges have slightly evolved, so too have the root causes. As Montenegro continues the path of EU accession, the legacy issues and governance challenges that have shaped some of the gaps and challenges are diminishing. What is becoming clearer is that the public sector capabilities are challenged by numerous priorities and the politicisation of key positions mean that decision making is hindered when there is a change of government. As new laws are adopted that are in line with the EU benchmarks and international human rights standards the challenge of governance will become even more around implementation and not about adoption. However, other root causes remain especially difficult to address. Many of the attitudes and social norms, shaped by the predominantly patriarchal society, which were highlighted in the original CCA remain entrenched as also demonstrated by the increase in hate speech and divisive narratives.



## 4.4 Forward Look

In terms of a forward look, Montenegro needs to pivot to the new risks and evolving challenges to maintain its robust recovery. To accelerate progress, efforts need to be redoubled on addressing the underlying root causes of vulnerability. In the short-term this means supporting the most vulnerable to cope with the increasing cost of living and other pressures on social inclusion. As mentioned above pursuing counter-cyclical fiscal policy will also enable strengthened fiscal buffers to cope with shocks. The growing risk of poverty in the North and slow pace of recovery in the labour market there suggests that the GoM, UN and other stakeholders should take an increasingly sub-national approach.

In the medium- to long-term Montenegro should continue to reduce its structural vulnerability to such shocks. Diversification of the economy still represents one of the best ways to grow the private sector, and reduce structural vulnerability and poverty. The need for diversification and the rising cost of living is also highlighting the potential of renewables as a source of energy security and reduced carbon intensity of electricity generation, while creating the possibility to export electricity through the interconnector to Italy. This will also enable Montenegro to phase out its reliance on fossil fuels for energy generation. More is still needed in terms of countering the impacts of climate change. There have been notable improvements

xi Highlighted in the first iteration of the CCA.

in environmental management, but Montenegro has continued to suffer from higher temperatures and wildfires during the summer season.

Ensuring the right mix of investment and policy will be increasingly important to address the challenges in social inclusion and governance. Health still has concerns regarding its financing and capacity to treat the current burden of disease. While the education system will need to be supported to enable children to catch-up on lost hours of schooling and improve the overall learning infrastructure. Continuing to build the capacity of the public sector to address needs in service delivery remains a priority. This is especially a priority at the sub-national level. Some municipalities are more able to access funds than others<sup>xi</sup> while needs vary across them and this then has a knock-on impact on their ability to support local communities. The war in Ukraine and COVID-19 pandemic have highlighted the importance of good quality, disaggregated data to be able to implement effective policies and programmes with many gaps in understanding their true impact.<sup>74</sup> Digital solutions still offer a plethora of opportunities to increase the efficiency and effectiveness of service delivery. In addition, as fiscal space remains limited, more efficiently and effectively targeted Government expenditures, rather than blanket approaches, to those most in need will accelerate progress on the SDGs, while enabling more weighting of expenditures to those who are the most vulnerable.

The changes to the development context in the last 18 months have emphasised the importance of some of the recommendations of the first iteration of the CCA. While some groups have seen improvements, others have not and Montenegro needs to continue to put in place the legislation and policies that not only accelerate EU accession, but the conditions for a more inclusive society. Also, improved coordination between Government and the international community will improve the dialogue between the two, opening space for better coordination of development and human rights interventions.

Many questions remain. There are several elements that have occurred that are influencing the sustainable development context, notably the COVID-19 pandemic, the war in Ukraine and uncertain political situation. However, the original CCA had areas that, if better understood, could support more effective and evidence-based policymaking, while supporting the identification of new investments and programmes for the UN, Development Partners, and Government. These potential areas are, but not limited to:

- This update has not yet provided a comprehensive analysis of the impact on the war in Ukraine on Montenegro. It is having an impact on vulnerable groups through multiple channels (not just economic).
- It is also not understood about how to stimulate diversification in Montenegro. There are various strategies but nothing comprehensive to understand potential avenues, in terms of sectors, to pursue.

xii Currently, tourism receipts are estimated by multiplying overnight stays by approximately 80 ruors.

- A greater understanding of the tourism sector and how much it generates in terms of taxation, employment but also how much revenues are generated by tourist arrivals or overnight stays.<sup>xii</sup>
- The work on SDG financing has shown the estimated absolute allocations of Government finance to each SDG, but further work is needed to understand how well those expenditures are allocated.
- Further evidence generation is needed in health, to better understand the ongoing financing needs for the health sector, and the prevalence of healthcare issues.
- Greater understanding is needed on how to target support to vulnerable groups to direct policies and expenditures more effectively.
- Understanding how Montenegro is performing in terms of educational outcomes, the latest set of PISA data is from 2018.

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- 69 The analysis is primarily based on information collected for “The Second Voluntary National Review: Montenegro and Sustainable Development Goals 2016–2021”

70 Goal 1 – No poverty; Goal 8 – Decent work and economic growth; Goal 9 – Industry, innovation, and infrastructure; Goal 12 – Responsible consumption and production.

71 Government of Montenegro (2022): “The Second Voluntary National Review: Montenegro and Sustainable Development Goals 2016–2021”, p.11, <https://www.gov.me/en/documents/f9db711f-41f6-4327-b2d8-20628c296940>, alternative link for the document: <https://hlpf.un.org/sites/default/files/vnrs/2022/VNR%202022%20Montenegro%20Report.pdf>

72 Government of Montenegro (2022): “The Second Voluntary National Review: Montenegro and Sustainable Development Goals 2016–2021”, p. 51-52, <https://www.gov.me/en/documents/f9db711f-41f6-4327-b2d8-20628c296940>

73 Ibid, p. 86

74 United Nations (2022): “2021 Voluntary National Reviews Synthesis Report”, p. 11 [https://sustainabledevelopment.un.org/content/documents/294382021\\_VNR\\_Synthesis\\_Report.pdf](https://sustainabledevelopment.un.org/content/documents/294382021_VNR_Synthesis_Report.pdf)





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