

MNE - Transport Sector Note to the draft CEM, October 25, 2012¹

1. The transport system of a country has long been acknowledged to be a necessary component in facilitating economic development and poverty alleviation—it is critical for a small country like Montenegro. Montenegro's small size, the current narrowness of its economic base, with a strong reliance on tourism and agriculture, highlight the importance of developing an efficient and effective transport system to contribute to the generation of sustainable economic growth and poverty alleviation. In addition, Montenegro's geographical location and terrain—with 55 percent of the country above 1,000 meters—impact on trade, transport costs, and growth, underlining the importance of developing a modern transport system and fully integrating it with those of the neighboring countries in the region.

2. For a middle-income European country and a small state, Montenegro transportation network should facilitate internal connectivity, promote economic diversification with tourism activities spread throughout the country. Unfortunately, this is not the case. There is inadequate internal transport infrastructure connectivity between the underdeveloped, rural, mountainous North and the developed Center (the administrative capital Podgorica)—and the coast in the South remains inadequate for the peak of the tourist summer season. Despite recent improvements, railway links remain inadequate and unattractive to most travelers with average speed for passenger trains at about 20km per hour.²

3. In the winter, frequent and long delays in traffic of the key highway linking the center and north can effectively cut off access to the north for hours, sometimes days, and during extreme winter conditions even weeks. While this is reflective of the long neglect of the transport infrastructure over time, it also reflects the reality that recent developments fueled by coastal tourism and FDI has been concentrated in the central and southern part of the country. Clearly, for political, social and equity reasons, this trend cannot be allowed to continue, hence the government's recent increased attention to rural development, particularly in the northern part of the country. For the transport sector, this creates a tension between the current emphasis on improving external connectivity and the political and social imperative of improving internal transport connectivity to promote national cohesion.

4. This note, which has a limited focus, has been prepared to (i) highlight the importance of transport and its deficiencies for Montenegro's development, (ii) review and assess at a preliminary level the government's transport strategy, and (iii) highlight major policy issues and bottlenecks for attention of policymakers.

Montenegro's Transport System: Its Strengths and Weaknesses

5. After an initial dramatic growth, vehicle fleet and traffic growth has decreased more recently since the onset of the global economic and financial crisis. According to available data, the number of passengers in railway traffic in 2010 compared to 2005 declined by 33.6 per cent while in roads there was an increase of 44.3 per cent over the same period. City traffic witnessed a decrease of 72.9 per cent while air traffic increased in 2010 by 72.8 per cent over 2005. Marine transport dropped by 11.5 per cent between 2005 and 2010³. For goods traffic, the trend is more nuanced with rail significantly increasing its portion between 2006 and 2008 while road transport was relatively steady over the same period. Vehicle fleet was 118,930 in 2005 compared with 187,318 in 2008 and there were 164,653 total registered passenger cars. The number of freight vehicles which in 2005 were 8,670 in number have

¹ Prepared by George Banjo (ECSSD).

² Cross country comparison should be done with care given the mountainous terrain of Montenegro.

³ Transport and Communications, 2005 to 2010, MONSTAT, 2011.

increased significantly, from 13,620 in 2008 to 12,100 in 2010⁴, a percentage increase of about 40 percent over this period. The reduction in passenger traffic coincided with the downturn in the economy in 2009 and slow recovery in 2010-11. While this trend may not last long, it has provided a breathing space for the supply of infrastructure (in qualitative terms) to catch up with demand.

4. The number of employees in the sector has remained generally stable in recent years except in rail and road transport where reductions of 20 per cent and 47 per cent were recorded between 2005 and 2010 respectively. For the railways, the reductions were the result of the reforms carried out by government. In the case of road transport, the reason is not so apparent.⁵

6. The transport sector as a whole consumed about 6.1 percent of the budget of the Government over the five year period 2007 to 2011, the fourth largest share after social protection, health and education. In terms of capital investment, the sector was the largest, consuming at 42.7 percent almost half of the overall investment budget of Government⁶. This high expenditure in part was a response to historical under funding of the sector by earlier administrations. The focus of the expenditure has been to clear critical backlog of maintenance and investment in the road and rail infrastructure. State funding to the rail sector was equal to 0.41% of GDP in 2010 up from 0.32 of GDP in 2009. These expenditures have also been necessitated by large growth rates in (i) tourism; (ii) internal and external trade, and (iii) domestic car ownership, which have taken place since independence in 2006.

7. The road sector is however a net contributor to the central budget. Total revenue from road user charges is estimated at about 6.5 percent of GDP, about three times the expenditure on roads. This trend is not peculiar to Montenegro and is typical of the situation in most countries of the world. Montenegro however derives more of this income from fuel taxes (about 21 percent) which compares with less than 10 percent in Albania, Kosovo and the average in EU countries. Income from road tax generates about an additional 2.3 percent of GDP. The relatively high road user charges obtaining in Montenegro limits the governments scope for further revenue from these sources on affordability and social and economic cohesion reasons.

Road Sector

8. The size of the road network appears appropriate for the size of the country. Montenegro has a road network totaling approximately 7,000 kilometers—with 884 kilometers of main and primary roads, 964 kilometers of regional and secondary roads, and around 5,000 kilometers of local roads. This is equivalent to a road network density of 500 kilometers per 1,000 square kilometers. This figure is broadly consistent with the density of regional comparators in South Eastern Europe (with an average of about 555 kilometers per 1,000 square kilometers of territory) but below the levels in the new EU member states (NMS) or the older EU countries (see table below). Other factors, such as the size of the country, the distribution and density of the population, and the country's geography play a very considerable role in determining a country's road network. These effects become evident when making the comparison on a different measure of road density—viz., kilometers per 1,000 people. With this measure, Montenegro is ahead of most of its regional comparators. With more than 11 kilometers of road per 1,000 inhabitants, Montenegro's figures are comparable to those of the NMS. This average blurs marked disparity in road density and, equally importantly, road conditions between the coastal and mountainous areas.

⁴ Railway Reform in South East Europe and Turkey on the Right Track?, Carolina Monsalve, World Bank, 2011.

⁵ It is possible however that this is the result of deregulation and less government involvement in the operations of these services.

⁶ National Development Plan 2013-2016, 'Montenegro 2016, 2012.

Central and Eastern Europe: Road Infrastructure Coverage

	Road Density	
	Km of roads per 1,000 square km	Km of roads per 1,000 people
Montenegro	500	11.1
South Eastern Europe including Montenegro	555	5.9
Albania	657	3.5
Bosnia and Herzegovina	427	5.6
Croatia	506	6.4
Kosovo	780	3.3
Macedonia, FYR	513	6.4
Serbia	500	5.2
Select new EU member states (NMS)	1,427	19.9
Czech Republic	1,646	12.5
Estonia	1,320	41.2
Hungary	1,733	15.7
Slovenia	1,007	10.2
Regional averages		
Europe and Central Asia	580	8.6
Upper middle-income countries	1,076	9.2
Lower middle income countries	328	4.9
High income countries (OECD)	1,340	17.3

Source: World Bank, WDI Indicators and study data.

9. The overall road network infrastructure still needs significant maintenance investments to bring their conditions to acceptable levels. This is despite the commendable concerted efforts of government in recent years to clear the backlog of needed maintenance. In 2006, nearly one-half (47 percent) of the entire road network was in poor or very poor condition, reflecting inadequate maintenance.⁷ The vast majority of the network was exhibiting widespread signs of pavement distress and failures, including longitudinal joint cracking, longitudinal wheel path cracking, raveling, rutting, and low to high undulations and distortions. The many instances of patching also confirm the assessment of a weakened pavement that is in need of increased periodic maintenance interventions. These figures imply that the road quality in Montenegro slightly worse than in Croatia and considerably better than in Bosnia and Herzegovina.⁸ A recent survey undertaken by the World Bank (2008) revealed that local roads in Montenegro are in a similar condition, with 50 percent of the sampled roads being found to be in poor condition.

10. Montenegro has a relatively dense network of local roads which however are in relatively poor condition. In the early 2000s, over 80% of these roads were in fair or poor condition. Not much has changed since except in the area of the capital city of Podgorica⁹ and some of the most concentrated tourism areas such as Budva¹⁰. The MTMAT recognizes the need for action and has undertaken a study to identify and prioritize needed critical maintenance. Implementation of the study recommendations have however been constrained partly by lack of clarity on jurisdictional responsibilities (between the municipalities, Ministries of Agriculture and Rural Development and MTMAT) resulting in under funding of needs. A planned road reclassification study is yet to be carried out to adjust responsibilities

⁷ The full breakdown of the main road network is 15 percent good, 39 percent fair, 37 percent poor and 10 percent very poor.

⁸ The comparative figures for Croatia respectively are 32 percent poor and 22 percent very poor and for Bosnia and Herzegovina 43 percent poor and 22 percent very poor.

⁹ The Municipality has improved the local road network in areas being redeveloped, is constructing a bypass to take the main north-south road out of the city center and introducing area traffic control system in the central area.

¹⁰ Upgrading of the coastal road link with Croatia and Albania remains a major outstanding investment. It is however important that this be carried out with due sensitivity to urban development and a green transport approach: saving transport time and costs should not necessarily be the objective function of such a development!!

between different agencies for different parts of the road network.¹¹ The financing needed to address this situation¹² has been put at Euro 65.7 million. The EBRD recently provided a loan to the municipalities facilitated by the MTMAT to address some of the backlog.

11. Poor local roads inhibit agricultural production and rural development. In the case of Montenegro, it also inhibits tourism. Studies¹³ carried out in neighboring countries such as Macedonia and Albania indicate that rural residents regard roads as the main obstacle to accessing non-farm employment, schools and health facilities.

12. Road-safety is a serious socio-economic problem in Montenegro. Available accident data (see Table 2 in appendix) reveal that road safety is a serious and increasing economic and social problem in Montenegro. Over the last decade, more than 2,000 people have being injured or killed every year in road traffic crashes. While there was a downward trend between 1999 and 2003, people killed or injured increased significantly between 2004 and 2008 with a peak in 2007 of 2,918. Between 2004 and 2006, the number of people injured or killed increased by almost 30 percent. While the number of fatalities had remained broadly unchanged, at approximately 90 deaths per year, it increased sharply in 2007, in which year 122 people were killed on Montenegrin roads.

13. Improving the conditions of roads is not necessarily a sufficient condition for improved road safety. Ironically, there is some suggestion in the above traffic accident trends that the relatively poor road conditions that existed in the early 2000s may have contributed to lower traffic accidents while subsequent improvements in road conditions had the opposite effect. This is not necessarily an unexpected result as improving road conditions can lead to increased speeding by drivers which can lead to accidents. This is why good practice approaches to improve road safety – *safe system approach* -have focused on the three dimensions of improving road conditions, driver behavior and vehicle conditions. Indeed, a study on road safety in Montenegro¹⁴ has identified the main contributing factors to poor road safety (see box below). Crucially, the study suggest that road user behavior—with respect to speed, reckless overtaking, high speed in curves and build up areas—is a significant factor in the observed poor road safety situation in Montenegro.

Fatalities per One Million Inhabitants, 2007

Box 1: Factors contributing to poor road safety

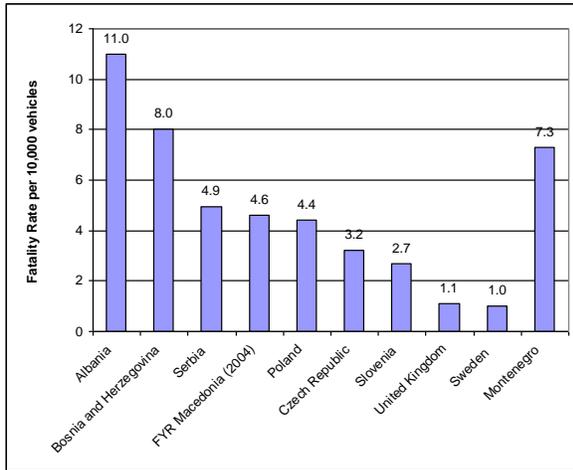
(i) missing guard rails on inner and outer side of road where there are deep and steep slopes; (ii) existing guard rails damaged, too short, in poor condition, with gaps, and mixed with concrete poles; (iii) fixed objects (such as trees, poles, stones, or rigid signs) located within safety zone of road; (iv) mountain sides, stones, and concrete within the road's safety zone; (v) curves without background markings, warnings, and speed limits; (vi) bridges without guard rails on approaches; (vii) tunnel entrances obstructed by fixed objects; (viii) longer tunnels without light and guiding; (ix) tunnel road surface and tunnel walls were in poor condition; (x) stones on the road from mountain sides; (xi) poor signing (local speed limits were not consistently used and the ending of local speed limits rarely indicated); (xii) warning signs for curves and steep gradients were not used consistently; (xiii) junctions often with very fast right turns; (xiv) few pedestrian crossings and these not always properly located, marked or protected; (xv) road markings worn or missing; (xvi) lack of measures to motivate or force drivers to respect speed limits in build-up areas and in towns with speed limits; and (xvii) there were few

¹¹ It is good practice for a country to carry out such studies periodically to ensure that roads carrying the greater traffic are the responsibility of main road agencies while those less trafficked are assigned to the lower jurisdictions such as municipalities and, in some cases, agencies responsible for rural development.

¹² This includes addressing backlog, routine/winter and periodic maintenance as well as for maintenance of bridges/tunnels.

¹³ Improvements in the management and Financing of Secondary and Local Roads in Southe Eastern Europe, Final Report, ECSSD Transport, World Bank, 2007.

¹⁴ World Bank road safety survey, Montenegro: Final Report, COWI A/S, 2008.



or no facilities for pedestrians, forcing pedestrians onto the road.
 Source: COWI A/S: World Bank- Road Safety Survey – Montenegro, Final Report, 2008.

14. Reducing traffic accident is a considerable challenge but the government has no choice but to increase existing efforts: the fatality rate of 7.3 per 10,000 vehicles is nearly seven times the rate of the “safest”—but flat—EU member countries. With the expected increasing growth in the number of vehicles, *ceteris paribus*, it can be expected that the number of traffic accidents and, with it, injuries and fatalities will continue to grow. The socio-economic costs of traffic accidents in Montenegro are very high with an overall estimated value of 2 percent of GDP. This is a figure far higher than the typical situation for middle-income countries, where the comparable value is about 1.5 percent of GDP (Peden et al., 2004).

15. Poor road safety is a growing burden for the health sector which the government needs to urgently address. In 2008, a road safety management capacity review was carried out under the sponsorship of the MTMAT and the Ministry of Interior and Public Administration (MIPA). The strategy is yet to be approved and supported by the passing of amendments to the existing Law on Road Safety. The basic recommendation of the review related to the need to create a results focus for road safety improvements by clearly establishing governmental road safety roles, leadership and coordination nationally for implementation of national strategy, action plans and projects and to build institutional management capacity for multi- sectoral interventions to achieve results¹⁵. In moving forward with implementing the study recommendations, MIPA in 2009 prepared a draft Road Transport Safety Improvement Strategy. It has the target of reducing the number victims of traffic accident of 122 in 2007 by 50 percent by 2020 (see Box 1 in appendix for more detail). While the strategy incorporates many of the recommendations coming out of the road safety management capacity review study a notable weakness is the lack of clear identification of which is the lead agency on road safety; it contains no such designation. Moreover, in outlining its priority action plans, the strategy does so without adequate recognition of the fact that these need to be carried out in full coordination with the other agencies with identified road safety responsibilities. The strategy is also silent on the recommendation of the capacity review for some kind of dedicated source of funds for road safety activities. The strategy would benefit from review by an international expert to bring it in line with best practices and to prepare necessary amendments to existing legislation.

¹⁵ A demonstration project focused in improving road safety within cities and road corridors (*Safe City and Safe Corridor*) was defined by the study aimed at ‘learning by doing’ and developing national road safety strategies.

16. A dedicated funding source is essential to dealing with the road safety situation. A key recommendation of the review not incorporated into the draft strategy is how to fund road safety actions, particularly enforcement. Securing sustainable annual funding for road safety and its transparent allocation is a priority. According to the review, each agency should have a budget line item for road safety and about 20 percent of traffic fines collected should be dedicated to implementing agreed strategic actions. Importantly, a road safety fund should be established from a one percent levy on vehicle insurance, five percent of vehicle examination fees and 10 percent of third party insurance premiums. Additionally, there should be a provision in the budget of all rehabilitation and new road projects to contain an additional 10 percent to be dedicated to road safety actions.

Rail Sector

17. The Montenegrin rail network comprises of 428 km of track, of which 168 km are electrified. The network has no double lines and is the smallest within the Balkans. Between 2004 and 2007, total investment in railway infrastructure was Euro7.25 million, or Euro29,000 per kilometer of tracks. This figure is considerably lower than the Euro37,900 per kilometer of roads in the main network. Key sections of the rail infrastructure have been rehabilitated and augmentation of rolling stock has been carried out through loans obtained from the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

18. Passenger traffic has declined while freight has seen some growth. Passenger traffic halved between 2005 and 2010 from 212 million in 2001 to 101 million in 2009. Freight traffic on the other hand has witnessed significant growth from 51 million ton-kilometers in 2001 to 186 million ton-kilometers in 2009¹⁶. These traffic volumes are the lowest within the region, apart from those of Kosovo and Albania, reflecting the small size of the network and population. Trends in the freight traffic are closely linked to the aluminum factory at KAP near Podgorica, the bauxite mines in Niksic and the steel mill in Zeljezara and the success of efforts to privatize the general and container terminal in the Port of Bar.

19. Between 2007 and 2010, the rail sector went through significant transformation. This was driven by the objective to bring the sector in conformity with the EU rail legislation and achieved via amendments to the 2004 Law on Railways. In 2007 the former single rail entity Zeljeznice Crn Gore (ZCG) was unbundled into separate rail transport operating company (Railway Transport of Montenegro –ZPCG) and a rail infrastructure manager company Railway Infrastructure of Montenegro –ZICG). In 2009, the ZPCG was further unbundled by spinning off its freight operation into a separate company Montecargo. Attempts to sell the state’s share in Montecargo are yet to succeed.

20. While the financial performance of ZICG has improved as a result of the reform, it remains a loss making enterprise. The wage bill for ZICG was 99 percent of operating revenue (excluding budget support) and 42 percent of total revenue in 2009. This is down from 177 percent and 61 percent respectively in 2008 and reflects the staff reductions carried out between 2008 and 2009. Further staff reductions will be needed to bring the present staff per track kilometer ratio of 3.92 down to closer the norm for the better performing regional railways in the EU.

¹⁶ Railway Reform in South East Europe and Turkey on the Right Track?, Carolina Monsalve, World Bank, 2011.

21. Montecargo is a profitable freight company whose operation is constrained by the condition of the rail infrastructure. Actions proposed to improve the performance of ZPCG will help to sustain this situation.

22. The reform of the sector has had positive results but needs to be deepened. Areas for further government action includes practices in relation to access charging, operation of PSO contracts as basis for compensating ZPCG for operating passenger services at Government behest, and staff rationalization. The proposed regulatory body for the railway sector also needs to be created. Further planned unbundling that should be implemented include separating infrastructure maintenance from ZICG to introduce competition and encourage innovation in work methods and technology and privatizing station operations and commercial development.

Aviation Sector

23. The national airports are formally managed by Airports of Montenegro, a state-owned company created in 1999. Government action in the sector since 2003 has been largely guided by strategic Master Plan for the development of the sector. Under this, Airports of Montenegro has assumed responsibility for the modernization of the airports in Podgorica and Tivat. There is a need to improve the operational efficiency of the organization through separating infrastructure and commercial operations.

24. Currently, Montenegro Airlines is the only national carrier. It was created by Government in 1994 and has been operational since 2000. It operates regular routes to European destinations in Budapest, Frankfurt, Ljubljana, Paris, Rome, Skopje, Vienna, and Zürich. The challenge to the company is maintain its profitability given increased competition after liberalization of the sector. There is however currently no budget transfer to the airline from the state treasury.

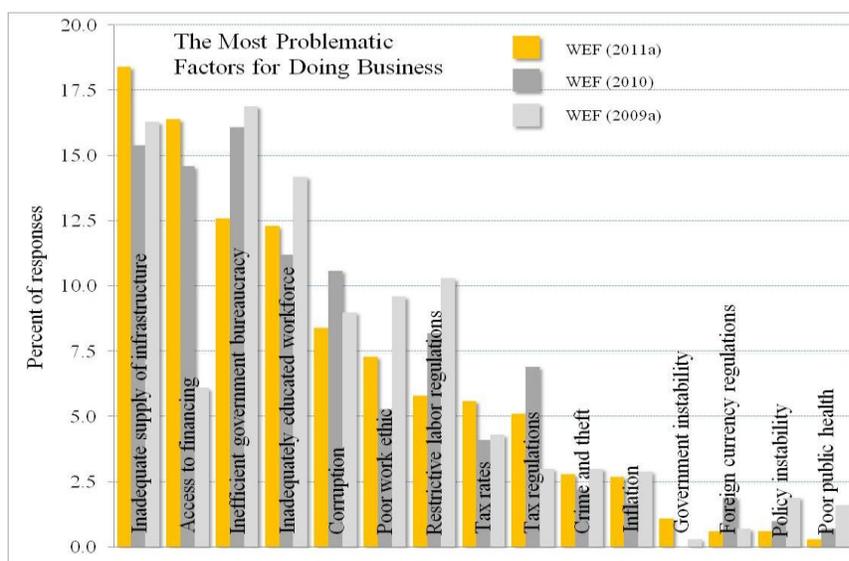
Maritime Sector

25. As with the rail sector, the separation of operational management and planning from regulatory functions is also at the center of efforts to modernize the institutional framework for the maritime sector. This includes the splitting of the port administration to two port director offices—one covering the fjord (Boka Kotorska) with a head office in Kotor (with branch offices in Herceg-Novi, Zelenika, and Tivat) and the other one the Adriatic coastline and the Skadar Lake, located in Bar (with branch offices in Budva, Ulcinj/Ulqin, and Virpazar). A new Port Law was enacted in 2008 under the Port of Bar has been turned into a landlord port with a separate Port Authority (Montenegro Port Authority) and Port Operator Company managed under a concession agreement. The concession agreement for cargo and terminal operations were awarded in 2009 to ‘Ocean Montenegro Bar’ while that for the provision of marine services such as piloting, mooring, tugging, and towing of vessels was awarded to ‘SC Maritime Businesses LLC Bar’.

Concluding Comments

26. Montenegro performs relatively well on a number of measures of trade facilitation but there is clear room for improvements. The Doing Business 2013 overall index puts the country at 51 in the world, up six places from 2012, ahead of regional neighbors Albania (85) and Kosovo (98). For the sub-index ‘Trading Across Borders’, the country is ranked at 42 down eight places from 2012. In the 2012 Logistics Performance Index (a composite of measures related to customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness), Montenegro ranks 120 out of 155 countries with a score of 2.45. Weak areas include tracking and timeliness with scores of 2.62 and 2.89 respectively. On the infrastructure pillar, overall rating is 107 from a score of 3.5 with road and rail infrastructure rated 99 and 58 respectively; port infrastructure is rated at 100. The significant contribution of inadequate infrastructure to the performance of Montenegro in the above indicators is reflected in the

diagram below which shows inadequate infrastructure as the key most problematic factor for doing business.



The Government's Transport Strategy

27. Montenegro has ambitious plans to ensure the integration of the Montenegrin transport network with those of neighboring countries. In particular, efforts are being directed at the implementation of two major highway corridors, viz., the Bar–Boljare highway (*en route* to Belgrade, Serbia, and the pan-European Corridor X), the Adriatic-Ionian highway through Montenegro and the upgrading of the rail infrastructure between the Port of Bar and Belgrade. Several other road and rail projects linking Montenegro with Albania and Croatia are considered to be of strategic importance. The planned investment on the two main highways is a central component of the latest transport strategy, with expected costs estimated in 2007 as at least Euro2.8 billion (about 86 percent of 2011 GNI, World Bank Atlas method). With public debt at about 59 percent of GDP and the need for medium term reduction in the fiscal deficit and public debt, it is unclear whether and how the projects of this magnitude could be financed short of a near-complete concession as the main financing mechanism. Or significant support from the EU perhaps as part of the accession process.

28. The Bar – Boljare project makes political and social sense but is disadvantaged by its high construction cost arising from the terrain through which it passes. Construction of this highway would support national and social cohesion objective of the government, promote regional development within and outside of Montenegro and contribute to creating a safer travelling environment to tourists. The feasibility study carried out for the scheme established its economic rate of return at about 6 percent, a figure below the normal figure of 12 percent used by the World Bank for its investment projects. This result however meets the test for the EU which is 5 percent. As a result, EIB has shown interest in supporting the project starting with its southern section. It is understood that a work has started on the Podgorica bypass section with the next priority section that linking Podgorica to Bar. The bypass however mainly serves the local traffic around Podgorica and the extension to Bar without the northern sections could in fact has a regressive impact by further deepening concentration of development within the central and southern zone of the country.

29. While Montenegro is a member of the South East Europe Transport Observatory (SEETO), none of its above major investment lie on any of the core SEETO network Trans-European

Transport Network (TEN-Ts) but it is crossed by two routes of the SEETO core road and rail network, viz., (i) Route 4, which runs from the port of Bar via Belgrade to Vršac on the border with Romania; and (ii) Route 2, which connects Podgorica with the Durrës–Tirana highway in Vorë, Albania. The Port of Bar and the Podgorica airport are also defined as being part of the “core” transport network. The government’s main motivation for such large projects is the need to improve external connectivity particularly to Europe, and to boost tourism and trade.

30. According to the 2012 National Development Plan for 2013-2016, future economic growth and development of Montenegro will be based on three pillars: tourism, energy and agriculture. The plan sees transport, housing and construction infrastructure and environmental investments as prerequisites for their achievement and thus should be targets for investment, the scale of which requires both public and private involvement.

31. The Transport Development Strategy of Montenegro¹⁷ states that the transport system in Montenegro is to be developed so as to provide safe and secure traffic, quality maintenance of transport infrastructure, be effective in contributing to economic development, minimize harmful impacts to the environment and be harmonized and support integration process of the country with Europe. This is a reasonable statement of intent and broadly in line with good international practice.

32. Effective implementation of the transport strategy would, however, requires improvements to institutional arrangements and capacity with a focus on how the sector is organized and managed. The aim would be to improve resource (financial and human) utilization and deepen private sector participation in the provision and delivery of services in the sector. This in turn, requires the strengthening of the overarching institutional framework to deepen its capacity for rigorous planning, analysis of sector priorities and ability to interface with the private sector on equal partner basis.

Remaining Issues in Montenegro’s Transport

33. To effectively contribute to the three pillars of the National Development Plan, the sector will need to pay greater attention to multi-sector collaboration with agencies such as the ministries responsible for Agriculture and Rural Development, Interior and Public Administration, Health, Education and Spatial Planning to in particular promote improved rural access, road safety and urban transport planning and provision. In all these areas, it would also need to deepen its existing cooperation with the municipalities. Any proposed changes to institutional arrangements within the sector, particularly the road sector, will need to be responsive to this crucial need.

34. Recent reforms in the transport sector have been driven by the need to bring the sector in conformity with EU requirements and directives. While reasonable progress has been made in establishing compliant legal and regulatory arrangements further capacity building is needed for effective implementation. Reforms have been driven by, particularly in rail, air and maritime, by a focused attention to improve safety of operations. This has led to passage of various Laws and signing of international agreements and protocols. The implementation of many aspects of these legislations, however, remain outstanding, particularly implementation of conventions of the International Maritime Organization (IMO) and EU Directives relating to shipping and maritime services for which MTMAT will likely need technical assistance.

¹⁷ Transport development strategy of Montenegro, Ministry of Transport, Maritime Affairs and Telecommunications, 2010.

35. The government has also adopted the Strategy for Public Administration Reform (2011-2016) which provides for ‘structural adjustment of public administration system to the best European standards; rationalization of public administration; its increased efficiency and savings; improvement of coordination inside public administrations; its openness and accessibility; and the participation of citizens in public duties performance.’¹⁸ The status of implementation of this reform agenda in the transport sector is not clear. Not the case, we have update from our latest PEIR—will send so you can lift conclusion. For road sector, it would imply more autonomy for the Road Directorate in the MTMATT perhaps its transformation into an Agency with autonomous Board, its introduction of social accountability frameworks into its service delivery mechanisms and more effective application of user pays principles. Incentives for personnel would also require attention to improve attraction and retention of well qualified and experienced staff. Given the increased complexity of tasks to be carried out in the transport sector, particularly in relation to the privatization agenda, by the public sector over the medium term, it is critical to retain and promote qualified and high-performance staff, including by having salaries that are competitive with the private sector.

36. Experience elsewhere indicates that improving the condition of local roads, particularly those located in the rural areas, is best done in the context of promoting rural development. This is because it helps to leverage co-benefits by directly linking traditional direct benefits of road investments such as travel time and cost savings to be linked to the benefits derived from in improving access to health, schools and other social facilities while also creating opportunities for local employment and income generation.

37. Embedding efforts to improve the local rural network in the rural development context will also make such improvements more relevant to the local communities and tap into funding sources that would not normally be available to the road sector. The rural development policy provides an enabling framework for this approach through its pillars of: (i) measures for strengthening the competitiveness of food producers; (ii) measures for sustainable agricultural resources management; (iii) measures for improving the quality of life and development (diversification) of economic activities in rural areas; and (iv) leader projects for rural development. To improve the quality of life and develop the economic activities in rural areas, the policy has identified the following measures for application: (i) development of rural infrastructure, revitalization and development of rural communities; (ii) support to supplemental activities in agriculture; (iii) support to establishing and development of small enterprises in order to encourage entrepreneurship in rural areas; (iii) support to development of tourism in rural areas; and (iv) support to preservation and protection of cultural heritage. The leader projects for development of rural areas under the same policy is aimed at ensuring support to the following: (i) local communities and local action groups for preparation and implementation of rural development strategies and projects; (ii) local public-private partnership in order to develop the rural areas; (iii) implementation of projects based on participation of several entities from different local economy sectors.

38. Improvements to the internal traffic network of Montenegro comprising its main, regional and local road network and the railways would be a major factor in promoting growth in tourism, diversifying the nature and character of tourist activities and distributing its benefits amongst a wider spectrum of Montenegrin. This particularly is the case for agro and ecological tourism in the north and central part of Montenegro by improving hinterland connections to cultural and rural sites and the pristine environmental areas. It is however important for these actions to be part of spatial planning activities. A

¹⁸ National Development Plan, 2012.

public private partnership approach needs to be adopted in improving these connections with the government focusing on improving transport infrastructure and facilities and the private sector focusing on the provision of the transport services.

39. There is a need to explore opportunities for *green transport*, particularly along the coastal towns which are centers of tourist activities. For the coastal area, the scope should be explored for creating a special purpose executive agency to plan and implement the green transport proposals in the context of green development of the area. Consideration could be given to evaluating feasibility of a short rail link between the airport in the capital Podgorica and the Bar-Belgrade rail line. With improved passenger train service, the link could take some of the pressure off tourism related road traffic from the airport during the peak season. The same approach can be used in the promotion of agro-tourism where a well developed network of walk trails and cycling lanes would be powerful enabler of such tourist activities. This of course would also enable local economic development by bringing tourists closer to the products of rural small scale enterprises.

40. Trade facilitation constitutes a wide range of activities that can lower trade transaction costs. National frontiers impose complex procedural requirements on incoming and outgoing goods. Countries that ensure that these are met within minimum costs and delays are potentially more attractive to FDI as well as being considered attractive transit countries. That is why policymakers are increasingly concerned with logistics which encompasses transportation, cargo consolidation, warehousing, border clearances and payment systems.

41. Government has clear intent to improve one stop border operations but further reform of the Customs Administration may be needed. Little information seems available on the domestic trucking industry from its organization, efficiency, capacity, etc. A study to fill this gap may reveal clear areas for improvements as well as opportunities for increased involvement of local firms in the carriage of goods through and from Montenegro.

Appendix

Table 1: Overview of Traffic in Transport Sector 2005 to 2010

	2005	2006	2007	2008	2009	2010
Passengers	1137	1067	999	1031	852	755
Passenger kms	123	132	110	125	99	91
Goods (tonnes)	1182	2494	1761	1740	854	1213
Goods (tonnes kms)	133	182	185	184	101	151
Passengers	4302	4825	5738	5503	5536	6209
Passenger kms	85	115	141	123	102	81
Goods (tonnes)	1857	1961	2131	2520	1724	1839
Goods (tonnes kms)	61	73	92	139	179	167
Passengers	2177	1591	1491	1547	544	590
Passengers	698	834	1024	1109	956	1206
Goods (tonnes)	1011	1067	1320	1490	1478	2159
Passengers	78	90	91	89	74	69
Goods (tonnes)	598	818	785	595	541	441
Goods (tonnes miles)	232	380	408	352	273	239
Total turnover	2039	1988	2071	1949	1481	1759
Domestic traffic	0.4	0.1	2	8	-	-
Export	1167	1027	792	684	614	835
Import	851	942	1280	1219	829	799

Roads and Bridges in Montenegro by Road Type

Road type	2005	2006	2007	2008	2009	2010
Asphaltic	4701	4742	4925	4927	5097	5367
Gravel	1806	1806	1806	1806	1797	1684
Dirt and uncut	846	820	671	671	730	714
Total	7353	7368	7402	7404	7624	7763

Number of Employees in Transport 2005- 2010

	2005	2006	2007	2008	2009	2010
Railway transport	2057	1884	1886	1721	1693	1647
Road transport	1570	1694	1478	1526	1579	834
Air transport	280	327	538	375	391	478
Maritime transport	213	269	261	290	286	222
PTT transport	2347	2332	2543	2411	2420	2305
Total	6467	6506	6706	6323	6369	5486

Source: MONSTAT, Transport and Communications 2005 - 2010, Podgorica, 2011.

Table 2: Traffic Accidents 1999 – 2008

Traffic Accidents	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Total	6,549	5,597	5,275	5,503	5,094	5,377	6,192	7,185	8,882	10,170	65,824
With material damage	5,042	4,316	3,962	4,285	3,926	4,157	4,845	5,631	7,008	8,410	51,582
With victims	1,507	1,281	1,313	1,218	1,168	1,220	1,347	1,554	1,874	1,760	14,242
Victims (death) in total	146	81	105	81	84	91	95	85	122	112	1002
Driver victims	59	23	28	29	39	40	44	31	59	47	399
Passenger victims	53	36	47	24	28	30	30	27	33	42	350
Bicycle or motor bike victims	5	5	4	3	5	6	6	9	5	6	54
Pedestrian victims	29	17	26	25	12	15	15	18	25	17	199
Injured persons - Total	2,303	1,933	1,957	1,834	1,702	1,750	1,942	2,257	2,796	2,473	20,947
Less injured	1,585	1,356	1,353	1,280	1,266	1,282	1,459	1,748	2,213	1,956	15,498
Seriously injured	718	577	604	554	436	468	483	509	583	517	5,449

Source: Strategy for Road safety improvement from 2010 – 2020, Ministry of Interior and Public Administration, Podgorica, November 2009.

Box 1: Road Safety Objectives

The overall objective of the strategy is to reduce the number of traffic accident victims by 50% in 2020 in relation to 2007.

Short term objectives

- The Government of Montenegro shall establish a working body for monitoring the Strategy implementation, with a task to coordinate activities of competent bodies in this field. The Ministry of Interior and Public Administration shall be responsible for Strategy implementation, coordination, monitoring and analysis, based on the data provided by competent entities throughout the country.
- Taking into account other countries' knowledge and experience, to introduce training system of officers in the field of road transport safety;
- Harmonize laws and practice with the European Union (the implementation of the transport safety audit within road planning – RSA (Road Safety Audits) and the inspection of road safety within the inspection of existing roads – RSI (Road Safety Inspection), accident investigation, traffic accidents database, the system of driving license issuing, fines, new drivers, campaigns, etc.)
- Reduce the number of victims by 30% until 2015 in relation to 2007;
- Reduce the number of victims by 20% until 2020 in relation to 2007;
- Reduce the number of grave injuries by 20% until 2020 in relation to 2007.

Long term objectives

- Harmonize the safety level of road infrastructure with the European Union,
- Establish the road transport safety system on all levels,
- Reduce the number of victims and injuries in case the length of roads and the number of vehicles in traffic increase,
- Reduce the number of victims by 50% until 2020, in relation to 2007,
- Reduce the number of grave injuries by 30% until 2020, in relation to 2007.