IPA II CBC “Bosnia and Herzegovina – Montenegro” 2014 - 2020

Analysis of the Programme area

Revised on 27/05/2014
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Purpose

The present document aims at presenting the Situation Analysis carried out in the framework of the preparation of the IPA II Cross Border Cooperation (CBC) Programme “Bosnia and Herzegovina – Montenegro” 2014 – 2020. It is meant to provide the necessary basis for the identification of key needs and priorities to be addressed by the future CBC instrument, as well as to constitute a sound element for the preparation of the overall programme strategy.

It seeks to offer an overview of the programme area along with its major strengths and weaknesses; it identifies the specificities and commonalities of the territory (identity) and defines the key areas where the implementation of cross border actions would generate high additional value.

The preliminary outcomes of the S.W.O.T. were presented and discussed during the first Joint Task Force meeting which was held in Trebinje on 18 October 2013. Inputs and remarks offered by the JTF in the framework of a written procedure have been included.
Methodology

The situation analysis has been carried out using both P.E.S.T.L.E. and S.W.O.T. methodologies. Main statistical data and most relevant documents have been provided by the OSs of the two Countries.

The SWOT analysis has been prepared per thematic priority as suggested by the European Commission (EC). They are all an adaptation of the Thematic Objectives as proposed in Article 9 of the Commission’s proposal for the Common Strategic Framework (CSF) funds regulation, therefore strongly aligned with the EU2020 Strategy and its regional declination SEE2020.

<table>
<thead>
<tr>
<th>No.</th>
<th>Thematic Priority</th>
<th>TOs (art. 9 CSF Reg.)</th>
<th>SEE2020</th>
<th>EU2020</th>
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<tbody>
<tr>
<td>1</td>
<td>Promoting employment, labour mobility and cultural inclusion across the border</td>
<td>TOs 8 and 9</td>
<td>Inclusive growth</td>
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<td>2</td>
<td>Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management</td>
<td>TOs 4, 5 and 6</td>
<td>Sustainable growth</td>
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<td>3</td>
<td>Promoting sustainable transport and improving public infrastructures</td>
<td>TO 7</td>
<td>Sustainable growth</td>
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<td>4</td>
<td>Encouraging tourism and cultural and natural heritage</td>
<td>n.a.</td>
<td>Integrated growth</td>
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<td>5</td>
<td>Investing in youth, education and skills</td>
<td>TO 10 for Education</td>
<td>Inclusive growth</td>
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<td>6</td>
<td>Promoting local and regional governance, planning and administrative capacity building</td>
<td>TO 11</td>
<td>Governance for growth</td>
<td>Horizontal</td>
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<td>7</td>
<td>Enhancing competitiveness, business and SME development, trade and investment</td>
<td>TO 3</td>
<td>Smart growth</td>
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<td>8</td>
<td>Strengthening research, technological development, innovation and ICT</td>
<td>TOs 1 and 2</td>
<td>Smart growth</td>
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The first step in the analysis has been a survey implemented in the cross-border area. The Operating Structures (OSs) sent standardised questionnaires to municipalities and other relevant institutions in the eligible area (national/ regional/local governments, high education institutions, public enterprises, associations, chambers of commerce, NGOs, etc.).

A separate analysis has been implemented for municipalities as the feedback received has allowed a comparative approach. Out of 13 municipalities in the eligible area on the Montenegrin side of the border, 9 returned the filled-in questionnaire. The percentage of received questionnaires (sample) was 69.2% of the total number and 79.8% of the total population in the eligible area on the Montenegrin side. Out of the 56 municipalities in the eligible area on the Bosnian side of the border, 21 municipalities returned the filled-in questionnaire. The percentage of received questionnaires is 37.5% of the total number of municipalities in the
eligible area in Bosnia and Herzegovina. From other institutions/organisations from both sides of the border the total of 77 questionnaires were received.

As a second step, the programming expert team carried out individual in-depth interviews with different institutions in the eligible area and relevant ministries at national/entity level. The interviews were implemented via face-to-face as well as telephone interviews. The analysis of in-depth interviews allowed further definition of the SWOT. Conclusions for each of the thematic priorities are presented below under each specific section.

As a third step, the team screened statistics related to each thematic priority and other relevant pieces of information, such as: evaluation of past CBC programmes and sector strategic documents, often suggested by the interviewees.
Situation Analysis

History

Throughout history, the territories and peoples of the eligible area periodically belonged to the same states, but were often separated by borders and wars. Links between communities in the bordering area are therefore strong and interdependent.

In the late 19th century, intellectuals in the area started to promote the idea of united Slavic nations which eventually resulted in the creation of the Kingdom of Serbs, Croats and Slovenians which eventually became the Kingdom of Yugoslavia, also known as first Yugoslavia. The Kingdom fell apart with the outbreak of the Second World War, and SFRY1 was created in 1945. The territories of today’s Bosnia and Herzegovina and Montenegro were defined, and these two entities became two of the six Yugoslav Republics.

After the break up of the former SFRY, Bosnia and Herzegovina gained its independence in 1992, while Montenegro became an independent state after the referendum on independence in 2006.

Both countries share strong commitment towards EU integrations. Montenegro was granted the EU candidate status on 17 December 2010. BiH and the EC signed the Stabilisation and Association Agreement on 16th June 2008. By signing the agreement the EU recognised the efforts of BiH in the path of EU integrations. The SAA with BiH has been ratified by all EU Member States, but has not yet come into effect. Both countries have already put significant efforts into the adopting of a compatible legislation with the AcquisCommunitaire.

As of June 2012, the European Union has opened EU accession negotiations with Montenegro. In turn, the EU relations with Bosnia and Herzegovina are still governed by the Interim Agreement (IA) of 2008.

Demography

The demographic structure of the area has changed over the past two decades due to large migrations within and out of the region during the crisis of the 1990s.

According to its Agency of Statistics, Bosnia and Herzegovina had 3,831,555 inhabitants in 2013, or significantly less than 4,377,033 inhabitants that it had in 1991 according to the census carried out that year in former Yugoslavia.

The population of Montenegro, in turn, has remained practically unchanged in terms of total numbers, from 615,035 in 1991 to 620,029 in 2011, as per the census of the same year2.

The population of the eligible area for the cross-border programme between Bosnia and Herzegovina (1,198,106) and Montenegro (295,105) is 1,493,211 or 33.9% of the total population of the two states.

Over the past decades, a significant portion of the previously predominant rural population has moved to the urban areas. Thus, the population of the eligible area of Montenegro and Bosnia and Herzegovina is nowadays mainly concentrated in urban centres.

On the Montenegrin side of the border, the internal migration from the less developed North to the more developed central and coastal areas has resulted in9.34% decrease of population in the northern region in the

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1 Socialist Federative Republic of Yugoslavia
2 Montenegro 2011 census figure
period 2007 – 2012 alone. In Bosnia and Herzegovina, the population has also migrated to larger urban centres, particularly to Sarajevo.

Along with depopulation, the rural areas and smaller cities in both states have been hurt by a ‘brain drain’ process leaving them without skilled human resources.

Even though the natural growth rate in the eligible area still remains positive, the age structure of the population indicates an unfavourable demographic ageing process.

**Ethnic Minorities**

Inhabitants of the programme area enjoy national equality in both countries since their constitutions secure the rights of the minorities. Nonetheless, during the 2014 – 2020 programming process, the EU had still awaited from Bosnia and Herzegovina to implement the European Court of Human Rights judgement in the Sejdic-Finci case regarding discrimination against citizens on the grounds of ethnicity.

**Geographical Description**

The programme area is located in the south-eastern part of Bosnia and Herzegovina and the north-western part of Montenegro. In Bosnia and Herzegovina, the programme area extends over 20,909.33 km² and covers 38.51% of the national territory. In Montenegro, the eligible area extends over 9,285 km² or 67.2% of the national territory.

The terrain is mostly mountainous including some of the most rugged in Europe. The rivers in the eligible area flow into either the Adriatic Sea or the Black Sea basin. In the mountains, the rivers flow along deep canyons such as the Tara River Canyon which is the deepest canyon in Montenegro and in Europe, at 78 km in length and 1,300 meters at its deepest point. There are around forty natural and seven artificial lakes in the area. This region is rich in water and forests that cover 32 % of the territory.

The climate of the eligible area varies, but in general, the northern part is characterized by a continental climate, with cold winters and hot, relatively humid summers with well distributed rainfall patterns and heavy inland snowfall, while the southern part enjoys a more Adriatic climate with hot, dry summers and autumns and mild winters. Differences in elevation and proximity to the Adriatic Sea, as well as the exposure to the winds, account for variations in climate.

The Bosnia and Herzegovina part of the eligible area comprises 56 municipalities. The Montenegrin side covers 14 municipalities in coastal, central and northern Montenegro.

The eligible area in Bosnia and Herzegovina includes 20 km of coast which is the only access of Bosnia and Herzegovina to the Adriatic Sea and is characterised by well preserved beaches and the Neum tourist centre.

In Montenegro, 163.78 km of coast, out of a total of 288.21 km, are included in the programme area with a unique landscape characterised by beautiful bays and relevant tourist centres.

**Infrastructure**

Infrastructure is an important pre-requisite for the economic and social development as it secures accessibility of goods and people to and from the eligible area. On the whole, the infrastructure in the eligible area is obsolete,
having suffered greatly from lack of investments that were mostly confined to the more developed areas of the country.

The length of the border between Montenegro and Bosnia and Herzegovina is 254.4 km, along which there are eight border crossings. A number of them has been upgraded in recent years or are presently under-going modernisation with EU funding support.

Investments over the past several years in the road sector of both states have improved the overall condition of roads in the eligible area, but many of them are still in need of rehabilitation and modernisation that require significant budgetary outlays.

The main road transport routes going through the programme area are the following:

1. Sarajevo - Foča – Nikšić - Podgorica
2. Mostar - Trebinje - Nikšić – Podgorica
3. Sarajevo – Trebinje – Herceg Novi

Railways make up a less significant part of the overall transport infrastructure of the eligible area in which there are no rail border-crossings between the two countries. Montenegro, nonetheless, has recently completed the reconstruction and modernisation of a rail link, mainly used for cargo transport, stretching from Nikšić outside the eligible area, towards Podgorica and Bar. This has represented a major investment effort for the country. The small BiH rail network remains underdeveloped and not fully electrified, limiting its potential for providing effective transport service.

Ports, airfields and dams are in a somewhat better condition. There are three international airports in the programme region – Tivat, Mostar and Sarajevo. One small airport is located in Nikšić. The Port of Kotor services large cruisers and other commercial boats, while the marina in Tivat has positioned itself as a major Adriatic gateway for yachts.

The telecommunication network in the eligible area is composed of several systems offering both fixed and mobile telephony.

In Montenegro, services in mobile telephony are provided by three GSM operators (Telenor, T-mobile/com, Mtel). All providers have national coverage, and provide advanced services.

The three operators in Bosnia and Herzegovina are BH Telekom, Telekom Srpske and HT Mostar. They have undergone privatization but the federal government still has a majority stake in BH Telekom and HT Mostar, while Telekom Srpske has been privatised by Telekom Srbija whose main shareholder is the Government of Serbia.

The capacities of the fixed network are well developed, and the mobile network has good signal coverage, throughout the area.

In June 2013, the Montenegrin Ministry for Information Society and Telecommunications issued a report on the status of electronic communications which reveals that the mobile telephony penetration in December 2011 has been 187.6%, i.e., above the regional average of 121.96% and the EU 27 average of 127%. Bosnia and Herzegovina, on the other side, had a penetration of 99% in 2012 according to the Agency for Statistics.

Internet is widely used in the eligible area with three providers on the Bosnian side of the border and four on the Montenegrin side.
A November 2013 MONSTAT publication3 on the use of information-communication technologies indicates that 55.8% of Montenegrin households have and use personal computers to access internet, but that practically each household has and occasionally uses mobile phones to access internet. In Bosnia and Herzegovina, the estimated penetration of internet users in 2012 has been 57 %.

Water supply, waste water, waste disposal

Environmental infrastructure is among the biggest weaknesses of the area, but its improvement is high on the list of development priorities in both BiH and Montenegro.

The population living around the municipality centres and larger settlements is covered by the water supply network. However, the water supply capacity and hygiene quality is a main concern of many rural areas. Alternative systems used in many rural areas, such as local springs, wells and cisterns, do not guarantee the adequate quality of water.

In general, this situation requires sustained efforts to revitalize and repair the water supply systems, especially when considering the fact that the existing water supplies do not meet the needs of the population. Because of old age, the damage caused by the war, and leakage due to poor maintenance, between 30% and 60% of the capacity is lost. Water supplies throughout the eligible area are subject to frequent interruptions, especially in the dry summer season. This indicates the necessity of establishing larger water supply systems at municipal, inter-municipal and regional levels.

In the eligible area, sewage networks are only available in the centres of larger municipalities. In many municipalities, the sewage system is not capable of processing the volume of waste water generated, which overflows as untreated sewage. In parts of the area direct discharging of untreated sewage into streams, tanks, and septic dumps occurs. Only a few larger municipalities possess efficient waste water processing facilities.

The treatment of solid waste is handled in a similar, unsatisfactory manner in the whole eligible area. The system of solid waste management is based on collection, transportation and disposal of solid waste by public utility companies at municipal level. Dump sites are poorly maintained, with minimal sanitary and hygienic conditions. Effective separation of solid waste is also minimal.

Municipalities complain that insufficient financial and technical support from the national governments, sometimes just to prepare pre-feasibility and other plans or studies, hinders efforts to improve the inadequate environmental infrastructure. Some Montenegrin municipalities also cite as problem the lack of interest of private companies to invest in this sector on a public partnership basis. The government and civil society representatives, in turn, often point at inefficient public utility management as the main cause of the poor quality of service.

Electricity

Electricity supply and transmission systems are well developed on both sides of the border where they represent the largest and strongest enterprises. The rivers of the eligible area carry 50% of the hydro-potential in both countries. In Bosnia and Herzegovina, there are five hydro power plants on the river Neretva and three more plants on the river Trebišnjica. There is a thermal plant located in Gacko which supports the stability of the power system. Together with other power plants in Bosnia and Herzegovina, managed by three separate electricity
utility companies, they meet the domestic needs for electricity consumption and export a portion of their production to other countries in the region.

The Montenegrin electricity utility, including the generation, distribution and supply entities, was privatised in 2009 but the state has kept the majority stake in the company. Its power generation units are located in the eligible area and consist of two large hydropower plants Piva and Perućica and a thermal power plant in Pješevica. Following the recent upgrading of existing power plants and the downsizing of several large industries, Montenegro has become a net exporter of power in 2013. This status could be preserved in the coming years if the planned investments in the existing and new power generation plants are realised.

Besides hydro and thermal energy potential, the area also offers significant but still unexploited opportunities for use of solar and wind power energy.

In addition, a high-voltage transmission line in the eligible area is an important part of the Balkan network and represents a solid basis for further modernisation and development. The state controlled Montenegrin power transmission company, along with a consortium of Italian power companies, has started the construction of a submarine power transmission cable connecting Italy and Montenegro under the Adriatic Sea. This will facilitate exports and imports of electricity and encourage further power generation investments in Southeast Europe.

In this regard, however, a number of NGOs from the region and neighbouring countries have raised concern that some of these investments might involve construction of high dams and large thermal plants that could be in conflict with environmental goals such as biodiversity and decarbonisation. They claim that instead of such investments stronger focus should be assigned to the developing of alternative energy supply solutions and the improving of energy efficiency.

The low-voltage (user) network in the eligible area is at a somewhat less satisfactory level. However, no settlements without electric power have been identified.

Economy

Bosnia and Herzegovina and Montenegro are members of the Central European Free Trade Agreement (CEFTA). CEFTA complements the EU Stabilization and Association Agreement for the countries of the Western Balkans, providing a good framework for economic development and regional co-operation.

Municipalities within the eligible area still experience the consequences of the war in the nineties and of the more recent global economic crisis. The overall level of economic development of the eligible area is lower than the respective national averages, but the precise GDP figure cannot be deduced from the available statistical data. The GDP per capita in Bosnia and Herzegovina in 2012 was 3,419 €, while in Montenegro it amounted to 5,063 €.

The area is characterized by the predominance of agriculture, primary production and low value added activities. Even though various natural conditions in the eligible area are suitable for diversified development of agriculture, the agricultural activities are limited due to a lack of good soil quality and the area’s mountainous relief. The largest part of the agricultural land is covered by pastures and natural meadows.

The area has optimal conditions for vegetable production. In the northern part of the area, the largest percentage of the territory is comprised of grasslands, ideal as summer pasture for cattle.

The coastal region is especially suitable for fruit (subtropical fruits and olives) and field crop production, and its hilly relief for breeding small cattle. This relief is also rich with honey plants and medical herbs, as well as wild fruit species (dog rose, fig).

With regards to livestock, sheep and goats are predominant in the eligible area. Large cattle breeding and beekeeping are also important agricultural activities in this region.

Agricultural production in the eligible area is based on small-scale family households due to existing natural conditions and property issues. The young generation is losing interest to maintain this family tradition and is increasingly seeking job opportunities in urban areas.

The industrial sector in the eligible area is based on electricity generation, coal mining, forestry and wood processing, textile, leather and construction industries.

Both countries have a good basis for industrial processing of agricultural products: butcheries, grain mills with silos, dairy plants, bakeries, beer and juice factories, fruit processing factories, capacities for grape processing and wine making, processing of medical herbs and factories for production of confectionary products.

**SME Sector**

Following the restructuring and/or liquidation of large state owned enterprises, small and medium size companies have taken the leadership in generating new economic activity and employment in the eligible area. SMEs are usually more flexible to adjust to the market needs which provide diverse employment opportunities, sustainable development and positive contribution to export and trade.

Montenegro had 23,741 companies in 2012, of which 8,713 were based in the eligible area. Bosnia and Herzegovina, in turn, had 59,719 registered companies in 2012, of which 30,768 were based in the eligible area. More than 90% of them are small and medium sized companies, but the precise percentages could not be deduced from the statistical reports.

The majority of them are rather small SMEs lacking managerial and marketing experience. Business support services (business centres, business incubators, business advisory services, etc.) to help them build up performance and strengthen their competitiveness, are not well developed.

A number of state sponsored business support structures have been established on several locations in the region, but their number and capacity are still insufficient to satisfy the growing needs. The local tradition of using commercial business advisory services is almost inexistent, which discourages would-be consultants to engage in this activity.

Another constraint for SME and entrepreneurship development in the area is the existence of business barriers both within internal markets and for various types of economic transactions between the two countries. Business community representatives complain that it is cumbersome and very time consuming, for example, for a company of one state to obtain various permits and move its specialised equipment and qualified staff across border to provide an, otherwise locally unavailable, short-term business operation in the other state.

This discourages potential initiatives for fostering cross border cooperation and creation of various types of business clusters and vertically integrated company linkages. Consequently, options should be explored for reducing business barriers and creating a more business-friendly environment for cross border cooperation.

Poor access to finance is an additional market barrier for small enterprises and entrepreneurs in rural parts of the eligible area who have difficulties to obtain loans from commercial banks, as these seldom accept their land and
property as collateral. Establishment of missing credit guarantee funds or schemes with state support and in partnership with the private sector could alleviate this market failure.

**Tourism**

Tourism is in expansion in the region, particularly in Montenegro where it has become the country’s key industry. In 2012, a total of 1,439,500 tourist arrivals have been registered, of which 90% have been foreign tourists. Of these, some 8% have been tourists from Bosnia and Herzegovina.

The eligible area in Montenegro accounts for 27.86% of all tourist arrivals, of which 22.9%, have been visits to the three coastal municipalities (Herceg Novi, Kotor and Tivat) and the remaining 4.96% visits to the 10 northern municipalities.

Bosnia and Herzegovina has registered 745,537 tourist arrivals in 2012, of which some 58% have been foreign tourists. The key tourist destinations are the large cities of Sarajevo and Mostar and the coastal city Neum. They have attracted some 46% of all tourists visiting the country in 2012, or some 69% of tourists visiting the eligible area.

Cultural tourism could be further enhanced in these urban centres given their rich and unique cultural heritage and the great variety of cultural events organized throughout the year. Other regions also have rich cultural heritage but it is still insufficiently exploited for tourism purposes. Poor state of cultural monuments and facilities around them are one of the key reasons for this.

Besides attractive coast and cities, the eligible area of both countries offers unique landscape resources, mountains, forests, lakes, clean rivers, mineral and thermal springs, natural parks and protected areas and rich biodiversity.

The central and eastern continental parts of the eligible area have less developed tourism, but have significant potential for its future development. These are mostly mountainous areas that have a comparative advantage for specialised tourist programmes focused on new “active” type of holidays, including but not limited birdwatching, skiing, hiking, cycling. On BiH side, these are Jahorina, Bjelasnica, Igman and Zelengora mountains. On the Montenegrin side, Durmitor and Bjelasica mountains and national parks have the greatest potential in this regard. These areas offer plenty of opportunities for rural tourism, agro-tourism and eco-tourism but these have yet to be explored.

In addition, tourist resources, such as mineral water springs, salt lakes or mud offer the possibility of different forms of health/wellness tourism.

The key weaknesses hampering tourism development outside the major tourist cities are inadequate hospitality infrastructure and marketing skills, static and ineffective tourist promotion, low integration of cultural heritage in the tourism offer, lack of information exchange within the tourism industry, low level of networking between tourism operators and other sectors like agriculture, and lack of differentiated and innovative tourism products and services that would encompass the whole region and make it more attractive to potential tourists. Successful marketing campaigns to bring increasing number of tourists to well-known cities and the coast could be further enhanced by integrating in them the opportunities offered by the rest of the eligible region. The same could be jointly promoted as a multi-ethnic and culturally diverse European destination that has unique cultural/historic heritage and beautiful unspoiled nature, coast, mountains, rivers, canyons, spas, national parks and protected areas. Among others, such campaign could stress that the region offers many attractive possibilities for active holidays like hiking and biking, as well as alternative forms of health, eco and rural tourism combined with organic farming.
Education, Research, and Development

The system of education in the eligible area is well developed with regard to primary and secondary schools, and high education. In most cities, less than 2% of the inhabitants are illiterate. Secondary schools are located in every city of this area.

The education systems of Bosnia and Herzegovina and Montenegro are similar, with compulsory primary education and non-obligatory secondary and high education, which is mainly performed in public schools.

The primary and secondary education network is well developed but the facilities and conditions for study are still below the desired levels in most of the cases. The number of higher education institutions is also steadily increasing, and is offering a greater diversity of undergraduate and graduate level curricula.

Links between educational institutions and the business sector, however, are still weak and result in low innovation, research and development activity.

Labour Market (employment and unemployment)

The comparison of labour market surveys, conducted by the state statistical offices in accordance with ILO recommendations, indicates that the low employment and high unemployment rates in Bosnia and Herzegovina and in Montenegro have either remained stagnant or have slightly deteriorated in the period 2007 – 2012.

The surveys did not analyse specifically the employment situation in the eligible area of Bosnia and Herzegovina, but the available data indicates that the unemployment rate in the same is lower than the average for the whole state. In turn, Montenegrin surveys allow comparisons of the more developed central and coastal areas with the less developed northern part of Montenegro, where 9 out of 14 eligible municipalities are located.

The labour market surveys indicate that the already low employment rate in the North has fallen from 31.2% in 2006 to 26.9% in 2012, and that its very high unemployment rate has further risen from 33.2% in 2006 to 36.5% in 2012. Therefore, the eligible area in Montenegro has a significantly higher unemployment rate than the national average, and this disparity seems to be widening.

The highest rate of unemployment is among unskilled workers, young and women.

Lack of employment opportunities is a major reason for concern for both states, in view of its detrimental impact on the already low income and standard of living of the majority of the population. The prospects for major improvement of this situation in the short term are not bright given the slow pace of recovery from the consequences of the global economic crisis and the need to complete the restructuring of some over-staffed state owned companies and public administration bodies.

In both states, the slow process of employment generation has also been accompanied by unfavourable migration trends. In Montenegro, a 2.9% decrease of the total population has been registered over the past years, from 638 000 in 2007 to 619 700 in 2012.

Nonetheless, the internal migration from the less developed North to the more developed central and coastal areas is an even greater cause of concern for Montenegro, since the northern region has lost 9.34% of its population over this same five years period.

The unfavourable situation with migration is further compounded by a steady ‘brain drain’ process leaving both states and, in particular, their eligible programme areas without the precious needed skilled human resources.

There is still high dependence on public sector employment, since the weak entrepreneurial initiative does not generate sufficient opportunities for alternative employment. The mobility of the workforce also remains low, particularly the cross-border mobility in view of restrictions and administrative hurdles imposed by both sides to protect their labour markets.

This problem is a bit less pronounced in Montenegro where, according to the employment agencies of Bosnia and Herzegovina and Montenegro, about 25% - 30% of non-residential labour force in Montenegro has traditionally been engaged from Bosnia and Herzegovina. Montenegrin authorities issue annually some 15,000 – 20,000 work permits for non-residents whose services are mainly needed in the coastal areas during the tourist season.

Both Montenegro and Bosnia and Herzegovina have developed active labour policies and the necessary institutional infrastructure to address these important issues, but there is scope for improving their effectiveness. Better results and cooperation within the region could, in particular, be achieved in improving access to vocational training, internship, non-formal and life-long learning modules and programmes, as well as increased cooperation between public and private partners in the labour market.

The eligible area along the border includes some of the most remote regions of both countries that have not been (made) attractive to investors that could have created employment opportunities. Needless to say, an improved cooperation of the two countries, their engaging in joint investment promotion efforts and in offering specifically designed incentives could enhance the attractiveness of these border areas to the investment community.

Environment and Nature

The eligible area in Bosnia and Herzegovina and Montenegro is fairly homogeneous from a natural, geographic and environmental point of view and characterised by well-preserved natural environment and precious landscape resources with relatively low pollution levels. On the other hand, it also has some "pollution hot spots", which create serious problems.

There are three National Parks (Durmitor, Biogradska Gora and Sutjeska) and five protected areas in this territory. The natural resources are mostly preserved but some locations are exposed to heavier pollution. The biggest polluters in this region have been the coal power plant in Pljevlja and the foundry in Nikšić. The coal mine in Pljevlja and the red bauxite mine in Nikšić cause waste and groundwater problems.

Both sides of the border face similar challenges to ensure a balanced path towards socio-economic development, while preserving the outstanding natural and cultural heritage and meeting the EU environmental requirements.

One of them is to enforce more effectively the principle “Polluter pays”. Another one is to improve the inadequate environmental infrastructure and public utility management, as well as to speed up the implementation of the EU aligned energy efficiency strategies and action plans. Last, but not least important, is the need to complete the cleaning of mine fields that are still suspected to exist in the eligible area.
There is a lack of integrated and co-ordinated interventions on both sides of the border to protect the environment and promote sustainable development. Efforts should be directed towards development and upgrading of special protected areas, special areas of conservation, visitor information systems, exchange programmes, information systems and implementation of public-private partnerships in nature protection.

Among others, some of the first steps in this regard would be to establish new or upgrade the existing cross border facilities for monitoring the environment and coping with natural disasters, raise awareness of the merits of environment protection and sustainable development, develop partnership between public, private and civil sector in implementing environmental protection initiatives and sustainable development projects and promote the principle of socially responsible business conduct.

Montenegrin government has established an environmental protection agency whose task is to identify, promote and help implement similar activities, while Bosnia and Herzegovina does not have such institution at state or entity level.

**Culture**

Protection of cultural heritage was given a solid legal basis and assumed by a specialized institutions such as Institute for Protection of Cultural Monuments in Montenegro and Commission to preserve national monuments in BiH. Municipalities have the primary responsibility to look after, maintain and use, and protect monuments from damaging impact of nature and human activities, to make them publicly available, and support the costs of regular maintenance.

Cooperation among relevant national institutions in the area of culture has been strengthened in recent years. The Montenegrin Ministry of Culture and Ministry of Civil Affairs of Bosnia and Herzegovina, for example, have developed excellent cooperation in a number of areas.

Unlike Montenegro, in Bosnia and Herzegovina, institutions in charge of culture and cultural heritage are highly decentralized, i.e. the responsibility of culture is within the Ministry of Education and Culture of the Republic of Srpska, with its Republic Institute for the Protection of Cultural, Historical and Natural Heritage, whereas in the Federation of BiH, the responsible ministry is Federal Ministry for Culture and Sport, with its Institute for the Protection of Cultural and Historical Heritage.

The lack of financial resources, however, limits the possibilities of exchange of experience, opportunities for knowledge dissemination, organisation of joint events and activities related to the protection of cultural heritage.

Cultural cooperation has been and still is a very important link for communities on each side of the border. The programme area shares very similar traditions, customs, language and cultural heritage. There are a large number of cultural, minority associations and clubs the purpose of which is to preserve local tradition.

Furthermore, there is vast untapped potential for promoting and celebrating cultural and natural heritage in the cross border area and linking the same to the tourist offer.

**Main findings**

Topography shows an eligible area that is dominated by mountains and scarcely populated rural areas suffering from demographic imbalances as a significant portion of the previous population has moved and it is still moving to the urban areas. This is particularly true for young, educated people that are in this way increasing the “brain drain” effect.
Additionally, the lack of employment opportunities is a major reason for concern for both states, in view of its detrimental impact on the already low income and standard of living of the majority of the population.

The overall level of economic development of the eligible area is lower than the respective national averages. Its economy is characterized by the predominance of agriculture, primary production and low value added activities. The majority of SMEs are rather small, lacking managerial and marketing experience. Business support services and business advisory services to help them build up performance and strengthen competitiveness are not well developed.

The system of education in the eligible area is well developed with regard to primary and secondary schools, and faculty education.

Cultural differences and language barriers are minimal due to the long history of good cooperation and mutual relations.

Besides attractive coast and cities, the eligible area of both countries offers unique landscape resources, mountains, forests, lakes, clean rivers, mineral and thermal springs, natural parks and protected areas and rich biodiversity.

These are all endogenous assets and potentials that can be further utilized to strengthen economic growth as well as social growth cohesion. However, they all need to be approached and used in a sustainable way in order to avoid overexploitation and consequent environmental trauma.
S.W.O.T. analysis of the area

Priority 1: Promoting employment, labour mobility and cultural inclusion across the border

Labour market has been ranked among the key weaknesses by the respondents to the questionnaires and by the interviewed institutions. Lack of employment opportunities and lack of labour mobility, coupled with the “brain drain” effect, are major reasons for concern, as are their detrimental impact on the already low income and standard of living of the majority of the population.

In the ranking of opportunities, labour market has a high place, while labour mobility and social inclusion have been rated low. In turn, workforce employability is low in Montenegro and high in BiH. Education, labour, social and health care infrastructure have been rated among the lower priorities of the programme area.

Lack of human resources has been rated as a high threat by both BiH and Montenegrin institutions and by BiH municipalities, while Montenegrin municipalities consider it to be a medium size threat.

As regards the interest for future cooperation, employment, labour mobility and cultural and social inclusion are high in the list of joint priorities.

<table>
<thead>
<tr>
<th>SWOT</th>
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<tbody>
<tr>
<td><strong>Strengths</strong></td>
</tr>
<tr>
<td>- Existence of complementarities of economies in the border areas as well as similarities in the trade market;</td>
</tr>
<tr>
<td>- Historical links and common paths offer solid basis for cultural understanding, confidence-building and cross-border cooperation;</td>
</tr>
<tr>
<td>- Absence of language barriers;</td>
</tr>
<tr>
<td>- Good neighbouring relations;</td>
</tr>
<tr>
<td>- Adequate number of border crossings;</td>
</tr>
<tr>
<td>- Existence of employment policies and plans in support of private sector development;</td>
</tr>
<tr>
<td>- Active employment policies implemented on the base of IPA cross-border cooperation in the previous period, through organization of Job Fairs and Roundtable sessions on mediation in</td>
</tr>
</tbody>
</table>
Priority 2: Protecting the environment, promoting climate change adaption and mitigation, risk prevention and management

Environmental protection has been rated with very high scores by municipalities and institutions. Quality of environment has been considered as the biggest strength of the area.

Environmental infrastructure, in particular the waste water treatment facilities and waste collection and sewage, have been considered to be among the biggest weaknesses of the area.

Quality of the environment and the improvement of the environmental infrastructure have been rated among the highest development priorities in both BiH and Montenegro.

Efficient use of sustainable natural resources is considered to be one of the greatest opportunities of the area. Enhanced waste water treatments are seen as opportunities of lesser importance, while development of alternative energy sources and improved waste collection and disposal systems are assessed as rather high opportunities by municipalities and institutions in BiH and by the interviewed Montenegrin institutions.

Insufficient financial resources from national budget have been indicated as the highest threat, particularly by the municipalities.

The interest for future cooperation in the environmental sector is very strong in both BiH and Montenegro.

SWOT

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthened legal and institutional framework for environment protection</td>
<td>Lack of joint cross-border facilities for monitoring the environment and prevention of natural disasters</td>
<td>Adoption of EU aquis will improve benefits and enhance prospects for eco-friendly development and protection of the environment, unspoiled nature and precious landscape resources</td>
<td>Poor wastewater, sewage and solid waste disposal facilities could endanger public health, and contribute to slowing economic development</td>
</tr>
<tr>
<td>Enhanced public awareness thanks, among others, to actions / projects implemented in the past programming period</td>
<td>Inadequate infrastructure and public utility management, especially in smaller settlements (water, sewage, solid waste)</td>
<td>Potential for use of sustainable environmentally friendly and energy efficient services and technologies</td>
<td>Infrastructure investments potentially adversely affecting the environment</td>
</tr>
<tr>
<td>Sustainable development approach increasingly taken into consideration by some local plans</td>
<td>Lack of solid waste dumps and re-cycling plants</td>
<td>Raising awareness of the merits of environment protection and sustainable development and increased public participation in the related decision making process</td>
<td>Unsustainable economic development and uncontrolled pollution may deteriorate air, water and soil quality</td>
</tr>
<tr>
<td>Relatively large areas under nature protection</td>
<td>Poor enforcement of the principle “Polluter pays”</td>
<td>Promotion and establishment of the principle of socially responsible business conduct</td>
<td>Increased and unchecked cutting down of forests</td>
</tr>
<tr>
<td></td>
<td>Slow implementation of energy efficiency and renewable energy strategies and action plans</td>
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</table>

employment between the two states. employed.
Priority 3: **Promoting sustainable transport and improving public infrastructures**

Transport and public infrastructure has been rated slightly below the average score in Montenegro and rather low in BiH.

Within the area of transport, the road infrastructure is considered to be a relative strength, while the same applies for rail only in Montenegro. In both states, nevertheless, a relatively high priority in development plans has been assigned to the improvement of roads and a very low one to the improvement of rail and public transport services.

As regards other public infrastructure, electricity supply, telecommunications/internet access and water supply are the three top strengths. Waste management, water waste treatment and other infrastructure in the area of environment are the key weaknesses. In terms of future development priorities, the order is reversed, and the improvement of the environmentally-related infrastructure is a strong priority, while electricity supply and telecommunications/internet access do not figure prominently in these plans.

Increased maintenance/development of existing infrastructure is perceived as a high priority by both BiH and Montenegrin respondents to questionnaires and by the interviewed institutions. The development of alternative sources of energy and the improving of waste collection and disposal are seen as high opportunities by municipalities and institutions in BiH and by the interviewed Montenegrin institutions.

Insufficient financial resources from state budgets for addressing the infrastructure shortages (transport, water, energy) is the greatest threat, according to all parties. In Montenegro, a number of respondents from municipalities and institutions have also cited the lack of interest of the private sector to invest in these areas. Lack of municipal resources for co-financing projects as well as poor vertical and horizontal coordination are perceived as the biggest threats by respondents to questionnaires in BiH. For Montenegrin municipalities, slow decentralisation and grey economy also are major threats, undermining their already weak capacity to invest in capital intensive infrastructure improvements.

The interest for future cooperation in improving transport and public infrastructures is rather low, most notably in BiH.

**SWOT**

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<thead>
<tr>
<th>Strengths</th>
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<th>Opportunities</th>
<th>Threats</th>
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</thead>
<tbody>
<tr>
<td>Presence of basic transport infrastructure (relatively good quality)</td>
<td>Peripheral geographic and transport location within the Balkan area</td>
<td>More efficient border crossing points to cope with increased traffic flows</td>
<td>Peripheral position of the eligible area in relation to the main</td>
</tr>
</tbody>
</table>
Priority 4: **Encouraging tourism and cultural and natural heritage**

Tourism based on cultural and natural heritage has obtained a very high overall rating in both BiH and Montenegro.

In this regard, natural heritage has been assessed to be a key strength while tourism and cultural heritage have been seen as relative strengths of the area, although this does not apply for leisure/culture facilities.

Tourism is a highly ranked sector in development plans at all government levels.

Development of the tourism offer connected with the cultural and natural heritage has been ranked among the highest opportunities of the area, which is consistent with the equally high ranking for “Efficient and sustainable use of natural resources”. The interviewed Montenegrin institutions also noted that they had excellent cooperation to date with their BiH counterparts, particularly in promoting cultural heritage and tourism.

The key threats besides the lack of financial resources from the public budget, as perceived by BiH and Montenegrin respondents to questionnaires, are the lack of qualified human resources and, to some extent, the unresolved property issues.

As for interest in future cooperation in tourism and cultural and natural heritage, it is very high in both BiH and Montenegro.

**SWOT**

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<tr>
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<th>Opportunities</th>
<th>Threats</th>
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</thead>
<tbody>
<tr>
<td>Unique landscape resources (mountainous area with forests and water resources, lakes, clean)</td>
<td>Low integration of cultural heritage with the development of the tourism offer and inefficient utilisation of</td>
<td>Cultural/historic tourism and education activities promoting the region as a multi-ethnic and attractive European location;</td>
<td>Business barriers, particularly for obtaining hotel development permits;</td>
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<td>Lack of knowledge,</td>
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### Strengths
- Rivers, mineral and thermal springs;
- Easily accessible coastal region with good quality beaches;
- Temperate continental climate with different influences and fertile soils;
- Diverse and well preserved nature with natural parks and protected areas;
- Rich biodiversity, including valuable medicinal plants and herbs;
- Rich cultural heritage (history, architecture, tradition and folklore);
- (Partially) developed tourism infrastructure in place.

### Weaknesses
- Culture and leisure facilities;
- Weak local institutional structures lacking capacity for stimulating tourism development;
- Under-developed hospitality infrastructure and lack of differentiated and innovative tourism products and services;
- Under-developed air transportation connections with the region;
- Static and ineffective national tourism marketing promotion;
- Lack of coordination and information centres apart from big urban centres;
- Seasonally conditioned development of tourism;
- Some areas remain closed due to presence of land mines;
- Cultural heritage sites in poor condition.

### Opportunities
- Expansion of alternative forms of rural tourism and organic farming with accommodation possibilities;
- Expansion of and international recognition of natural parks and protected areas;
- Improving the existing tourist offer by activating cultural/natural/historical resources and potentials;
- Increasing the visibility of the cross-border tourism by linking individual offers around main tourist and cultural potentials;
- Improving bilateral cooperation in marketing of the regional tourist destination;
- Visible private initiative in the tourist sector responding to the increasing demand for wellness, health and eco-tourism;
- Development of specialised tourist programmes focused on new “active” type of holidays;
- Joint development of tourist products and their joint marketing;
- Rise of biking / hiking tourism as a global trend.

### Threats
- Experience and skills in destination management and marketing;
- Lack of sufficient resources for current maintenance and preservation of the natural, cultural and historical heritage;
- Overexposure / overexploitation of specific sites / resources;
- Global climate change might influence tourism.

### Priority 5: Investing in youth, education and skills

Education, labour, social and health care infrastructure has been rated among the lower ranked priorities of the area.

Primary and secondary education systems, presence of universities and high education institutions in the major towns are considered to be strengths, while shortage of modern vocational education services and migration of young and skilled people to urban centres and abroad are considered to be key weaknesses.

Opportunities are seen in developing education and training programmes that are more adapted to the needs of the young population in the labour market, and in strengthening the links between education and business communities in order to jointly assess and meet such future needs for skilled young workers.

The key threat is seen in the slow economic development, poor employment opportunities and continued migration that marginalise the border areas.
Very few institutions and municipalities have declared that they had established cross border cooperation in the education sector. As regards interest for future cooperation, the respondents to questionnaires expressed a rather low (BiH) or very low interest (MNE) in this regard.

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<tr>
<th>Strengths</th>
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<th>Opportunities</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Well developed primary and secondary education systems; Presence of university and high education institutions; Presence of research institutions; Established joint agreements / positive past experiences.</td>
<td>Internal economic migration of young people and skilled and productive workforce to urban centres and emigration abroad deplete the labour force and development potential of the eligible area; Academic and business environment insufficiently connected; Shortage of modern vocational and educational services; Absence of coherent policies and programmes for development; Limited cross-border experience; Lack of research institutions and consultancy services.</td>
<td>Increased focus on education and training programmes adapted to the needs of the young population in the labour market; Strengthening the links between education and business communities in order to jointly assess and meet future needs for skilled young workers; Fostering of youth exchange initiatives; Development of and support to informal youth education and skills development programmes.</td>
<td>Slow transition of secondary education systems will increase the gap between labour market supply and demand; No changes in the vicious circle of poverty, lack of education and poor employment opportunities marginalises border areas and hinders economic development; Isolation of the general education system and closing of schools (particularly in remote areas); Lack of informal education opportunities.</td>
</tr>
</tbody>
</table>

Priority 6: **Promoting local and regional governance, planning and administrative capacity building**

Local governance, planning, administrative capacity building and public services at local level have been perceived as weaknesses in both BiH and Montenegro, but particularly in the latter. Their improvement, however, is at the bottom of the list of development priorities in the questionnaires received from municipalities from both states.

With regard to opportunities for future improvement of public services, besides in general terms, it is seen more concretely in the area of disaster management systems and emergency preparedness. In addition, an opportunity exists for introduction and promotion of study, training, pre-qualification and skills development programmes with the dual goal of facilitating downsizing of the public administration and improving the quality of its services to citizens.

The main threats have been seen in the slow decentralisation process and slow implementation of public administration reform and downsizing of redundant staff, insufficient amount of public funds and financial autonomy at local level, lack of qualified human resources, high turnover of local senior administration staff due to political changes and corruption in the public sector.
The municipalities and institutions reported that they had cooperation agreements, good bilateral relationships and experience in implementation of common programmes.

Nonetheless, the expressed interest for cooperation in promoting local governance, planning, administrative capacity building is rather weak in both states, particularly in BiH where it is the lowest in the rankings.

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<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>Good bilateral relationships and existence of cooperation agreements;</td>
<td>Low level and lack of policy framework for local economic development;</td>
<td>Harmonisation of administration on both sides by implementation of the acquis;</td>
<td>Lack of sustainability in political commitment for public administration reform at the central</td>
</tr>
<tr>
<td>Experience in implementation of common programmes;</td>
<td>Slow public administration reform process;</td>
<td>Development of mechanisms for provision of cross-border institutional</td>
<td>and local level;</td>
</tr>
<tr>
<td>On-going decentralisation process;</td>
<td>Limited administrative and absorption capacity at local level;</td>
<td>assistance and know-how;</td>
<td>Different speed in the EU accession process and in acquiring the acquis might lead to</td>
</tr>
<tr>
<td>Legislation on local-self government favourable for cross-border</td>
<td>Limited partnership in programming and implementation of regional</td>
<td>Possible partnership of civil society and public administration in decision</td>
<td>compatibility issues;</td>
</tr>
<tr>
<td>cooperation;</td>
<td>development policy;</td>
<td>making processes and services;</td>
<td>High turnover of local senior administration staff due to political changes.</td>
</tr>
<tr>
<td>Increased planning capacity of the local administrations.</td>
<td>Insufficient amount of public funds and financial autonomy at local level;</td>
<td>Introduction and promotion of study, training, pre-qualification and skills</td>
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<tr>
<td></td>
<td>Obsolete facilities and equipment in the sector of public services</td>
<td>development programmes with the dual goal of facilitating downsizing of the</td>
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<td>offered at local level.</td>
<td>public administration and improving the quality of its services to citizens;</td>
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<td></td>
<td>Transfer of knowledge and experience related to good practice in</td>
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<td></td>
<td>regional/local governance in the themes of CB importance;</td>
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<tr>
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<td></td>
<td>Establishment of pilot and demonstration projects of cross-border relevance</td>
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<tr>
<td></td>
<td></td>
<td>(health, social, child care, education).</td>
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</tr>
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Priority 7: **Enhancing competitiveness, business and SME development, trade and investment**

SME and business development and the enhancing of competitiveness, trade and investment have obtained high overall ratings in both BiH and Montenegro.

While competitiveness and economic development are not key strengths but rather weaknesses of this underdeveloped area, the availability of business sites and premises, including the industrial zones and incubators, is only a medium size priority in the municipal development plans of both states. Furthermore, there is low level of cooperation and clustering among SMEs and inadequate promotion of business opportunities in the area.

As regards the ranking of perceived opportunities in the questionnaires, SME and business development have obtained the highest scores. Additional opportunities are seen in the development of capacities for agricultural production and food processing, standardisation and certification of local agricultural and food products,
development of local markets and internationalisation and, at the bottom of the list, in the establishment of business incubators and/or industrial zones.

A number of institutions and chambers of economy also indicated that cooperation between business support structures, and promotion of investment and business opportunities in the area could be improved.

In turn, the biggest perceived threat is the persistent grey economy, lack of managerial skills and qualified human resources and unresolved property issues.

The interest for cooperation in enhancing competitiveness, business and SME development, trade and investment is very high in both BiH and Montenegro.

**SWOT**

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<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
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</thead>
<tbody>
<tr>
<td>Well developed energy production and supply network;</td>
<td>Low level of cooperation and clustering among SMEs;</td>
<td>Exploiting benefits of Central European Free Trade Agreement - CEFTA-to increase export potential;</td>
<td>Lack of strong commitment to alleviating regional development imbalances and supporting faster economic growth of less developed regions at least for a part of the area;</td>
</tr>
<tr>
<td>Growing SME sector by number and turnover;</td>
<td>Low level of added value in the processing industry;</td>
<td>Developing and exploiting networking links between local economic sectors in order to profit from supply chains and clusters so as to improve competitiveness and further economic growth;</td>
<td>Slow adoption of EU technical and quality standards;</td>
</tr>
<tr>
<td>Existing industrial base (e.g. textile, chemical industry, energy production and supply, metal and food processing) is undergoing restructuring towards a more competitive future;</td>
<td>Insufficient national/local, as well as direct foreign investments, which inhibits modernisation and restructuring of border areas’ obsolete and uncompetitive industrial and agricultural resources;</td>
<td>Improvement of entrepreneurship and product quality through cross-border initiatives;</td>
<td>Inadequate promotion of regional business and investment opportunities.</td>
</tr>
<tr>
<td>Relatively well developed craft industry;</td>
<td>Inadequately developed local infrastructure;</td>
<td>Market potential for creation of economic co-operation leading to processing of bio products;</td>
<td></td>
</tr>
<tr>
<td>Suitable eco climate for wine-making, fruit, vegetables, tobacco, medical plants and herbs and healthy foodstuffs;</td>
<td>Insufficient development of more sophisticated business support structures and services;</td>
<td>Increasing of cross-border cooperation between business support structures in industry and service sectors;</td>
<td></td>
</tr>
<tr>
<td>Tradition in the processing of certain agricultural products recognized in foreign markets;</td>
<td>Economy in rural parts of the eligible area is often segmented, mono-sector and marginal;</td>
<td>Branding of regional products;</td>
<td></td>
</tr>
<tr>
<td>Existence of basic business support structures.</td>
<td>Poor access to finance, particularly for SMEs and entrepreneur in rural areas.</td>
<td>Potential for public sector partnership with growing banking sector in improving access to finance for SMEs and entrepreneurs in rural areas and supporting local infrastructure development;</td>
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<td></td>
<td></td>
<td>Improvement of waste and sewage disposal services will increase the economic potential of the area;</td>
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<tr>
<td></td>
<td></td>
<td>Potential for development of alternative / renewable energy sources.</td>
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Priority 8: **Strengthening research, technological development, innovation and ICT**

The strengthening of research, technological development, innovation and ICT has obtained a low overall rating.

Research and development has been identified as the key weakness by municipalities and institutions in both states. However, it is listed very low in the municipal development plans.

The ratings with regard to the availability of the related infrastructure vary from high scores for telecommunications and internet access to a low score for availability of sites and premises. They figure more prominently but not very high in the municipal development plans.

As regards future opportunities, research, technological development and innovation, as well as access and quality of ITC, have obtained the lowest rankings in both BiH and Montenegro.

The main threats are perceived in the lack of appropriate public awareness, strategies and action plans as well as in the lack of qualified human resources.

The interest for cooperation in strengthening research, technological development, innovation and ICT is low in both BiH and Montenegro.

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<tr>
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<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td>▪ Well developed telecommunications network</td>
<td>▪ Low share of modern technologies utilized in agriculture and industry</td>
<td>▪ Increasing the number of internet connections and access to new technologies</td>
<td>▪ Continued neglect of public investment in research, technological development, innovation and ICT</td>
</tr>
<tr>
<td></td>
<td>▪ Existence of ICT business incubation centres in major cities</td>
<td>▪ Lack of state support to research, technological development, innovation and ICT</td>
<td>▪ Development of ICT business incubation and innovation centres in the eligible region</td>
<td>▪ Limited capacity of perception and adaptation to the new trends</td>
</tr>
<tr>
<td></td>
<td>▪ Relatively well educated new youth generations and their improved overall access to learning opportunities in these areas</td>
<td>▪ Poor promotion and public awareness of importance of innovation and existing mechanisms of support to innovators</td>
<td>▪ Promotion and public awareness raising of merits of innovation and support to innovators</td>
<td>▪ Low attractiveness of the eligible region for domestic and foreign investors</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td>▪ Increasing the number of internet connections and access to new technologies</td>
<td>▪ Improving the existing and developing of new incentives for research, technological development, innovation and ICT</td>
<td>▪ Improving the existing and developing of new incentives for research, technological development, innovation and ICT</td>
<td>▪ Improving the existing and developing of new incentives for research, technological development, innovation and ICT</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td>▪ Continued neglect of public investment in research, technological development, innovation and ICT</td>
<td>▪ Limited capacity of perception and adaptation to the new trends</td>
<td>▪ Low attractiveness of the eligible region for domestic and foreign investors</td>
<td>▪ Limited capacity of perception and adaptation to the new trends</td>
</tr>
</tbody>
</table>
Annex 3: Comparative analysis of the questionnaires for Municipalities

Evaluation of the strengths and weaknesses of each Municipality's territorial unit

Bosnia and Herzegovina

Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)

General aspect
Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)
Rate of each territorial unit's development and infrastructure priorities

Bosnia and Herzegovina

Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)

General aspect

![Graph showing general aspect scores for Bosnia and Herzegovina and Montenegro]
Scores are allocated between 1 (major weakness) and 5 (extraordinary strength)
Main opportunities perceived by Municipalities

Number of Yes answers

Bosnia and Herzegovina

Montenegro
Main threats perceived by Municipalities

Number of Yes answers

Bosnia and Herzegovina

**Yes**
- Slow decentralisation: 8
- Lack or inappropriate national strategy in the relevant field (e.g., agriculture, environment, energy, education, health, social welfare, etc.): 4
- Immigration: 2
- Permanent danger of various natural disasters: 8
- High costs of infrastructure maintenance: 12
- Lack of qualified human resources: 8
- Insufficient financial resources from the public budget for addressing infrastructure shortages (transport, water, and energy): 17
- Unresolved property issues: 11
- Corruption in the public sector: 7
- Grey economy: 5

Montenegro

**Yes**
- Slow decentralisation: 5
- Lack or inappropriate national strategy in the relevant field (e.g., agriculture, environment, energy, education, health, social welfare, etc.): 3
- Immigration: 4
- Permanent danger of various natural disasters: 4
- High costs of infrastructure maintenance: 4
- Lack of qualified human resources: 4
- Insufficient financial resources from the public budget for addressing the infrastructure shortages (transport, water, and energy): 7
- Unresolved property issues: 4
- Corruption in the public sector: 5
- Grey economy: 5
Preferred areas of cooperation with the counterpart institutions

Bosnia and Herzegovina: scores are allocated between 1 (low) and 6 (high)

Montenegro: scores are allocated between 1 (high) and 6 (low)