

Ministry of Transport and Maritime

The Railway Development Strategy for the period 2017-2027

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SUMMARY

In order to better understand the Railway Development Strategy it is necessary to clarify the conditions under which it was prepared and what were the intentions. The previous *Transport Development Strategy of Montenegro* was made in 2006 for the period 2007-2017, for all types of transport. Current status in the railway sector with its sustainability being frequently considered, and the negotiation process with the EU require intensification of activities, imposes statements on several major issues, the most important being: the development and improvement of railway infrastructure, further restructuring of state owned railway companies, financial sustainability of railway sector and individual companies, development of railway sector institutions in accordance with the requirements of the negotiation process with the EU, etc. Preparation of the Railway Development Strategy was made in a short period of time, meaning that review of all aspects it has to include was implemented on the basis of all relevant information available in 2016.

It is, first of all, based on cargo and passengers flows and changes of the same with regard to the scope of the period of Strategy 2007-2017. Second, transport system has to be developed as a whole, that is, in interaction between the railway and other types of transport. Especially with regard to determining infrastructure priorities in the conditions of significant budgetary restrictions demanding harsher criteria for project implementation.

Basic approach to preparation of Railway Development Strategy (hereinafter referred to as: Strategy) was to base its preparation on the previous concept and document structure in order to be able to set up a continuity in monitoring and implementing activities arising from the same. Such approach demanded a more detailed consideration of implementation, that is, failure to implement the objectives set by the previous Strategy and considering the causes for the same. Therefore, a larger space (than usual in such documents) is dedicated to reviewing the level of implementation of the previous Strategy and status of railway system and sector. Contents of the document and time framework of the Strategy (ten years) are defined by the Law on Railway (Article 5) and are observed herein.

There are multiple reasons for such commitment. We may group them in external and own (internal) reasons. External ones refer to the fact that economic crisis of 2008 has not been mastered in global terms yet and its consequences are still present. Under such conditions, effects of long-term considerations are uncertain and are not largely applicable. It is specified in some analysis provided herein. Internal reasons are primarily reflected in intense European-Atlantic integrations of Montenegro that are in their final phases. (We start from the current plans that Montenegro will join NATO in 2017 and that EU accession will be achieved in the next five year period.) Finalization of these two events will constitute a new basis and will require the preparation of Railway Transport Development Strategy in altered circumstances.

INTRODUCTION

³⁵₁₇ European and regional context of Montenegro railway development

The EU White Paper¹ from 2011. – *Road map to a single European transport –toward a competitive and resource-efficient transport system*, provides 40 specific initiatives for elimination of obstacles and bottlenecks in areas pertaining to transport infrastructure, investments, innovations and development of three separate segments of internal transport market by 2050: long distance, medium distances and urban transport². In order to create a single european transport area it is necessary to connect different types of transport so that the document is characterized by incentive for transporting and moving passengers and goods differently. Reduction of transport dependancy on petrol industry development and reduction of gas emissions and greenhouse gases are underlined as important consequences of such approach. As for the railway transport, the White Paper starts the following initiatives: further improvement of network capacities by repaling bottlenecks and synchronization of investments on network improvement and development, and not individual effect investments, introducing standards and new vehicles with reduced noise when braking and moving through the curves, automated vagon

¹White papar on transport – road map to a single european transport area- toward a competative and resource- efficient transport system

² Long distance, medium distance and urban transport

appending, better connectivity between the railway and other means of transport (connections in terminals, airports and harbors) toward the creation of a single transport service. For more efficient use of railway system and transport resources it is required to abolish/eliminate technical, administrative, institutional and legal obstacles that are still hindering a free access and development of national railway markets.

Montenegro attains its connection to European railway network through regional network(Western Balkan) which is of uneven quality and characteristics, with missing links within one means of transport (especially railway) and between all of them. Harmonization of Western Balkan network development is therefore of extreme importance and the role of SEETO may produce substantial effects in that. A strong political support to European perspective of the Western Balkan region was stated in Berlin process (2014-2016). This process attained a significant advancement in linking countries in different areas, one of which is transport. Development of Regional transport network in Balkans was also intensified³, and projects to be invested by 2020 were defined as well as future trends of linking the regional network to TEN-T network and corridors. The list of priority projects was also defined and ready to be applied before the possible international financial institutions and IPA programs for the period by.

³⁵ 17 **Internal generators of development and flows of railway transport of Montenegro**

In Montenegro, tourism is generating more than 22,1 % (2015) GDP with a trend of increase and constitutes the most significant GDP growth trigger. Market orientation of tourism economy is obvious from the *Tourism Development Strategy by 2020*, focused on the quality of service to meet the medium and higher requirements of tourists. Tourism vision is that Montenegro becomes Mediterranean destination with a diversified offer during the entire year in which the coastal and mountainous tourism will encompass the complete offer. Montenegro is attaining its most qualitative links to the medium and northern mountainous area through its railway. Likewise, orientation to regional tourists with medium and higher requirements necessarily puts railway in a position of transporter having an essential role in attainment of this objective.

Observed from the aspect of railway transport, the tourism vision and development will be reflected in the following period through intensifying passengers' flows in local transport. In individual courses the quality of local transport service has already been improved, such as for example, between Podgorica-Nikšić. The number of passengers has significantly increased after the railway reconstruction and modernization, introduction of new electromotive sets and increasing the number of departures, along with the good price policy. At the same time it came to a certain increase in the number of local passengers in local trains on Bar-Vrbnica railway, but it was the consequence of a reduced number of trains in long-distance transport with Serbia.

The port of Bar is the far most important generator of courses for Montenegrin part of Belgrade-Bar

³Core Regional Transport Network

railway. According to its crucial characteristics this railway may be designated as port railway. Valorization of Belgrade-Bar railway is not possible without the valorization of the port of Bar and vice versa. Globalization and trade freedom provided the stimulus for the ports undergoing renaissance throughout the world. Today, the ports are the most efficient places for market opening and creation of unique transport sector. Likewise, it is the most significant place for generating intermodal transport of goods. The port of Bar, where reloading of all types of cargo is carried out, provides high opportunities for further development of intermodal and all techniques of combined transport and connecting of the entire region due to the existence of Belgrade-Bar railway. In order to valorize capacities it will be necessary to build terminals for the combined transport in railway stations Bar, Podgorica and Bijelo Polje. Further research should indicate the cost efficiency of missing links to Bosnia and Herzegovina and Kosovo, reconstruction and modernization of railway Podgorica-Tuzi-Albania, as well as connecting the town of Pljevlja to Bar railway.

At this point of time, the crucial state priority of Montenegro is completion of EU integrations that are currently under an intensive phase of the negotiation process. As for the railway sector, within the negotiation process the aspirations are to meet the requirements related to the institutional capacities (regulations and authorities), development of the railway system according to the requirements of EU regulations and transport policy, integration of railway network into the TEN-Ti network and functioning of the railway market in the principles of fair and nondiscriminatory competition producing effects.

Railway Development Strategy is founded on a realistic image of the current status, identified problems, review of solutions and activities defined in accordance with that, leading to results.

³⁵₁₇ **External generators in the railway network of Montenegro**

With respect to its geographical position, Montenegro is relatively aside of the terrestrial hinterland of Balkan peninsula since it is located directly on the main routes of European main corridors. External generator of passengers and goods flows in the railway network of Montenegro is the railway to Serbia, railway Bar- Vrbnica. The railway Bar-Vrbnica, recognized as Route 4 in SEETO network, is currently the only network that connects Montenegro, through Belgrade, to European railway network and is of strategic importance for Montenegro. Additionally, it connects the port of Bar with economies of Serbia and Central Europe, that is, the port of Bar with Podunavlje and Danube ports. Having regard to the above, by 2015 Montenegro has refurbished the third of its part of this railway. Opposed to that, dynamics and scope of Serbia investments into this railway for the past several years have been insufficient for the revalorization of this route and the port of Bar, both in the cargo and passenger transport. Transport capacities used for the implementation of passenger transport in this route are not even close to the quality meeting the passengers' demands. It results in constant decline of long distance passenger transport with Serbia. In order to utilize potentials of this route we would need a permanent synchronization of development projects and execution of works that would lead to the improvement of service quality.

As for the route to Albania, that is, the railway Podgorica-Tuzi-Albanian border makes sense and should be oriented solely to cargo transport and railway characteristics to that regard. The railway is primarily used as exit to Albanian economy and its routes to Europe and vice versa. That is why the dynamics of reconstruction and electrification of railway should depend on the dynamics and revitalization of railway Tirana (Drač)-Skadar-border of Montenegro, that is, competitiveness of Albanian economy and its demands. Prerequisites for the initiation of passengers transport in this route will only be possible after the reconstruction of a part of the railway through Albania and installation of modern signal devices.

CURRENT STATUS AND IMPLEMENTATION OF ACTIVITIES ENVISAGED BY THE TRANSPORT DEVELOPMENT STRATEGY 2007-2017

1.1 Strategy 2007-2016 and its tasks

All Western Balkan countries, and Montenegro among them, have a problem with sustainability of railway system since transport scope has been reduced for more than 50% compared to the time before the onset of economic crisis. In a transition period (90s of the past century) the railway network and means of transport have been entirely disheveled and partially revitalized to date. After the large investment cycle in Montenegro (2006-2013) which was implemented by investing in general overhaul, modernization and electrification of a part of the railway infrastructure, supply of new electromotive trains, the status significantly improved. Restructuring of vertically integrated Željeznica Crne Gore a.d. to four independent shareholding companies and assuming debts on the basis of their loans was not sufficient for full healing, which is why the newly established companies are characterized by negative balances, liquidity and difficult development.

For the last 10 years, more than 43% of overall railway public network has been revitalized in Montenegro, which also included the electrification and modernization of signal-safety system in Niksic-Podgorica railway, which by all means constituted an excellent prerequisite for safe, tidy and efficient organization of passengers and goods transport, so that we cannot say that poor infrastructure is cause to a reduced scope of transport. Economic crisis conditioned a reduced economic activity of majority of railway customers in cargo transport (ironworks, mines, heavy industry), in the country and throughout the region, which resulted in reduced need for cargo transport. Reduction of the number of transported passengers, primarily in international transport, in addition to the travel reduction due to economic reasons, was also influenced by poorer infrastructure status in the surrounding railway administrations.

Reduced scope of transport and revenues in passenger and cargo transport also conditioned a smaller need for current maintenance of transport means, leading the companies dealing with these activities regularly operating with losses. It is therefore necessary to review the sustainability of this segment of railway system. Additionally, contracting of services and settling liabilities between all of the railway

companies as well as their realization are executed with difficulties and do not perform in accordance with the agreed and stipulated terms and good business practice. Further on, impossibility of repaying the international loans (EBRD, EIB, ČEB) from current operations, high debts to the Tax Administration, constitute additional problem that entail the adoption of a set of measures for the stabilization and preservation of the railway system of Montenegro for the following mid-term period.

1.2 Review of restructuring of the railway sector of Montenegro

Creation of a unique European market demanded the restructuring of previous European railway system, primarily characterized by monopoly and state ownership. Considering the unique demands provided in the directives, on one side, and different positions of the states (geographic, political, society transition phases, etc.), status and capacities of their monopol companies, economic and especially the industrial status, on other side, each country had to find its own model of railway sector restructuring. Unique model did not exist and could not exist in European conditions characterized by large heterogeneity of railway systems. This both referred to the model of restructuring of vertically integrated railway company (ŽCG a.d.) and the restructuring of railway system in the state level.

³⁵₁₇ **Pre-restructuring status**

“Javno preduzeće Željeznice Crne Gore” (Public Enterprise Railway of Montenegro) was established in accordance with the Law on Railway of the Republic of Montenegro from 1989, and did not change its shape and structure until 2002. This period may be defined as „pre-history“ of the restructuring process with all the characteristics of the railway systems in other countries of former Yugoslavia or Europe itself: monopoly, decision making on numerous issues in the Government level, full political control and impact on management, poorly developed capacities in the state level, that is, in the competent Ministry as the only state institution for supporting the railway development, etc.

Entire process of Montenegrin railway system restructuring, to date, may be presented as activities carried out through three phases. Each of the phases was preceded by the political decision rendered by the Government and reflected in adoption of a strategic document or amendments to the law on railway. The period from 9 July 2002 may be designated as “zero” or preparatory phase, when the Public Enterprise “Željeznica Crne Gore” (Railway of Montenegro), a vertically integrated company, became a shareholding company “Željeznice Crne Gore” in a so called voucher privatization in Montenegro, with a mixed capital⁴. Such ownership structure in which the state has lost its management (two-thirds) majority, without previously restructuring the company, caused numerous problems in management and slowed down the restructuring process and company development. Preparatory phase ended on 1 January 2005 when the new Law on Railway came into force.

⁴Ownership capital structure at that time was as follows: state 60,1%; privatization funds (4)with total of 34,5%; employees and citizens 5,4%

³⁵₁₇ **First phase of restructuring: 2005-2007**

The first phase of restructuring the railway sector of Montenegro has started from 2005, that is, from the adoption of the new Law on Railway on 29 March 2004, effective as of 1 January 2005. This Law has marked the beginning of restructuring of the railway sector in Montenegro, demanding the opening of railway market with all of its implications.

a) Changes in the company level

It is characteristic for this phase that changes occurred exceptionally in the level of historical national company. The Plan envisaged that, in accordance with the new Law on Railway, the process shall start from 1 January 2005 with vertical division of Željeznica Crne Gore AD in two independent shareholding companies: for the activity of infrastructure management and transport of passengers and goods. In July 2005 the decision was rendered to establish two dependant companies - ŽCG Infrastruktura d.o.o. and ŽCG Prevoz d.o.o. , which started to do business on 1 January 2006. Restructuring process was not completed in accordance with the law and the plan since the newly established companies did not operate independently, since a complete reallocation of property, investments and debts between these companies and the parent company had not been done. The following remained in the level of ŽCG AD: centralised functions of finances, accounting, legal and general affairs, informatics, planning and development, human resources management, supply, internal control and the Board of Directors, together with numerous pending property issues. Resistance and overall unreadiness for the process of vertical division of ŽCG AD have caused this status to apprehend by 2008. Very important decisions on assuming debts (the total of around 40 million euro) of Željeznica Crne Gore A.D and newly established limited liability companies were made in this period.

b) Changes in the state level

Capacities of the railway sector in the state level remained unchanged although the intentions for setting up a kind of a regulatory body had been defined. Transport Directorate was established in 2007 and it actually was the successor of the Road Directorate with the newly established Sector for Railway Transport. Transport Directorate, as body within the Ministry, with its new sector for railways was in charge of issuing safety licenses and certificates and all other areas of railway transport safety, preparation of railway regulations and other jobs with regard to the railway, except for the regulation of the railway sector and inspection which remained under the Ministry umbrella. At the same time, it became competent for exercising a complete investor's function on railway infrastructure starting from the preparation of the technical documentation to the selection of contractors and engineers. However, the above competencies have never become effective in their full capacity, until the establishment of the Railway Directorate in 2010.

³⁵₁₇ **Second phase of restructuring: 2008-2009**

The second phase of restructuring has started in 2008 with the implementation of the railway transport development strategy⁵ and Decision of the Government to adopt the document “Strategy of Restructuring Željeznice Crne Gore A.D.”⁶.

a) Changes in the level of Željeznica Crne Gore a.d.

The Draft „Railway Transport development Strategy“ was prepared in 2006, and was used to define the restructuring and investments plan for Željeznice Crne Gore a.d. for the next 5 years, which became an integral part of the Transport development Strategy 2007-2017. In July 2008, the Shareholders Assembly of ŽCG AD made the decisions on vertical division of activities of transport and infrastructure management, that is, on segregation of two limited liability shareholding companies named Željeznička infrastruktura Crne Gore AD and Željeznički prevoz Crne Gore AD. Immediately after the segregation, activities on restructuring Željeznički prevoz Crne Gore AD were intensified. Decisions were made very soon and three limited liability companies established: for transportation of passengers, transport of cargo and maintenance of rolling stock. In June 2009, activity of transport of cargo separated from AD ŽPCG as a separate shareholding company named “Montecargo” AD. However, there were dilemmas on whether to single out the activity of maintenance of rolling stock and if there is any interest in privatizing this activity. Discussions and the dilemma itself have lasted for more than a year and ended in December 2010 when the shareholding company „Održavanje željezničkih voznih sredstava“(Maintenance of railway rolling stock) was established.

This decision is primarily the decision of the Government of Montenegro, which considered the problems within the railway sector should be resolved through privatization of almost all parts of the system, except for the traffic regulation activity. However, the global financial crisis outbreak in 2008 and reduced the interest in private investments in railway sectors and Government intentions for the privatization of individual activities of the railway sector lost their stronghold in a new surrounding reality. Privatization plan was extremely ambitious: selection of strategic partners for the activities of passenger and cargo transport and maintenance of railway infrastructure; sale of the control package of actions for Održavanje voznih sredstava AD; granting of concessions for the railway stations and land”⁷. Holders of these activities were the Government of Montenegro, Privatization Council, company management authorities and unions. After an unsuccessful tender for privatization of the company for railway transportation of cargo (Montecargo AD) this process was stopped and privatization of other activities and companies was not even attempted.

b) Changes in the state level

Such intense activities in company restructuring required the building of capacities in the state level.. In 2008, the first employees were engaged in the Transport Directorate in the railway transport sector. In

⁵Railway Transport Development Strategy is an integral part of the document Transport Development Strategy of Montenegro, made and published in 2007, but officially adopted in April 2008

⁶ Document was adopted at the session of the Government of Montenegro on 20 September 2007

⁷From the *Conclusions of the Commission for economic policy and finances of the Government of Montenegro of 16 September 2007 and Decision of the Government on the Privatization Plan for 2007. and 2008.*

that period, without actual knowledge on regulating market and safety⁸, their activities were primarily oriented to assumed investor function for the railway. The Ministry, in the same period (2008-2011), the Sector for Maritime and Railway Transport, finally employed several young engineers, lawyers and economists. They carried out the preparations and provided other logistic support to Ministry activities, demanded by the restructuring process. Especially as regard the adjustments of Montenegrin legislative framework to EU Directives in the area of railway, imposed by the European integration process.

³⁵ 17 **Third phase of restructuring: 2010-2015**

This phase is primarily made of efforts in meeting the requirements of integration processes of Montenegro in the level of institutional setup pertaining to the establishment of regulatory bodies and transposing European into the local legislation.

a) Changes in the level of railway companies

Organizational restructuring of historical state owned company was completed by segregation of "Održavanje željezničkih voznih sredstava" d.o.o. from the "Željeznički prevoz Crne Gore" AD into the independent shareholding company which started its work on 1 January 2011. However, following the completion of organizational restructuring of former monopolist restructuring of newly established companies did not continue with regard to company management, method of work, human resources development, etc., which later had smaller or larger negative impacts on their operation subject to the type of their activities.

b) Changes in the state level

1 January 2010 marks the start of work of a newly established Directorate for Railway⁹ which took over the employees from the Sector for Railway Transport of the Transport Directorate. It consolidates several competencies (bodies) according to the requirements of European Directives: security body, regulatory body and licencing body. Concurrently, it retained the investor function for the railway infrastructure. Today, Railway Directorate is a body within the Ministry competent for transport and is financed solely from the budget.

With the establishment of the *National Committee for the investigation of accidents and serious airplane accidents, extraordinary events that endanger the safety of railway transport and maritime troubles and accidents* (NKIN) which started to work on 1 January 2015¹⁰, Montenegro has met its last requirement with regard to the establishment of a body required by the market and EU Directives in the railway sector.

⁸ Regulating railway transport safety in former Yugoslavia was in a federal level so that majority of the newly established states remained without human resources in that area.

⁹ Railway Directorate was established by the Amendments to the *Decree on the organization and method of work of the state administration (Official Gazette of Montenegro, 4/09)*

¹⁰ Commission was established by the Decision of the Government of Montenegro of 11 December 2014.

The Law on Railway (28 May 2013) and the Law on Safety¹¹ were adopted in this period and by them Montenegro to the largest extent harmonized with the applicable EU legislation in the area of regulating the railway system and its safety.

Finally, actors of the railway sector in Montenegro are (Figure 1):

a) Railway companies with the following ownership structures:

 Ĥ ŽICG AD: state and state funds - 73,5%; private funds - 18,6% and natural persons - 7,9%.

 Ĥ ŽPCG AD: state and state funds: 90,9%; private funds: 6,0% and natural persons 3,1%.

 Ĥ Montecargo AD: state - 87,6%; private funds and legal entities – 8,0% and natural persons 4,4%.

Ĥ OŽVS AD: state - 85,4%; private funds and legal entities – 10,3% and natural persons – 4,3%

b) State authorities within the railway sector:

1) Ministry of Transport and Maritime(MTM) with the following organizational units in the railway area:

 Ĥ Railway Directorate transport

 Ĥ Railway Directorate with sectors: Safety and regulatory affairs sector, Maintenance, investments and railway infrastructure development sector and Service for general and human resources affairs.

2) National Commission for the investigation of mishaps and serious airplane accidents, emergency events endangering the safety of railway transport and maritime mishaps and accidents (Government authority).

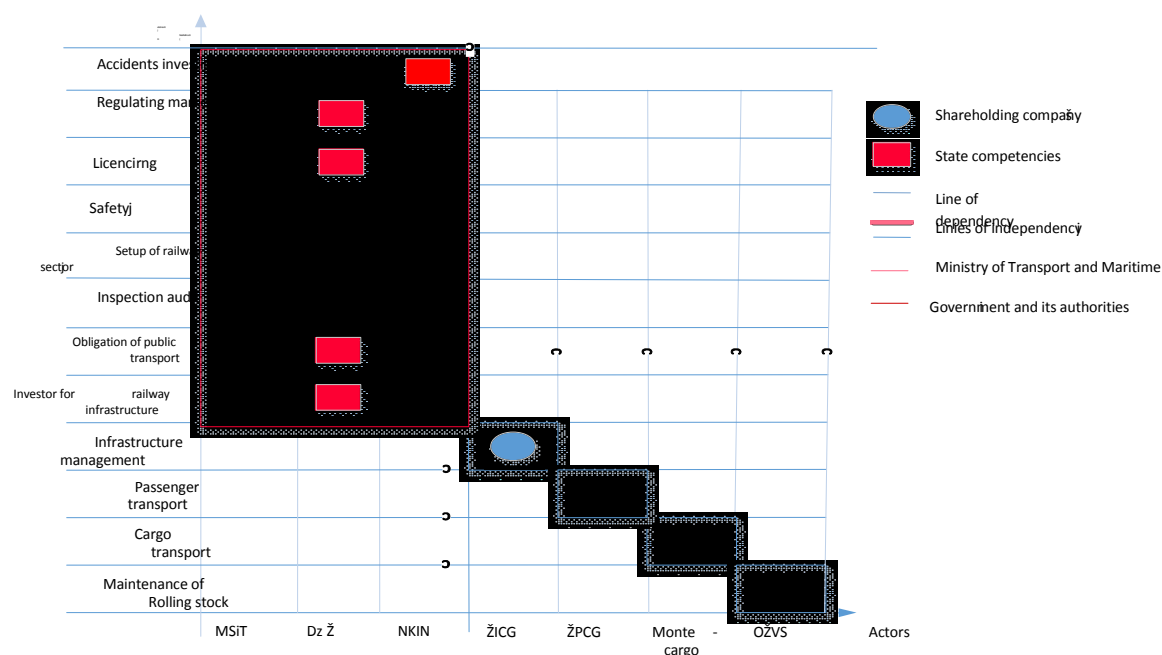


Figure 1- Organization of railway sector of Montenegro (2016.)

¹¹ Full name of the law is: *Law on the safety, organization and efficiency of the railway transport*; adopted on 27 December 2013.

Hence, at this point of time there are three institutions in Montenegro dealing with issues solely related to the railway sector. These are Directorate for Railway Transport within the competent Ministry of Transport and Maritime (MTM) as internal unit of sector type, Railway Directorate as separate unit within the MTM and the National Commission for the investigation of mishaps and serious airplane accidents, emergency events that are endangering the safety of railway transport and maritime mishaps and accidents (NKIN) as separate Government authority.

There are 6 employees within the Ministry of Transport and Maritime directly employed in the railway sector, that is, the total of 9 employees in the entire railway sector, excluding investments, which is a very low number of employees. It is also sure that 4 employees of the Directorate for Railway Transport of the Ministry of Transport and Maritime cannot meet the requirements of systematic management of the railway sector (politics, strategy, legal regulations, contracting and monitoring the open public procurement contracts and framework infrastructure contracts, etc.), and especially in the period of intense activities regarding the European integration. These are all elements that have to be taken into account when finding the optimal solutions in the forthcoming period for the institutional setup of the railway sector and meeting the requirements in the negotiation process of Chapter 14 and Chapter 21.

1.3 Financial status of railway companies

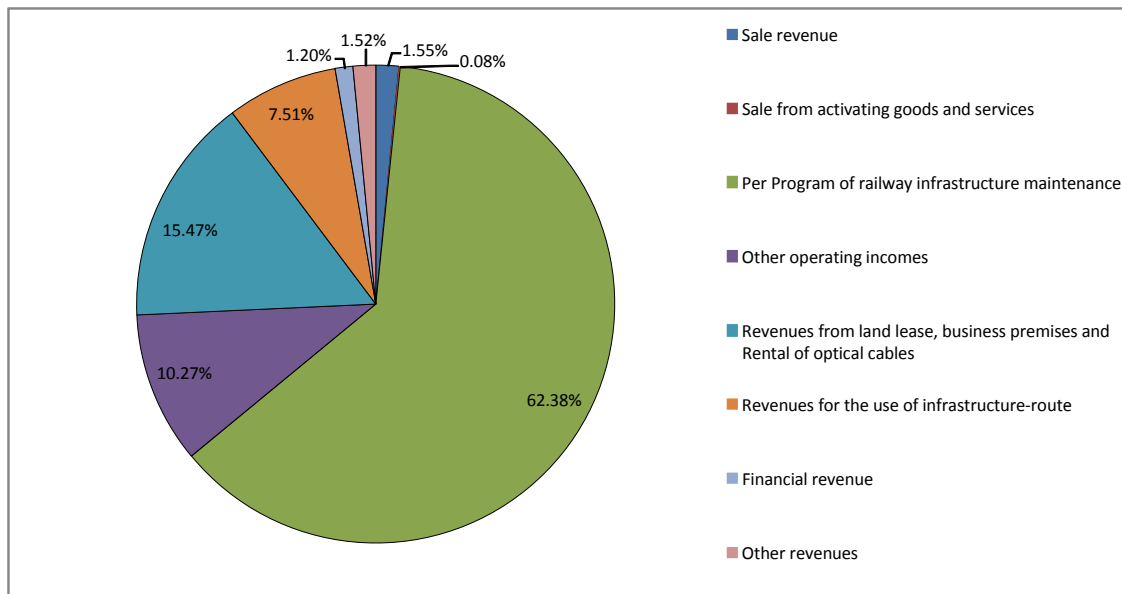
Restructuring of Željeznica Crne Gore a.d. made in the period 2008-2010 included the vertical division of the company according to its activities and assuming debts by the state. However, in the following period, business results of the newly established companies did not indicate any significant changes. In the period from 2012. to 2015. all companies have still had the negative operating balances, with the exception of Montecargo in the last, 2015 (Table 1). It was the evidence that restructuring had not been completed, that is, it was terminated after the organizational changes completed in 2011 by dividing the OŽVS a.d. The second phase of restructuring the railway companies should include the so called operating restructuring (rationalize the costs, dismissal of labour, closing and/or integrating of business units, developing the new interior organization of newly established companies, optimization of business processes, professional management) which has been partially done.

Table 1 – Losses of railway companies in 2012, 2013, 2014 and 2015

	2012	2013	2014	2015
ŽICG	-7.304983	- 3.000.553	- 5.395.150	- 3.497.302
ŽPCG	- 6.815740	- 3.420.705	- 3.869.377	- 1.643.471
MCARGO	- 1.910.361	- 168.100	- 1.746.479	53.717
OŽVS	- 278.471	- 485.721	- 785.227	- 643.452
Total sector losses	-16.309.555	-7.075.079	- 11.796.233	- 5.784.225

Total sector losses

In 2015, ŽICG generated revenues from renting routes 807.007 EUR or around 7,51 % of total revenues (Figure 2), and from land lease, business premises lease and rental of optical cables it generated around 1,4 -1,6 mil.EUR. Operation of ŽICG is financially sustainable , even in the conditions of low share of revenues from basic activities and it can operate without any disturbances if Željeznički prevoz(ŽPCG) and Montecargo would regularly pay their obligations for the fees and consumed high voltage electricity, which is not the case in the part of passengers transport. Irregular payment of obligations is directly blocking ŽICG. That is why a solution for payment of electricity for towing trains by its consumers has to be found in the forthcoming period, not through ŽICG.



* invoices for the payment of electricity of ŽPCG and MonteCagro are excluded from operating revenues (they are implemented solely for reasons that Elektro privreda Crne Gore does not recognize ŽICG as electricity buyer)

Figure 2 –Share of revenues per types in the structure of total revenues of ŽICG in 2015.

ŽICG uses the budget funds for infrastructure maintenance. According to the data from 2015, these funds make around 62,38% of total revenues (6.700.000 EUR). For reconstruction and modernization of railways they use the funds of international financial institutions (EIB,EBRD and ČEB), pre-accession funds (IPA funds) and of the new mechanism for financing the infrastructure projects through Western Balkan investment framework, WBIF. ŽICG provides out of its operating funds the necessary finances for the preparation of project and tender documentation, for the needs of supervision of execution of works and obligation for payment of VAT by 2015, which was not envisaged in the agreements with interbnational financial institutions for goods and services.

Operation of ŽICG is also very much aggravated due to a large number of court disputes conducted by current and past employees of this company for compensations on the basis of rights from their employment, where employees have not been paid in the period from 2008-2013. Assessment of

additional costs that ŽICG will have on this basis is 1,3-2 million euro and the management is trying to depreciate disbursements on these grounds through payments for many months.

In financial terms, ŽPCG as passenger operator, is the most endangered enterprise. Reduction in the scope of international transport for the last three years has been drastic. Revenue from international transport dropped from 5,3 million euro in 2007 to 1,7 million euro in 2015. This difference cannot be compensated through reduction of costs without the labour reduction. Opposite to these data, local railway transport of Montenegro keeps growing since 2011, especially since 2013, when new electromotor trains were released. Transportation of almost 1,1 million local passengers in 2015 generated revenue of 1,97 million euro (Figure 3). However, increase in the scope of transport and revenues in the local transport, cannot compensate losses incurred due to the fall in international transport. It is shown in the data that total revenues from passengers transport in 2008 were almost 5 million higher than in 2015.

Railway passenger transport in the entire Europe is cost-prohibitive whether its is the long distance or local transport and is subsidized from the budget through the obligation of public transport (68% of trains in EU is under this aid regime). After the division of this activity into a separate company (ŽPCG, 2009) the accounts became clear and how much it will cost the taxpayers in Montenegro. For 2010, 2011, 2012 and 2013, under the obligation for public transport, 2,4 million euro was paid for each year from the Budget, and 2014 and 2015 it was paid 2,3 million euro for each year, while in 2016 it was increased to 2,8 million euro. However, business of ŽPCG still remained in the cost-prohibited zone. For Montenegrin conditions, its is primarily characterized by a network of roads and railways and the question is not whether the railway passengers transport is needed and sustainable, but how to achieve its efficiency and competitiveness in certain market segments. Especially when speaking of international transport. One of the measures that ŽPCG should work on is reduction of costs and creation of efficient transporter with minimum number of employees, with productivity enabling the competitiveness in international market. It seems that a crucial issue here is selection of highly professional and capable management required by this activity.

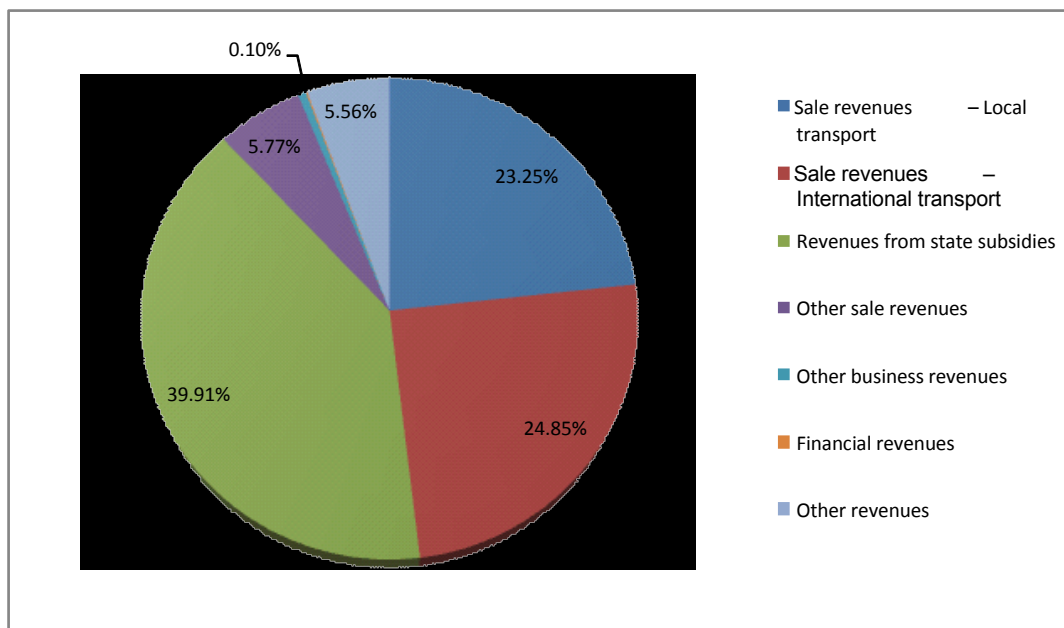


Figure 3 – Share of revenues per types and structure of total revenues of ŽPCG in 2015

Transport of cargo is, under the EU Directives, defined as profitable activity and subsidizing it is prohibited. Privatization of companies dealing with cargo transport is the basic option and EU guideline. The first three years of Montecargo operation (2009-2011) are characterized by profitable operation since it appeared that transport of almost million net tons secures cost-efficient operation for the inherited number of employees and retained organization and technology of work. Still, in the same period Montecargo was loaded by the debt to international railway administrations of around 2 million euro for RIV lease. Drastic production fall in large companies of Serbia and Montenegro (KAP, Željezara Nikšić, Trepča Kosovska Mitrovica, MSK Kikinda, Smederevska željezara, Naftna industrija Srbije, etc.) and clients of the port of Bar who some time ago were providing more than three million tons of cargo a year to Željeznica Crne Gore, had a huge impact on a reduced scope of work and revenues of Montecargo in the period 2012-2014. After 3 years of operating with losses, in 2015 Montecargo stabilized its operations and reduced the outstanding debt for route compensations to ŽICG.

Independent operation of OŽVS is questionable if we observe the economic approach only. Significant funds outflow from Montenegro for the repair and refurbishment of the rolling stock because OŽVS performs only the current maintenance for which a long-term and exhausting contracting is performed, whose additional VAT costs are now 200-300.000 EURO annually. On the other hand, for the consolidation program, proposed in 2014, it will need around 1 million euro for investments in four projects by which OŽVS would expand the scope of activities and thereby increase revenues missing for their normal operation. The fact is that it appears the current maintenance revenues are not sufficient for cost-efficient operation with the current scope of transport.

Dominant position in the structure of total expenditures of all railway companies belongs to the costs of wages and other fees for the employees. Costs of wages in 2014 were reduced in three companies

(ŽICG, Montecargo and OŽVS) 5,5-8%, while ŽPCG had increase of costs on this basis by almost 12%. However, wages costs in 2015 were increased in all companies and they have the highest share in OŽVS (Table2).

Table 2 – Share of the costs of wages, compensations for wages and other personal expenditures in total costs

	2013	Share in total costs	2014	Share in total costs	2015	Share in total costs
	(euro)		(euro)		(euro)	%
ŽICG	7544392	49.81	6935552	43.37	6854157	44.48
ŽPCG	3377733	30.92	3656123	38.64	3862702	44.29
MCARGO	2932965	41.24	2769122	35.13	2878456	41.11
OŽVS	1950855	78.16	1827204	76.58	1795536	77.87

Total liabilities in all four companies kept on growing in 2015, especially in a part related to the short-term liabilities. Long-term liabilities at the end of 2016 are high at ŽICG and ŽPCG and relate to international loans for general overhauls and infrastructure modernization and supply of rolling stock (total 39,21 million euro) and with this scope of work it is not possible to duly service them. Majority of short-term liabilities refer to the debt to the Tax Administration (8,35 million euro), liabilities to suppliers, to international railway administrations and loan liabilities.

A separate problem in functioning of railway companies is mutual claims, which also increased in 2015, while in 2016 the debts were reduced for reasons of Montecargo profitable operation and additional funds allocated to ŽPCG by Budget rebalance in order to settle current and outstanding liabilities (2,7 mil EUR). The highest share of mutual claims refers to the debts of ŽPCG to ŽICG for the consumed high voltage power (897 thousand euro). This clearly indicates that, in case the mutual claims are disbursed, system is not sustainable under current circumstances since debts of all four companies are significantly higher than their mutual claims.

In order to get sustainable railway companies in state ownership (which would be more attractive for the privatization) it would be necessary to start the second phase of their restructuring, mentioned above in this item. Basic criterion has to be their productivity compared to other reference railway companies of Europe. Creation of assumptions for the above has to be the basic guideline in creating a sustainable railway sector of Montenegro.

1.4 Investment plan and its implementation in the period 2006-2016

Starting from the fact that railway infrastructure is a heritage in common use, in state ownership, and infrastructure management is activity of public interest including the following: organization and regulation of railway transport, protection, infrastructure maintenance or a part thereof, the Law on Railway stipulates that financing of construction, modernization and maintenance of railway infrastructure is done through strategic documents¹². In addition to the funds from the Budget of

¹²Ten year, three year and one year plans, that is, through: the railway development strategy, national program of railway infrastructure and annual maintenance programs

Montenegro, railway companies in railway sector use financial and donors' funds (loans of international financial institutions EIB, EBRD, pre-accession assistance EU- IPA funds, funds of the Western Balkan Investment Framework - WBIF) in order to (1) implement the project of construction, reconstruction and infrastructure maintenance, (2) obtain the supply of new rolling stock and spare parts for the same.

According to the current status of infrastructure the new plans for construction, modernization and maintenance of infrastructure are being developed and are financed from:

- 1) For current maintenance and investment maintenance:
 - Ħ From approved budget funds,
 - Ħ By leasing business premises, land lease and optical cables owned by the State and ŽICG, which are managed by infrastructure manager of ŽICG,
 - Ħ By selling capacities (routes) by Infrastructure manager of ŽICG,
- 2) For modernization and reconstruction through:
 - Ħ Loan funds approved by international institutions with the State being the Guarantor
 - Ħ Pre-accession assistance funds (IPA, WBIF and other funds),
 - Ħ Capital budget.

In addition to the infrastructure investment under the state ownership of companies dealing with passengers transport investments will have to be planned for the rolling stock in passengers transport out of the loan funds approved by the international financial institutions with the State as a Guarantor.

³⁵ 17 **Projects and funds implemented in the period of previous Strategy (2007-2016)**

In accordance with the Law on Railway, the funds are allocated each year for current maintenance of railway infrastructure and management and regulation of transport. The Budget allocated funds are planned for the priority works, current maintenance, construction and technical infrastructures and financing of management and regulation of transport, with the basic objective of keeping the speeds of trains according to the schedule in force, with as many light rides as possible. The above Budget funds are implemented by ŽICG under the Contract signed with the Railway Directorate, following the Government consent. The Contract was for the first time signed in 2008 and is signed every year. Spent Budget funds are shown in Table 3.

Table3 – Spent Budget funds for current, investment maintenance of infrastructure and management and regulation of transport.

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current maintenance (mil. euro)	4,632	9,421	6,043	5,107	4,649	4,215	4,552	4,620	4,760
Investment maintenance (mil. e.)	1,2								
Total (mil. euro)	5,832	9,421	6,043	5,107	4,649	4,215	4,552	4,620	4,760
Management and regulation of transport(mil. euro)	1,368	0,279	3,557	3,193	2,851	2,585	2,148	2,080	2,040
Total (mil. euro)	7,200	9,700	9,600	8,300	7,500	6,800	6,700	6,700	6,800

Annual allocation of funds from the Budget for maintenance of railway infrastructure and management and regulation of transport has been constantly reduced since 2009. In 2016 the above funds were less by around 30% compared to 2009. As for the funds for financing of labour costs in the jobs of management and regulation of transport, they are less pursuant to the number of employees in ŽICG which is the result of natural outflow and passing of vagon inspectors, manoeuvre staff, macchinists and information workers to the transporters.

Looking at individual contracts from 2006 and inclusive of 2016, the amount of 123,1 million euro was invested in rehabilitation and modernization of railway infrastructure, of which 106,8 million from loan funds of EIB, EBRD and ČEB and 16,3 million euro from donors' funds of IPA and WBIF. The above loan funds helped finalizing the following works and technical documentation:

- 1) Refurbishment and electrification of Nikšić – Podgorica railway;
- 2) Refurbishment of superstructure in the section State border with Serbia-Bijelo Polje-Kruševo-Mijatovo kolo and section Trebaljevo-Kolašin;
- 3) Electrification of VI and VII track in Bijelo Polje station;
- 4) Recovery of tunnels 171, 173, 175,182 and 185 in the section Trebaljevo-Trebešica;
- 5) Recovery of 3 land slides in the section Virpazar –Bar;
- 6) Recovery of 6 slopes with building of 3 galleries in the section Lutovo-Bratonožići;
- 7) Recovery of Trebaljevo bridge;
- 8) Main Designs of recovery of 16 steel bridges;
- 9) Preliminary Designs of 12 slopes in the section Trebešica-Bratonožići;
- 10) Preliminary Design of the replacement of signal-safety system in Podgorica station;
- 11) Special inspection of 91 concrete bridges in the railway between the State border to Serbia-Bar.

Review of the financed projects indicates that the investments are made so that the current network , prilarily the superstructure, is brought to the designed status and modernization goes in the direction of modernizing the signalization system and introduction of more advanced energy facilities.

Remainder of unimplemented funds of 15,47 % in the amount of 17,5 million euro will be used until the period of funds availability,pursuant to the signed Agreements with international banks for projects given in Table 5.

In 2014, on the basis of liabilities due to the international credit institutions, ŽICG paid 2,332 million euro, of which 1,9 million euro for repayment of principal, 0,342 million euro for payment of interest on funds withdrawn and the amount of 0,090 million euro for the paid commission fees for unspent funds. Funds for the payment of the above liabilities were mainly provided from the Budget of Montenegro (1,894 million euro), since ŽICG could not provide funds for the implementation of the above liabilities from its regular operation.

When speaking about total liabilities of ŽICG for international loans, in 2015 they amounted to 2.313.286,90 euro and the amount of 212.626,47 euro was paid from operating funds of ZICG. In 2016,

the total payment for the above liabilities was 2.403.710,70 euro, the State paid 2.401.441,41 euro and the amount of 2.269,29 euro from operating funds of ŽICG.

When speaking about the donors funds through pre-accession funds (IPA funds), as possible candidate country for accessing the European Union, ŽICG is in the first phase of railway reconstruction and implemented 11 million euro. For the second phase it allocated the amount of more than 12 million euro. As beneficiary of new mechanism for financing of infrastructure projects through Western Balkan Investment Framework, the amount of 6,5 million euro was allocated to ŽICG from the WBIF budget.

According to the Law on Safety, high attention is paid to the rolling stock. They are one of the important factors impacting the safe transport so that the investments in rolling stock, devices, equipment to be installed in them, their maintenance, constitute investments needed in the forthcoming mid-term period. In the period from 2009 to 2015, in addition to the costs of subsidizing transport, for assumed loans and payments to international financial institutions for the supply of 3 electro motor trains, carriage and electro motor trains repairs, supply of spare parts, disbursement of severance pays to the workers, payments for court and extra judicial settlements for the railway accident in Bioče the amount of 12,435 million euro was paid from the budget of ŽPCG.

³⁵ 17 **Previous unrealized plans transposed to the next period of the Strategy**

In the proposed National Program of Railway Infrastructure for the period 2016-2018 the Budget allocated funds for the priority works of current maintenance of construction and electrical technical infrastructure and financing of management and regulation of transport. In addition to the funds for current maintenance of infrastructure at the same period we need the funds for investment maintenance. These are the funds planned for: supply and installation of new switches, replacement of worn tracks in the curves, electrification and insurance of the tracks, preparation of technical documentation for the recovery of land slides and landslides etc. In the same period, within the instruments for pre-accession assistance (IPA) the support was provided for the implementation of infrastructure projects in the amount of 85% of total project value, while for the remaining 15% it would be necessary to provide the State participation in co-financing. Long-term obligation that significantly burdens the operation of ŽICG is repayment of international loans (loan of EBRD Anex III) which were guaranteed by the State. ŽICG is not able to regularly service the above obligation and it will be necessary to allocate budget funds for the following mid-term period for the repayment of the same. Anticipated dynamics of investing in the budget is presented in Table 4 for the period of three years that will be continued.

Table 4 – Planned investments from the budget in the following three year period

	2016	2017	2018
Current maintenance(mil. euro)	6,8	6,8	6,8
Investment maintenance(mil. euro)	1	1,5	2
Co-financing of infrastructure projects within IPA (mil. euro)	0,8	0,8	0,8
Loan repayment (mil. euro)	3,4	5,3	5,2
Total (mil. euro)	12,0	14,4	14,8

End of 2015, the National investment company adopted the unique list of priority infrastructure projects for the period to 2020, which included two railway projects , such as:

1. Route 2 – Reconstruction and electrification of railway Podgorica-Tuzi-border with Albania and
2. Route 4 - Bar-Vrbnica - modernization of signal – safety system, refurbishment of superstructure and substructure of the railway.

³⁵₁₇ *Reconstruction and modernization of the railway track Podgorica-Tuzi-border with Albania*
The Project planned the reconstruction and modernization of the tracks in the length of 25km, as well as improvement of the track elements and their electrification. The project includes reconstruction, rehabilitation and replacement of superstructure, 5 bridges, three tunnels and 25 culverts and provision of loading train profile UIC-GB, as well as the reconstruction of station tracks and facilities and rehabilitation of current signal system, including new signal safety equipment and new contact network. For the given project it is necessary to prepare and complete the entire technical documentation. Earlier documentation dated from the construction period is partially available. Estimated value of the investments for this project is around 37 million euro. Estimated project duration is 5 years. The project of urban-technical planning of border post Tuzi in the amount of 0,3 million euro is nominated through IPA 2014-2020. In 2015, the application was sent to WBIF for other finances.

³⁵₁₇ *Reconstruction and modernization of railway (Beograd)-Vrbnica-Bar*
Technical-economic study of rehabilitation of railway track Belgrade-Bar by 2011 was prepared for this project. The study provided a technical analysis of needed infrastructure intervention. To date the superstructure of a northern part of this line through Montenegro was refurbished, Vrbnica-Kolasin (53,2 km), with additionally agreed refurbishment of sections Kolašin-Kos (10,9 km) and section Kos-Trebešica (7,3 km, financing secured), for maximum speed of 75-80 km/h. The subject of this project is the remainder of this line (Trebešica-Bar, around 96 km). The remaining works include the general overhaul of superstructure in the length of 96 kilometres, preparation of the main design of rehabilitation of existing signallization in Podgorica station and concrete bridges (total of 91 bridge), preparation of the main design of reconstruction and recovery of 106 tunnels, supply of the equipment for maintenance of railway infrastructure, reconstruction of substructure (14 steel bridges, 91 concrete bridge, 106 tunnels, 12 slopes and land slides in total length of 3km), reconstruction of tracks and structures in the three stations, reconstruction of current signallization and contact lines along the track and modernization of safety system and video surveillance.

64,5 million euro (estimate from 2015) was provided for railway modernization , for all phases of reconstruction and funds in the amount of 183,2 million euro are still missing. In details, funds were provided from: IPA funds (2016 - 2020) 26,2 million euro, WBIF XIII 2,5 million euro, EIB and EU 40 million euro (loan negotiations are in the final stage). Estimated project duration is 16 years. There is the technical documentation for most of the project phases ready for the tender preparation or implementation of tender procedure.

The National Plan in the period 2016 to 2018 envisages implementation of projects for railway Vrbnica - Bar from funds of international financing institutions, out of the remaining 17,5 million euro the funds were provided for.

Table 5 – Projects for Vrbnica-Bar railway the funds are provided for

Projects	Status	Implementation period
Preparation of technical documentation (main design) and building of a new power towing plant Trebešica (IPA14)	Technical documentation is under revision	2015/2017
Execution of overhaul works in the section of Kos-Trebešica (IPA 14)	Tender preparation is ongoing as well as the harmonization phase with regard to the scope of works	2016/2018
Urban-technical planning of border points Bijelo Polje	Terms of Reference for the preparation of Preliminary Design and audit have been prepared and shall be followed by advertising their tender for designing	2017/2018
Review and Main designs for 106 tunnels (WBIF-round XIII)	Visual inspection of tunnels is over. Laser imaging is in final phase, which will round up the first phase of the project.	2016/2017
Railway overhaul in the section Kolašin - Kos (EBRD)	Works in the final phase	2015/2017
Recovery of three tunnels (no. 187, 190 and 193) in the section Kos- Trebešica (EBRD)	Works are ongoing	2015/2018
Technical documentation and installation of switch heaters in Nikšić and Ostrog (EBRD)	Negotiation procedure approved, contract implementation should start in second quarter of 2017	2015/2017
Recovery of Morača bridge (EIB)	Works in the final phase	2016/2017
Overhaul of the superstructure in Sozina tunnel (IPA)	Works are in preparatory phase	2017
Execution of works by urgent recovery measures on 4 bridges (Ljuboviđa, Malo Trebaljevo, Skrbuša and Tankirt) (EBRD and EIB)	Works in the final phase	2015/2017

In addition to the above two projects that were envisaged by Transport Development Strategy 2007-2015, two more projects were proposed during the Strategy implementation:

³⁵₁₇ *Pljevlja-Bijelo Polje (Ravna Rijeka)-Berane-border with Kosovo*

This project has a previously prepared feasibility study and preliminary design of a new railway Pljevlja-Bijelo Polje (Ravna Rijeka)-Berane-border with Kosovo. 7 options of the solution were elaborated and construction of inter modal terminal in Berane was proposed. It was estimated that for the selected option of section Pljevlja-Bijelo Polje (Ravna Rijeka) it would be necessary to have 745 million euro and two options were selected for the section of Bijelo Polje (Ravna Rijeka)-Berane-border with Kosovo where 523 million euro will be needed, that is, 544 million euro.

³⁵₁₇ *Čapljina-Trebinje-Nikšić*

The Spanish company “Inocsa Ingenieria S.L” prepared the project named “ Preparation of preliminary design, studies and spatial-planning documents for a regional railway Čapljina-Trebinje-Nikšić”. The Project also prepared the preliminary transport study, environmental impact assessment preliminary study, preliminary cost estimate and preliminary project solution. Three scenarios were prepared and the third one was optimal for Montenegro: single track railway, with all elements designed for a single track. Bearing in mind that there is already one track from Nikšić to Podgorica, that would be entirely a single track section. According to this scenario, total estimated investments are around 810 million euro and Montenegro share is around 180 million euro. This direction may also be identified as a part of the future Adriatic-Ionian highway.

Both of the above projects are included in the investment plan for the forthcoming period.

Aiming at the development of combined transport and connecting the entire region in the period by 2015, construction of 3 terminals for combined transport was envisaged within the railway stations of Podgorica, Bijelo Polje and Bar. Investments for these structures have not been provided to date. Bearing in mind the EU transport development strategy to create unique cargo corridors and connecting the Montenegrin network with TEN-T network, these investments are also envisaged for the following period.

³⁵₁₇ **Unrealized investments envisaged by other planning documents**

Given a long period of strategy scope there are expected requirements for adding and including the new investments into the planning documents. In this period, new investments have been included in Annual Programs of developing and maintaining the railway infrastructure. Table 6 provides an overview of these investments in railway infrastructure that are needed but without the secured funding (funds neither envisaged by the budget nor secured from any international financial institutions or pre-accession funds).

Table 6 –Investments planned for the following three year period for which the funds have not been secured yet

No	Name of the project	Estimated value	Implementation period
1.	Replacement of signal-safety devices in Podgorica station	6	2017-2019
2.	Overhaul of railway superstructure in the section Kos - Trebešica	4,6	2017-2019
3.	Dismantling of existing and supply and installation of new power towing plant Trebešica	3,4	2017
4.	Preparation of Main Designs for urban technical planning of border point Bijelo Polje	1,3	2017-2019
5.	Recovery of 6 slopes and 5 concrete bridges	4,5	2017-2019
TOTAL		19,8	

*Estimated value for future investments constitutes the net amount of investment value, that is, does not include the amount of liability for VAT payment, conduct of audit, supervision and technical acceptance of executed works, which in gross would amount cca 50 million euro.

Additionally, in Vienna summit held within the Berlin process in August 2015, on the basis of proposed projects European Commission granted Montenegro the amount of 40 million euro, of which 20 million euro are non-refundable aid, and loan funds of European Investment Bank are also 20 million euro. The above funds are intended for recovery of tunnels, bridges and slopes and for the replacement of existing signal-safety system in Podgorica, according to the previously prepared technical documentation. The Contract was signed on 20 March 2017, for the 6 year period for spending funds.

1.5 Productivity of railway sector

Operating productivity of railway sector of Montenegro is the most relevant parametre according to which we should design its future and accordingly design other parametres and take measures in the following mid-term period. Financial indicators are very important but we have to have in mind the specific features of European railway sector and its companies, that are still characterized by high subsidies in the domain of passenger transport and infrastructure management. Therefore, when setting up realistic objectives and targets of a commercial part of the railway sector of Montenegro, it will be essential to objectively compare its individual parametres with other European railway companies, that is, sectors, that relevantly indicate its own position and what needs to be taken. Besides, we should always have in mind that railway services market is not yet functioning (in Montenegro or in its closest surroundings) so that the prices may not yet be a reliable measure for financial perceptions in railway companies.

Designed productivity of railway sector of Montenegro should actually be the indicator of vision, how we see it and wish it to be: stable with good financial and other operating indicators, capacities matching the market needs, with competitive service, amended organizational and ownership structure, etc.

If we look at today's productivity (in 2015) of 179.000 rtkm¹³ per one employee and compare it with railways in the surroundings or with these in the EU (Figure 4) we see that railway sector of Montenegro is characterized by significantly lower productivity, even compared with the closest surroundings. Montenegro does not have the over-dimensioned railway network or railroads where their cancellation is under consideration. Therefore, the only way out is significant increase of scope of transport and/or reduction of labour. At the same time, considering the productivity trends in the last decade and two of its crucial elements, number of employees and scope of work, it is observed that in periods of reducing the scope of work instead of decrease it came to the increase in number of employees!?

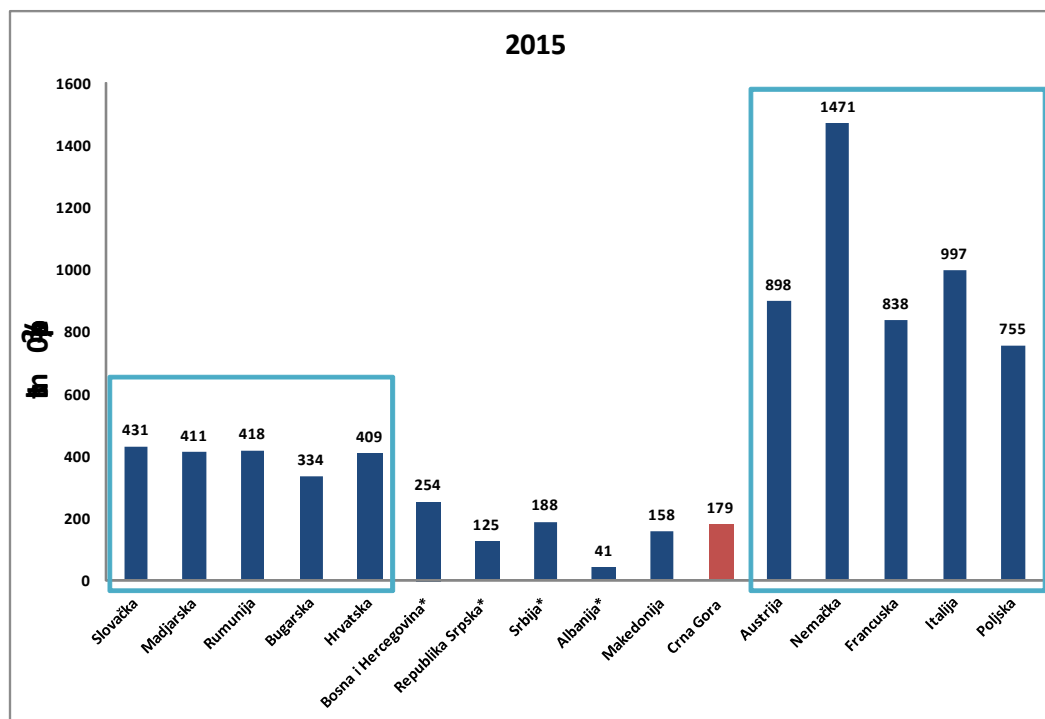


Figure 4 –Productivity in selected countries of Western and Central Europe

The crucial question is how to find the measure between the first and the second option and it will require special investigation and urgent replies to in the forthcoming period. Solution should be based on following data:

- In 1990, productivity of railway sector in Montenegro was 314.000, and today it is 179.000 rtkm per one employee (Figure 5).
- Productivity of European railways, EU member states, may be classified in three categories: low, medium and high. It can be seen from Figure 4 that the last admitted EU members have low productivity (around 400.000 rtkm per one employee) and that all belong to the central European region, while countries of high operating productivity in railway sector have more than 800.000 rtkm per one employee. Surrounding countries, that is Western Balkan countries, have a very low

¹³Rtkm- reduced ton kilometres. They constitute a sum of net-ton kilometers and passenger kilometres

productivity (under 200.000 rtkm per one employee) the group which also includes the railway sector of Montenegro.

- Far before everybody else in Western Balkan, Montenegro completed the first phase of restructuring (pertaining primarily to organizational changes) and it can be (wrongly) concluded that restructuring process did not give any effects. However, it can be seen through productivity that restructuring process was actually stopped after the first phase and effects of the railway sector restructuring cannot be obtained by its partial implementation.
- Crucial beneficiaries of railway and the port of Bar (KAP, Rudnici boksita - Nikšić, Željezare Nikšić, Smederevska željezara; žitarice from Serbia and Hungary, MSK-Kikinda) are now having certain statuses (either survived or not), and further activities may be planned on these grounds, as opposed to the previous period.
- Accelerated privatization and introduction of the market as commitment for the stabilization of the railway sector were not implemented for objective reasons and constitute an option which should not be used as basis for any fast solutions (mid-term period).

Considering all operating elements, today's and past productivity, productivity of the surrounding railways, requirements standing before Montenegro at its path to the EU membership, the railway sector as a whole will have to design its near future for productivity not less than 300 000 rtkm per one employee. This general approach to productivity of railway sector as a whole should be used to investigate resources in individual companies (ŽICG, ŽPCG, Montecargo and OŽVS) with regard to the productivity increase and individual measures.

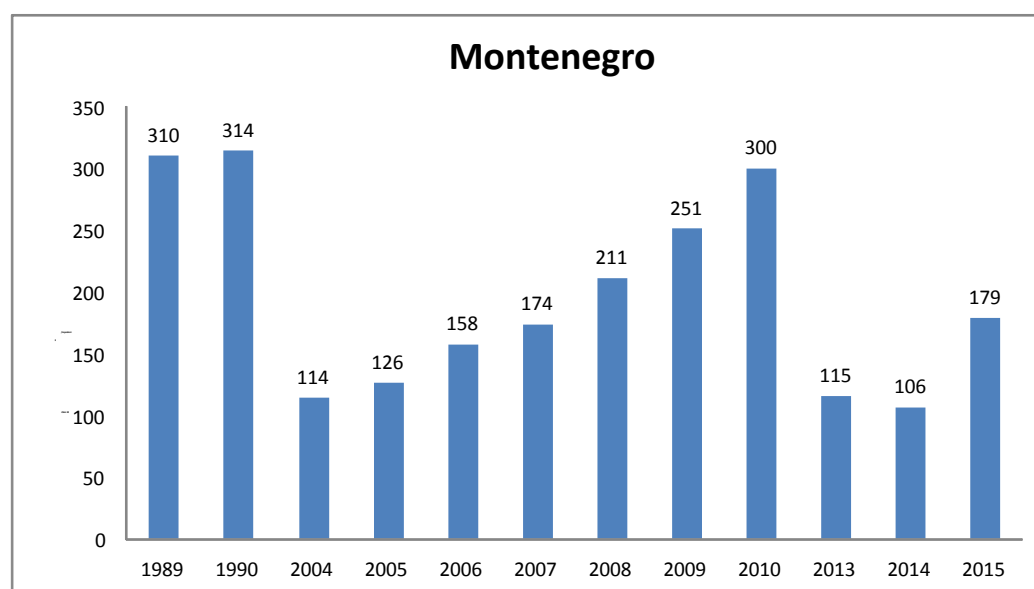


Figure 5 - Trend of operating productivity in the railway sector of Montenegro

1.6 Contractual obligations

Montenegro has so far carried out a series of activities on implementing the railway sector restructuring plan aimed at adjusting them to EU regulations and creating the sustainable railway and competitive service. Restructuring included not only changes in railway company but also those with regard to the relations between the state and railway company. According to the EU regulations (Directive 2012/34/EU¹⁴ and Decree 2007/1370/EC), implementing the Law on Railway of 2013, subsidies as form of assistance to activities of maintaining the railway infrastructure and regulating railway transport and activities of passengers transport shall be replaced by contracts between the state (mainly the Government or competent Ministry of Transport) and companies dealing with these activities. Basic objective of transferring from subsidies to contracts when speaking about the infrastructure management is explicit control of spending of allocated funds for network maintenance and transport regulation. When speaking about passenger transport, subsidies shall be replaced by contract which will compensate losses, with obligation of transport in lines where passenger transport is not cost-efficient. In railway transport of Europe it refers to almost entire passenger transport, whether local, regional or long-distance transport. Objective of transferring to contractual relation is to obtain “value for money invested¹⁵”, increase of service quality to its users, effectiveness of railway lines and efficiency of performance of railway companies. Introduction of contractual obligations aims at preventing the institutional inefficiency of the state with regard to its own demands to the railway¹⁶ and creating the environment where railway companies are stimulated to prevent corporative inefficiencies still present in the railway sector of Montenegro (item 2.3), and provide a reliable support to companies for their business planning.

³⁵ ¹⁷ **Contract on obligation of public transport**

Passenger transport was always subsidized as a whole (without separating profitable from non-profitable routes), including the benefits for individual passenger categories (disabled persons, pupils, students, retired persons, war veterans, etc.). This subsidies were not separately determined but were one of the budgetary items, with subsidies for infrastructure and by 2009 when ŽPCG became a carrier in passenger transport it was not clear how much money was actually allocated for infrastructure and how much for the transport. However, from 2016, allocation of funds to ŽPCG¹⁷ stops to be subsidy and becomes a fee for the obligation of public transport with contractual obligation of participants with regard to the amount and dynamics of funds disbursement (Government) and scope and characteristics of transport services (ŽPCG). This is by all means one of the important reasons for not managing the expenditures in ŽPCG in recent years, that is, for ŽPCG being increasingly cost inefficient instead of efficient.

Contracting of obligation of public transport started in 2016 and the first report is not ready yet in order to relevantly perceive the contracting effects. The Contract is granted for a year and embeds local and long-distance (international) transport in the territory of Montenegro, whereat these two transport

¹⁴Previously it was 91/440/EEZ

¹⁵ *Values for money*

¹⁶EU Decree valid for terrestrial transport

¹⁷ŽPCG has exclusive rights in awarding the obligation of public transport (direct contracting) since it is the only carrier in the railway passenger transport

categories do not differ in terms of fees (4 EUR/transport km). Review of the contents of the Contract shows that this first contract has all elements as per the Decree 1370/2007/EC (Article 4) and Law on railway (Article 66), including sanctions. Concurrently, quality elements (train cancellations and delays) and sanctions are tolerance wise, which is justifiable for the initial year of contracting. In the following period it will be necessary to constantly upgrade the contract in a way to increase the 'value for money', quality of services and in order to manage this important area quality wise. Elements for reaching the above are as follows:

- 1) Extending the group of quality indicators of transport service (e.g. cleanliness of wagons and trainsets, working order of parts of the train – doors, windows, interior equipment, etc.);
- 2) Defining the dynamics of increasing the quality standards long-term to be implemented gradually when contracting in annual level;
- 3) Reinforcing the sanctions pursuant to the above referred to in 1) and 2) and review of implemented quality indicators for the past period;
- 4) Adjusting the maintenance of costs structure (and reports accordingly) to income structure (international, local and as per the routes) so that everybody can have an insight into the coverage of specific service costs by incomes of the same and making the decisions accordingly, which is one of the restructuring objectives (how much are individual railway services);
- 5) Introducing passengers surveying with regard to the quality of services provided, for implementation/supply of which it will be the responsibility of the competent Ministry or regulatory body, which at the same time will make a basis for contracting the train transport routes, their frequency and quality parameters;
- 6) Introducing the function of direct supervision of a competent Ministry over the implementation of the contract and individual quality parameters into the Contract.

³⁵₁₇ **Contract on mutual rights and duties of infrastructure management and the state**

Purpose of the contract between the managing infrastructure and the state is to secure the stability of financing of railway infrastructure for a long-term, introduce stimulation of infrastructure management to reducing costs and keeping safety at the level reached and maintenance and improvement of quality of services rendered by infrastructure manager (Article 30 of the Directive 2012/34/EC), that is, efficiency of infrastructure management. At the same time, addendum V of the same Directive defines the mandatory elements of the Agreement (9 elements).

These elements are not embedded (implemented) in the Law on Railway and cannot be found in the Agreement which is concluded annually since the establishment of ŽICG a.d. (2008). The Agreement is concluded on the basis of Program for construction, maintenance, reconstruction and modernization of railway infrastructure that is covering the area of transport regulation, as compensation for the activities contained therein. The Report prepared according to this Agreement presents in details the works and financing of maintenance of civil engineering and electrical engineering infrastructure as well as financing of costs of labour for management and regulation of transport.

Essential element missing in this Agreement is the item on performance indicators of the railway infrastructure that have to be obtained by ŽICG as infrastructure manager. Performance indicators have to be client (carriers) oriented, in a form of essential performance indicators and quality criteria for the use of infrastructure, i.e. their target value. Performance indicators should cover the following areas: permitted trains speed in the railway, transport accuracy, tracks capacity, security level, property management and other. By this Agreement the state should clearly indicate and enable ŽICG to manage the available infrastructure capacities in more efficient manner, taking into account the users' needs.

In the following mid-term period the emphasize of improving the contractual obligations between the state and ŽICG and ŽPCG shall be on innovating agreements in a manner to enable a continuous improvement of railway infrastructure performance in Montenegro and more efficient infrastructure management by ŽICG a.d.

PLANNED OBJECTIVES AND GUIDELINES FOR THE DEVELOPMENT OF RAILWAY (INFRASTRUCTURE AND RAILWAY TRANSPORT) WITH DIRECTIONS AND MEASURES OF DEVELOPMENT

Principles underlying the Strategy are based on the transport policy of European Union, Transport development strategy of Montenegro 2007-2017 and EU accession negotiations.

Vision

To develop a railway system, market oriented, sustainable and supportive to economic and touristic development of Montenegro and integrated into a Single Europe Railway Area.

Mission

Railway system of Montenegro shall be developed so as to:

- ³⁵₁₇ Place its users into the centre of transport policy – transparent provision and use of funds for the railway infrastructure;
- ³⁵₁₇ Stimulate financial sustainability and self-sustainability of railway infrastructure;
- ³⁵₁₇ Provide qualitative and accountable maintenance of railway infrastructure and accuracy of transport;
- ³⁵₁₇ Maximize development potentials of the region of Montenegro, be competitive and with an improved service in transportation of cargo and passengers;
- ³⁵₁₇ Support efficient and effective system of state institutions taking care of the railway sector;
- ³⁵₁₇ Minimize negative environmental impacts of transport;
- ³⁵₁₇ Be harmonized with the expansion of TNT network to Western Balkans and support the

process of montenegro integration to EU.

Strategy objectives are adjusted to public interest, specific features and size of a railway sector, that are contained in many documents: Transport Development Strategy, Privatization Plans, Economic Reforms Program etc. Commitments in these documents have led to the following laws: Law on Railway, Law on Safety, Organization and Efficiency of the Railway Transport, Law on Railway Transport Contracts, etc.

Strategic objective

OPTIMALLY USE INFRASTRUCTURE

Objective 1: Placing users into the centre of transport policy-transparency, providing and using funds for the railway infrastructure

The Law on Railway stipulates the preparation of a three-year program of railway infrastructure development (National Program of railway infrastructure), which will implement the Railway Development Strategy. National program contains: current status of infrastructure, plans for construction, modernization and maintenance of infrastructure, tasks, their scope, plans implementing schedule, amount and sources of finances needed for the implementation of the National Program. The National program is mid-term plan for the implementation of a long-term development plan of railway infrastructure in Montenegro. Funds for this Plan are provided from the Budget of Montenegro and through loan arrangements. Operational implementation of the Plan is accomplished through Annual program of maintenance, construction, reconstruction and modernization of railway infrastructure prepared by the Railway Directorate and implemented by ŽICG a.d. , submitting the report of the same. Annual program contains: maintenance works according to the types, scope and amount of finances, costs for managing and regulating transport, planned works on the modernization, reconstruction and construction of infrastructure. Such clearly developed structure of plans and competences (Law on Railway) has created basic prerequisites for transparency of the process of investment planning and use of funds paid by the budget payers of Montenegro. At the same time, for ŽICG a.d. it means predictability and safety of funds for carrying out activities on managing infrastructure and meeting the legal obligations on these grounds. For railway carriers, economy and citizens of montenegro it is a sign of a secured procedure for efficient and transparent use of their money.

However, the method of carrying out the preparation of the above plans and programs is important for the full transparency, as well as publicity of criteria for the selection of railway projects and their planning and method of consulting public and private sector. These are the elements for putting under a higher focus in the following period.

It is especially important that railway carriers have insight into the plans and programs considering that they are now on transport market and have direct information on transport requirements, while ŽICG has indirect information about the same, i.e. through the requirements for routes of carriers themselves. In the new circumstances, incurred by vertical separation of former ŽCG to four companies,

this should be paid a special attention. European regulations (Directive 2012/34/EU) order the infrastructure manager has to provide the known applicants for the routes have access to the data and get opportunity to express their views on the contents of the business plan with regard to the status, maintenance and infrastructure development and with regard to the access requirements and use of the infrastructure.

To that end, transparency and quality that are not "pro forma" is not possible to provide without the establishment of local public. Likewise, transparency and quality in projects' audit and supervision of works are not possible to provide without local brains. This is because many different EU funds will be opened before Montenegro and they will not be possible to use without local brains. Therefore, in the following period the focus has to be on building human resources in this area through stronger cooperation with relevant universities and faculties in Montenegro or through development of the same abroad. Concurrently, assumptions should be created to have the local brains be the main advisory professional support to the Ministry in defining the Terms of Reference and conditions for designing and execution of works in a manner to build and employ local civil engineering operators.

End of 2015, the National Investment Committee adopted a new methodology for the selection and prioritizing of infrastructure projects in order to be able to use the funds from the Western Balkans Investment Framework (WBIF) in the forthcoming period. New methodology approach implies the beneficiary countries of this financial instrument have many options to decide on the priority projects to be financed by EU and financial institutions. Unlike the above, in addition to the preparation of project documents, the implementation of regional significance projects is possible by new approach, through co-funding.

Directions and measures of objective development:

1. Provide the independent projects audit for the purposes of technical quality control of the projects (consider a possibility of setting up the state Audit Committee) and checks of the calculated cost-efficiency of investments.
2. Provide higher public participation when determining budget funds and taking bank loans for the needs of railway infrastructure.
3. Adopt the national program of railway infrastructure publicly and transparently, with participation of all stakeholders and public debate.
4. Provide data access to railway carriers and get the opportunity to express their views on contents of the business plan with regard to the status, maintenance and infrastructure development with regard to the access conditions and infrastructure use by ŽICG
5. Establish the advisory body of MTM as assistance in conducting the investment policy in the development of railway infrastructure and development of plans and programs and prompt assistance in certain issues.
6. Define the amount of fees for the use of railway infrastructure with the aim of increasing the efficiency of infrastructure managers and carriers and taking care of preservation of their competitiveness in transport market.
7. When defining the amount of fees for the use of railway infrastructure we should obligatory

include stakeholders (carriers) in order to be able to express their opinion and the opinion of market regulator.

8. Strengthen the capacities of regulatory body in a part related to their ability of judgment on reasonable costs at individual types of fees to railway infrastructure, provide their publicity and transparency at work and decisions made.
9. Create assumptions for transferring experiences and practice of EU countries to operation of railway regulatory bodies.

Objective 2: Financial sustainability and self-sufficiency of the railway infrastructure

Railway infrastructure of Montenegro is not financially self-sufficient and it can be reliably taken that it will not be in the following ten year cycle of Strategy¹⁸. Reviewed structure of revenues of ŽICG (item 2.3.) in 2015, where share of revenues from fees for the use of railway infrastructure is only 5,51% of total revenues, confirms the same.

Strategy in general terms should be based on future needs of Montenegro for mobility and on sustainable financing of maintenance, renewal and development of railway infrastructure. Considering the position of Montenegro and its network, Strategy and its operationalization has to be adjusted to the surrounding railway networks, that is, Serbia and Albania. Otherwise, effects of a significant effort Montenegro is investing in renewal of network and restructuring of the sector shall be limited.

Taking into account the transport policy, this Strategy and financial assets provided by the Budget, ŽICG makes its business plan, including the investment and financing programs, but in a way to secure financial balance and means to achieve the objectives. At the same time, the state should secure, in mid-term period, that Income Statement of ŽICG has to have the balanced revenues from collection of services of using the infrastructure, revenues from the Budget, revenues from other commercial activities and other irrevocable revenues on one side and costs on the other side. Thereat, in accordance with international accounting rules, amount of loans for financing of infrastructure projects is not stated in Income Statements of infrastructure manager, i.e. ŽICG.

As for the railway carriers owned by the state, a period of their financial stabilization for market operation has not been finished yet, especially when speaking about ŽPCG. Therefore it is necessary to improve the current mechanisms that give slow effects, in order to reduce their indebtedness up to the level that is not endangering their sound financial management, which is recovering their financial situation.

The amount of fee for the use of railway infrastructure is subject of dispute between the infrastructure manager (ŽICG) and the state (Government and ministry of Finance) on one side and carrier (Montecargo a.d.) on other side. The basic reason is that total level of return through fees for the use of railway infrastructure has impact on required level of state financing. Therefore the state wishes to reduce its

¹⁸In European conditions there are only several railways which are expressly dominated by transit revenues that are financially self-sufficient.

obligations through higher fee prices and the carrier wants more favourable conditions in the market, without mentioning its inefficiency. Solving of this issues should be in focus in the following period. Thereat, we should bear in mind that it is related to numerous other factors, especially with efficient cost management. The state may require different levels of return of overall costs but its is necessary to realistically consider all participants and factors, what do they depend on, whereat the basic objective eventually has to be increase of overall competitiveness of all companies in the railway sector. Current Methodology for the calculation of amount of fees is not based on the cost management concept, harmonization with the level of state financing and requirements of the latest Directive 2012/34/EU and Decree 2015/909/EU when speaking about the scope of costs for defining of fees.

Budget funds are insufficient for bringing the railway infrastructure to the designed status. Budget funds are also insufficient for the supply of machinery for maintenance of infrastructure so that it can enable the creation of mentioned status. Private sector partnership is desirable but we shouldn't be optimists since the results here are modest even when speaking of other sectors and more competitive projects in the developed countries.

Directions and measures for the development of this objective are:

1. Financial sustainability of current railway companies should be established through balance of Budget funds and fees for the use of the railway infrastructure, in the manner to keep the competitiveness of railway carriers in transport market of Montenegro and financial sustainability of ŽICG;
2. Through laws on financing, provide the Budget funds to cover the defined annual needs for maintenance of railway infrastructure and transport regulation and make ŽICG liquid;
3. Create a strong link between the sources of financing and mid-term maintenance plans and long-term strategy (sustainable financing);
4. Define a new methodology for the calculation of amount of fees in accordance with the recommendations of Directive 2012/34/EU, Decree 2015/909/EU and other legislation, i.e. set up the methodology for covering direct costs incurred as a consequence of train operation;
5. Increase of fees should be connected to increasing the efficiency of infrastructure manager and carriers' productivity;
6. Adjust the legal regulations in terms of supporting the public-private partnership and stimulate participation of private sector in future infrastructure projects;
7. Mobilize external support for execution of works (per phases) on delayed maintenance of railroads and the port of Bar;
8. Improve the maintenance of infrastructure and start the procurement of machinery for maintenance of the same for the purposes of bringing the railways into the designed status and takeover of certain jobs in investment maintenance previously done by external contractors.

Objective 3: Quality and accountable maintenance of railway infrastructure and transport regularity

Quality and accountable maintenance of transport infrastructure implies existence of the planned system of preventive maintenance based on a detailed recorded status of railway infrastructure and efficiently organized system of corrective maintenance. Such maintenance will have higher effects if harmonized with transport functioning and reach higher security and safety level in railway transport, as well as a higher level of quality of services.

Institutions accountable for managing the investments in railway infrastructure have to be focused solely to the efficient use of funds and obtaining maximum benefits out of the same, in accordance with their mission. That is achieved by entering into quality contracts and monitoring their implementation, so that from companies selected by tender procedure they get a quality service of execution of works (construction, regular and periodic maintenance, maintenance during the winter season, supervision of works, preparation of projects and investigations). To that end, they have to use the market advantages in selection of contractors in railway infrastructure and with regard to project preparation. Under the existing conditions, with presence of higher number of institutions (Ministry of Transport and Maritime, Ministry of Sustainable Development and Tourism, Secretariat for Development Projects, Directorate of Public Works, Railway Directorate, ŽICG) when implementing investments (designing, selection of contractors, supervision, etc.) it is not possible to achieve quality and efficiency.

First of all, it is necessary to avoid the creation of different forms of cartels and other obstacles to fair competition in the market through legal sanctioning, as per the EU practice. Efficiency of companies and their technical and market disciplining may be achieved only through efficient control and transparent monitoring of procedures, proper enforcement of signed contracts and insisting on accountability. This will be the best contribution to creation of market conditions in this segment, protect the money of taxpayers and obtain the quality transport infrastructure.

When observing the accomplishment of this objective, it will include:

- Quality transport infrastructure to be reached by eliminating bottlenecks and bringing the railways into the designed status,
- Organized and permanent technical-technological control of railway infrastructure and rolling stock,
- Clear and precise procedures related to issues of safety and security,

When speaking about the railway infrastructure, ŽICG proposes to the Ministry of Transport and Maritime and the Government to adopt the Annual Plan of regular and investment maintenance, reconstruction and construction of railway infrastructure, referring to the preservation of existing one and further development of railway infrastructure, aimed at provision of undisturbed and safe transport on it. Implementation of the above Plan, within the regular maintenance of railway infrastructure, will provide the undisturbed and continuous works on repairing the railway and railway structures.

Works on maintenance, reconstruction and modernization of railway infrastructure have to be executed in time and in rhythm that will not disable the railway carriers to carry out their activities in a way to lose their clients and market potentials. In this segment it will be necessary to provide a permanent

exchange of information, cooperativity and synergy with infrastructure manager in Serbia and the contractors.

Bar-Bijelo Polje railway is mountainous railway with poor population density in the largest part of the route, which is making its maintenance more difficult, as well as disposal of the stations and change of personnel. Considering these railway characteristics we should gradually pass to the introduction of modern intelligent transport systems, i.e. application of digital electronics, telecommunications and automatization of transport process, such as: supervision technique, monitoring the railway status, automatic detection and remote transport control. This will significantly raise the productivity of work since intelligent transport systems replace the intensive work and supervision on the railway. A huge number of employees is engaged in ŽICG covering these jobs. Thereat, the level of railway transport safety will not reduce but, on the contrary, will increase.

In the following period we should especially orient to the preparation and implementation of projects that will be a technical support to supervision and detection of malfunctions on the railway. That will create the prerequisites for the reduction of labour employed on railway supervision (patrol guards and structures' guards). At the same time, that will result in raising the safety levels.

Trains are the second factor of railway transport safety. In the new Law on Railway Transport Safety a huge attention was given to all aspects of trains, from maintenance to introduction of new trains in the transport. However, implementation of legal provisions will not be possible until a large number of bylaws defined by this act are adopted. They require significant human resources and knowledge that Montenegro is in deficit with in this area. Likewise, the trains are an important element of quality of services provision and in order to have the passenger transport more appealing and accessible to passengers it will be necessary to investigate further investments in trains, with the focus on new sets.

Direction and measures of development of this objective:

1. Improve knowledge and human resources in institutions managing the defining of tender documents and conditions of equipment supply and selection of contractors and designer companies.
2. Consistently control the observance of contract and enforce the penalty policy with the default of the contract by all partners executing works related to the railway infrastructure.
3. Provide the preparation of projects of introducing intelligent transport systems that are implemented by: video surveillance on railways aimed at permanent supervision of critical sites, detection of land slides on individual critical spots on the railway, detection of movements within the zones dangerous for passengers safety, detection of unallowed stopping on road crossings, etc.
4. Provide the project documents for central remote control of trains operation on the railway of Bar-Bijelo Polje and cost efficiency of the project.
5. Provide the preparation of a large number of bylaws in the area of railway transport safety according to the new Law on Safety through different pre-accession assistance funds.
6. Define the safety and security procedures in railway transport functioning.

7. Stimulate the supply of new safety and security equipment and devices in regulation of railway transport
8. Investigate the needs for further investments in rolling stock or supply of new rolling stock.

Objective 4. Maximizing development potentials of the region of Montenegro through improvement of railway services

Some areas in Montenegro do not maximize their development and economic potentials, primarily touristic and commercial ones, due to the undeveloped and unfunctional transport infrastructure. National Commission adopted a unique list of priority infrastructure projects with two railway projects, as follows:

³⁵₁₇ Reconstruction and electrification of railway Podgorica-Tuzi-border with Albania (Route 2);

³⁵₁₇ Modernization of signal-safety system, overhaul of superstructure and sub-structure of railway Vrbnica - Bar (Route 4)

In international terms, the railway Vrbnica-Bar, on one hand, constitutes the most important infrastructure facility in Montenegro and on the other hand the development potential of many regions of Montenegro. Its transport position within the national and in TEN-T network will largely depend on the status of railway and its use in international transport. Improvement of status and its passability would naturally contribute to its higher international attractiveness and would bring it closer to characteristics of railways that are a compositional part of TEN-T corridor.

Basic reasons for investments are increase of safety and security of railway, reduction of time of travel i.e. increase of average train speed, increase of quality of services in the railway transport. These two projects have actually covered the entire network of railways in Montenegro, with the exception of railway Nikšić- Podgorica whose reconstruction and modernization has been completely finalized.

Improvement of railway services, in addition to better status of infrastructure, is achieved by introducing new techniques and technologies and by the provision of transport services by combining multiple transport types.

In accordance with the commitments emanating from the Stabilization and Association Agreement, i.e. the Protocol on terrestrial transport, it will be necessary to harmonize the development and improvement of railway combined transport and the method of future securing of the largest portion of transit transport through Montenegro under environmentally friendly conditions. In macro economic terms, the combined transport, mainly railway and maritime one, are good alternative to terrestrial transport, but are less flexible and need support through facilities provided by the state.

Basic reasons for the construction of terminal for combined transport in railway stations of Bar, Podgorica and Bijelo Polje are provision of combined truck/railway transport in the most important routes in Montenegro; opening of new possibilities for Ro-Ro transport, i.e. connecting of ship ferry lines with the railway transport and unloading of terrestrial transport in relation to the railway transport.

Another means of maximizing the development potentials of Montenegro is through provision of competitive transport service, with regard to the competitive time of travel (cargo and passengers) in the entire railway network of Montenegro. When speaking about planning of significant transport courses it is desirable to stimulate the main transport routes through a series of activities aimed at reducing the time needed for transport from one point to the other and therefore the costs of transport. The aim is to find and use the best performances of railway transport, aimed at increase of overall efficiency by the development of transport offer of a very high quality, characterised by undisturbed transport, with the observance of safety and security standards.

Pursuant to the provisions of the Stabilization and Association Agreement and Interim Agreement on Trade and Related issues between EU and Montenegro, contracting parties committed to enable unrestricted access to transit transport of the Community. In accordance with the above commitment, wishing to provide a competitive service, policy of liberalization of railway transport is promoted in all bilateral activities and when entering into the contracts on transport of passengers and cargo in railway transport between Montenegro and other countries, as well as simplification of procedures in border points, which will eliminate the administrative transport obstacles in railway transport.

Directions and measures of development of this objective are:

1. Coordination of activities with Serbia and Albania and prevention of further network aggravation.
2. Support the development of combined transport through development of terminalson railway stations.
3. Increase efficiency of procedures in border crossings.
4. Set up the joint railway border stations with Serbia and Albania.
5. Set up the quality chain of services in cargo transport

CONTROLLED DEVELOPMENT OF THE RAILWAY SECTOR

Objective 5: Efficient and effective system of state institutions in charge of the railway sector

Basic role of the state institutions of railway sector is planning and development of railway sector as a system (commercial and technical-technological) and relations within (Directorate for Railway Transport, Ministry of Transport and Maritime, Government), regulation of railway market and issues of transport safety (Railway Directorate, National Commission for investigation of accidents), creation of transport policy, harmonization with european legislation and implementation of legal framework (MTM, Directorate of Railway Transport). On top of that, the process of European integrations requires the efficiency increase of these institutions, which has been emphasized at the beginning of negotiations for EU access. Therefore, the above institutions have to permanently focus on increasing their efficiency and authority. It will not be possible to increase without primarily building of human resources and then organizational capacities. It especially refers to a regulatory part which is currently under the competence of the Railway Directorate and also to Ministry of Transport and Maritime, i.e. Directorate

for Railway Transport when speaking about negotiations and other mechanisms within the accession to European Union and conducting the transport policy and planning of the railway sector in general.

Montenegro has to the largest extent harmonized and implemented its legislation with European one (EU) both with regard to the planning of the railway sector and with regard to the safety and railway market regulation. However, a significant part of technical regulations requires specific knowledge of railway that Montenegro has in a limited capacity. This is the problem that needs to be systematically resolved in the following period. Also, regulatory affairs require substantial experience in process actions, law and knowledge of costs that may only be gained by investing in human resources.

Building capacities of the Ministry of Transport and Maritime, i.e. Directorate for Railway Transport with regard to the contracting, monitoring and supervision of contracts for the obligation of public transport and with the infrastructure manager is the crucial point for the entire railway sector, and especially for the public, service users and taxpayers. Efficiency and quality of services will only increase in case of good contracting and control of the implemented, i.e. the “value for money” will be achieved, which is still not present in the railway sector of Montenegro. A special issue in this part is defining of lines and capacities for the obligation of public transport, surveying of passengers etc., which primarily has to be the obligation of the Ministry of Transport and Maritime and not only of the carrier (ŽPCG) as it is today. A larger number of activities in this part has to be obtained in cooperation with experts of different profiles beyond the Ministry of Transport and Maritime (MTM) – primarily from University.

Building authorities of regulatory bodies in the railway sector, their position in relation to other authorities in the railway sector and competencies as well as independence issues require organizational changes in relation to a current status. Currently there are following discrepancies in that regard, set as a requirement in negotiations by the European Commission:

³⁵₁₇ Regulatory body, within the Sector for safety and market regulation, is together with the Sector for development, investments and maintenance of railway infrastructure in the same state authority/institution (Railway Directorate), which constitutes conflict of interest (investment function-public procurement and regulatory body cannot be together in the same authority.)

³⁵₁₇ Regulatory body, i.e. Railway Directorate, is within the Ministry competent for transport. The first requirement of independency of regulatory body is met by this solution, under the Directive 2012/34/EU regardless that it is a separate administrative authority within the Ministry. According to the Directive, “regulation of railway market” cannot be within the Ministry competent for the transport since it is not permissible that one body at the same time has market regulator and owner of shares of one of the actors from the railway market. Namely, although a majority owner of shares in ŽICG AD (and at the same time in ŽPCG AD, Montecargo AD and OŽVS AD) is formally the Government, it is considered¹⁹ that essential owner of shares and management rights is a competent Ministry of Transport. For these reasons, regulatory function cannot be found at owners of actors in a railway market.

¹⁹This has already been subject of disputes before the European court that took this position

- ³⁵₁₇ For the same reasons (Directorate as regulatory body within the Ministry of Transport and Maritime) cannot enter into the Contract on carrying out public transport its is currently doing under the Law on railway.
- ³⁵₁₇ Regulatory body and safety body are within the Railway Directorate, within the same organizational unit (Sector for safety and regulatory affairs). This solution does not meet the requirement of European regulations on functional independency of these two bodies. The same case we have with granting of licenses.
- ³⁵₁₇ Safety body and regulatory body must have (according to the Directive 2012/34/EU) a sanctioning mechanism (fines) in case the railway companies do not implement the decisions of this body. Inspection competencies, under the Montenegrin legislation, are a sole responsibility of Ministries. That is why the solving of this type of request of EU integrations lies within the domain of system decisions of authorities since they are not only specific for the railway sector and the Ministry of Transport and Maritime.

It is mentioned within the objective 2 that managing and planning of investments is inefficient. It is supported by the fact that many institutions are involved in the process of planning, managing and implementation of investments. These are: MTM, MSDT, Secretariat for Development projects, Directorate for Public Works, Transport Directorate, Railway Directorate and ŽICG. These institutions are involved in a different manner, subject to the form of their financing. For example, for projects financed through the Western Balkans Investment Framework, WBIF, communication line is as follows: Ministry of Foreign Affairs carries out coordination roles in the process of approving projects of the Western Balkan Investment Framework; Ministry of Transport and Maritime in capacity of body responsible for priority/measure and ŽICG, end beneficiary in the project. The lack of quality and independent Project implementation unit is observed, of units filled by the required expert staff (public procurement, legal and financial area, engineering staff from the areas of civil engineering, electro engineering and transport) whose setup must be worked on in the future.

Efficiency of the state institutions in the domain of conducting transport policy and investments is important issue, partially elaborated in other guidelines. It is herein mentioned primarily in a part related to human resources requirements and coordination of all participants in managing the construction of a unique transport system, and not under their types. It is therefore necessary, in a part related to the creation of information base with regard to the investments, criteria of priority in the construction of complementary transport system to build the organization of the Ministry of Transport and Maritime, as well as its human resources since the lack of such investment conduct reflects to the railway sector.

Directions and measures of development of the objective:

1. Reorganization of railway sector institutions aimed at increasing their efficiency according to criteria of European Commission in the process of negotiations for the accession to EU.
2. Building of administrative capacities through multi annual training plan directed to younger personnel.
3. Building capacities (personnel and knowledge) with regard to the contracts for obligation of

public transport in passengers transport and contracts with infrastructure manager.

4. Building capacities with regard to human resources and knowledge for the areas of public procurement, legal and financial areas, engineering staff in the area of civil engineering, electrical engineering, mechanical engineering and transport.
5. Permanent improvement of contract in annual level through amendments to the crucial performance indicators and systems of sanctions for the default.
6. In budget positions of the Ministry of Transport and Maritime, funds should be foreseen for engagement of experts and preparation of projects related to investigation of lines and capacities for the obligation of public transport, surveying of passengers, annual contract innovation with regard to the operating indicators that would lead to increasing the quality of service in passenger transport and services provided by railway infrastructure and increase efficiency of the same.
7. System solving of preparation of bylaws (primarily of technical regulations) demanding knowledge that does not exist in Montenegro, through defining the sources of funding primarily oriented to European assistance and cooperation funds (twinning and other projects).
8. Establish cooperation between the railway sector institutions with related bodies of other countries and provide adequate exchange of knowledge and "good experiences".
9. Provide a budget line for independent external technical and financial audit of concession contracts related to the provision of railway services.
10. Insist on the preparation of laws, envisaged plans and programs, related to the maintenance and construction of transport infrastructure, and on their reasonable implementation and liabilities in case of non-implementing them.
11. Create assumptions for incorporating international practice and EU countries practice with regard to the regulation of market, procedure and method of work and other activities of regulatory body.

In the context of administrative capacities, these measures imply employment of additional number of , primarily young experts selected through the selection process in the areas of law, economy and engineering for the jobs of market regulation, system interoperability, safety and inspection affairs.

Objective 6:Functional and modern railway system capable of facing the competition

This objective cannot be reached without the entry of private capital and professional management into the current railway companies of Montenegro. Concurrently, the competition has to be achieved in railway infrastructure since without it the private capital and management will not achieve higher effects. Basic assumptions for the same were created through the previous process of restructuring. However, the restructuring process reached to its half although statements of the finished process may be heard. Namely, two big items that this process includes have not been implemented: (1) planned privatization of individual activities has not been done, (2) restructuring of newly established companies per activities has not been done and (3) restructuring of labour has not been finished. That is why effects of this process requiring integrity in implementation and time for valuation of effects

have not been reached. Primarily for these reasons companies still have the negative operating balances.

Although the interest in railway sector dropped following the economic crisis (beginning of 2008), activities in privatization of individual parts and activities in a railway sector of Montenegro have to be intensified. Privatization of carrier – MonteCargo a.d., is the only option regarding this activity which is prohibiting all forms of assistance by the Governments. It is necessary to check the reality of intention for privatization of individual parts of ŽICG (railway stations and land) through concession arrangements or different forms of partnership towards the previously adopted Strategy. A strategic partner has to be found for ŽPCG or sell a control package of shares, whereat a market research will be needed again.

Održavanje željeznickih vozniha sredstava a.d. (OŽVS) as independent company appeared to be a hardly viable solution, primarily in financial and sale terms, i.e. in finding a strategic partner. Therefore, this activity should be involved in companies for passenger transport (ŽPCG) and cargo transport (Montecargo). Division of depots and workshops should be made according to a model that will not disable their privatization, that is, reduce the interest of private capital.

Concurrent with the privatization efforts it is necessary to enter the second phase of restructuring of railway companies in Montenegro. For the implementation of this phase professional outsourcing will be needed, which can be secured through any form of assistance or donation within the credit arrangements. The second phase of restructuring should be turned to the increase in labour productivity, by coming to the efficient and effective management in local circumstances of Montenegro, modern internal organization of companies competing in a transport market, introduction of technological changes and improvement of human resources and professional potentials. All five elements have to be considered in mutual connectivity. However, productivity increase is an element that has to be resolved immediately (and continuously) without a delay or waiting for expert assistance.

The third segment of increasing the efficiency of railway sector of Montenegro should be implemented through upgrading of contract between the state and carriers in passenger transport, that is, between the state and infrastructure managers. In addition to monitoring and implementation of funds invested in infrastructure, the state as owner of public railway infrastructure has to demand the activity of railway infrastructure management is carried out in economical manner that at the same time will guarantee reliability, safety and railway competitiveness increase. Introduction of railway infrastructure performance indicators, whose values have to increase annually, will lead to the increase in quality standards and efficiency of infrastructure managers. Likewise, in order to eliminate uncertainties and delays in infrastructure maintenance caused by the lack of funds and in order to obtain the objectives set forth in accordance with the national program of railway infrastructure, the state has to use the contract and provide certainty and regular inflow of finances to ŽICG, which will enable quality planning of works on maintenance and observance of the envisaged maintenance schedule.

A special attention and resources have to be given to upgrading the contract on obligation of public transport under the items given in clause 2.6. of this Strategy and to monitoring and supervision of this contract which would require new human resources within the Ministry.

To summarize, characteristics of modern railway sector imply a functional infrastructure according to the demands and needs of its users and quality and efficient service of transport companies conditioned on one side by legal framework (clause 2.6) , and by market conditions on other side. It requires, on one side, efficient and competitive carriers that are capable of fighting not only in a local market but also at the regional level due to the size of the railway network of Montenegro and, on the other side the carriers which will plan services adjusted to the tourist potentials of Montenegro and contemporary requests of the users.

Human factor is inevitable when we want to achieve the safe, functional and modern system. This first characteristics is given a huge importance through the adoption of a new Law on Safety which raised the level of requests for the education of railway workers (regulated professional abilities of railway workers, their professional education and training, ordinary and extraordinary testing of professional knowledge, standardized program of professional training, issuance of certificates of passed professional exams, etc.).

Directions and measures of development of the objective:

1. Reactivation of efforts in the privatization of carriers with the review of the railway sector privatization plan of the Government of Montenegro of 2007 with regard to the individual parts of ŽICG.
2. Division of OŽVS a.d. according to the functions of maintenance of passenger and cargo vehicles and their incorporation in Montecargo a.d. and ŽPCG a.d.
3. Increase attractiveness of the railway for private capital through the introduction of competitiveness in the network and creation of recognizable independency of regulatory body.
4. Increase productivity of the railway sector through individual access to companies where activity shall be managed by majority owner (Government).
5. Continue the stopped process of restructuring the railway companies through professionalization of their management and change of criteria, change of technology and internal organization in the market, improvement of human resources, etc.
6. Harmonize the number of employees with the scope of work and productivity of railway companies work with regard to the competition and regional average.
7. Improve performances of contracts between the state and railway companies according to the EU regulations and in accordance with the good practice.
8. Acceptance of the new staff and their education through introduction of training with contemporary knowledge in operation and functioning of the modern railway system.

ENVIRONMENT AND EUROPEAN UNION INTEGRATIONS

Objective 7: Protect the area of Montenegro from negative transport impacts

Area and environmental protection mechanisms are provided through introduction of the highest standards in planning and designing of railway infrastructure and in their use. These issues are especially important when protecting the areas of high sensibility to pollution and those having a special significance for the development of Montenegro. Such areas are Montenegrin coast, national parks, canyons, mountainous centres, etc., which for the following period are envisaged as main factors of economic growth of Montenegro.

Railway is environmentally more acceptable than for example road transport and that is why it should offer possibilities to the railway to become a more competitive means of transport. According to the EU Transport Development Strategy to 2050, future rolling stock should be silent (with brakes generating less noise) and automatic coupling of railway vehicles. Regular maintenance of railway vehicles (existing sets, vehicles and locomotives) as well as efficient use of supplied modern vehicles, constitute steps towards the creation of environmentally more appropriate service in the railway transport.

Positive impact that railway transports have on the environment is reduction of emission of hazardous substances into air. Extent in which such impact is expressed is proportionate to the level of using the railway transport and defining the itinerary with passengers' requirements. It is expected the railway Podgorica – Nikšić to generate positive environmental impacts by passing of larger number of passengers from road to railway type of transport and thus become an example of possible efficiency of railway in this domain.

Electricity and fuel that are used for the towing and manoeuvring constitute main forms of energy used for the railway sector transport. With the rolling stock that has not been fully modernized, annual energy consumption in ŽPCG amounts around 60.000 l of oil and around 15 million kWh of electricity. With further modernization of transport means and application of innovative technologies, ŽPCG and Montecargo will be able to use and very efficiently convert the energy resources into towing and transport services.

Improvement of a railway sector as a whole may help in contributing the fulfillment of another objective of EU Strategy – decrease of gas emissions and reduction of greenhouse effects. It is achievable through redistribution of share of means of transport in total transport of cargo and passengers in Montenegro-modal changes. Environmental fee for the road transport, which would be directed to the railway, constitutes a good example of comprehensive solution for the environmental transport impact.

Directions and measures of developing the objective:

1. In all phases and activities related to the railway transport we should apply the highest environmental protection standards (technical standard of transport means, designing of routes, equipment and devices, discipline in cargo transport, intervention measures when preventing and mitigating the consequences of railway accidents).
2. Take into account effects of climate changes and need for the energy efficiency when financing

the transport infrastructure and vehicles (climate resilience of the entire infrastructure, selection of construction material, etc.).

3. Gradual introduction of costs of noise and air pollution into the schemes of fees for the payment of railway infrastructure use.
4. Promote and raise the quality level of services in the railway transport.

Objective 8: Railway network of Montenegro integrated in Trans-European transport network (TEN-T)

The need of comprehensive and competitive integration of European regions has been designated as special objective in the EU Transport policy in the period to 2050, bearing in mind the disproportion in the development of individual lines of Trans-European network. This objective is further developed by the intention to create unique corridors in cargo transport and then expand to non EU countries, for example to Western Balkan countries.

In accordance with the Protocol IV on terrestrial transport of the European Union Stabilization and Association Agreement, connection to the TEN-T network will be carried out through core transport network of South-East Europe (SEETO Comprehensive Network), that is, through routes making the elements of this network. Route 4 (according to SEETO network), the Port of Bar will be connected to corridors X and VII, and routes 2 and 2b will provide crossing with route 4 and transversal connecting of corridors Vc and VIII across the territory of Montenegro. With implementation of these objectives the railway network of Montenegro would be fully integrated in corridors of TEN-T network.

Crucial state priority of Montenegro at this moment is completion of EU integrations that are under the intense phase of the negotiating process. Likewise, priority will be the support to common projects and investment in infrastructure with the surrounding countries (WB6 countries) which would pave the way to the common utilization of potentials, for example, future cargo TEN-T corridors of the railway transport.

In that sense, crucial priorities are embedded in activities related to integrating the railway network of Montenegro into the TEN-T network and functioning of the railway market in the principles of free and non-discriminatory competition that generates effects.

Directions and measures of the development of objective:

1. Develop the cooperation network for the purposes of spreading the policy in transport and infrastructure area to the closest neighbours, in order to set up a better infrastructure connectivity and closer integration of market, including the preparation of the plan for cargo corridors and mobility continuity.
2. Follow the guidelines for the improvement of railway infrastructure and the development of core regional transport network of South-East Europe.
3. Railway between Bar and border with Serbia, through European, regional, accession and other funds.

4. Applying for the extension of regional transport network for the railway Podgorica – Nikšić, parallel to activities for the construction of railway Nikšić -Trebinje – Čapljina.

METHOD, SCOPE AND DYNAMICS OF IMPLEMENTATION OF OBJECTIVES; FRAMEWORK FINANCES; SOURCES OF FUNDING; OTHER ELEMENTS SIGNIFICANT FOR THE DEVELOPMENT OF RAILWAY

Objectives	Directions and measures of development	Method and scope	Dynamics of implementation of objectives (long stop date)	Framework finances	Sources of funding	Note
1. Placing users into the centre of transport policy – transparency, provision and use of funds for the railway infrastructure						
1.1	Provide independent audit of projects aimed at technical control of projects quality (consider possibility of setting up the state Audit Committee) and check-ups of calculated cost efficiency of investments.	Ministry of Transport and Maritime(MTM)	2018		Budget	
1.2	Provide higher participation of public at determining budget funds and taking bank loans for the needs of railway infrastructure.	MTM, Railway Directorate	continuously		Budget	
1.3	National program of railway infrastructure to be adopted publicly and transparently, with the participation of all stakeholders and in a public debate.	MTM, Railway Directorate	2019, 2022, 2025, 2028		Budget,	
1.4	Secure that railway carriers have access to the data and get the opportunity to express their views on the contents of business plan with regard to the status, maintenance and infrastructure development and with regard to the conditions for access and use of infrastructure by ŽICG	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	from 2018.		Budget, IPA, IFI, WBIF	Amendments to the Law on Railway
1.5	Set up the Advisory body of the MTM as assistance in conducting the investment policy in the development of railway infrastructure and development of plans and programs, as well as prompt assistance in individual matters.	MTM,	From 2017.		Budget, IPA, IFI, WBIF	

1.6	Identifying the level of fees for the use of railway infrastructure aimed at increasing the efficiency of infrastructure managers and carriers and taking care about the preservation of their competitiveness in a transport market.	MTM, Railway Directorate, ŽICG	2018		IPA, IFI, WBIF	
1.7	When identifying the level of fees for the use of railway infrastructure it is mandatory to include the stakeholders (carriers) in order to be able to express their opinion and the opinion of market regulator.	MTM, Railway Directorate, ŽICG	2017		IPA, IFI, WBIF	Amendments to the Law on Railway
1.8	Build capacities of a regulatory body in a part of its ability to judge reasonable costs of certain types of fees for the railway infrastructure, secure their publicity and transparency in work and in decisions made.	MTM, Railway Directorate	2017-2018-2019		WBIF	
1.9	Create assumptions for transferring experiences and practices of EU countries to the work of the railway regulatory bodies.	MTM, Railway Directorate	continuously		IFI, WBIF	
2. Financial sustainability and self-sustainability of railway infrastructure						
2.1	Set up the financial sustainability of current railway companies through balance of funds from the Budget and fees for the use of railway infrastructure in a way to maintain the competitiveness of railway carriers in transport market of Montenegro and financial sustainability of ŽICG.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	continuously		Budget,	
2.2	Through laws on financing provide funds from the budget that will cover the defined annual needs for the maintenance of railway infrastructure and regulation of transport and will make ŽICG solvent.	MTM, ŽICG	continuously		Budget, IPA, IFI, WBIF	
2.3	Create a strong connection between the source of funding and the mid-term maintenance plans and long-term strategy (sustainable financing)	MTM, ŽICG	2019-2022, 2022-2025, 2025-2028		IPA, IFI, WBIF	
2.4	Define a new methodology for calculation of the amount of fees for the use of railway infrastructure and focus it on covering direct costs incurred as a consequence of train operation.	MTM, Railway Directorate, ŽICG	2019		IPA, IFI, WBIF	
2.5	Perform the increase of the amount of fees methodologically connected to the increase of efficiency of infrastructure managers and productivity of carriers.	MTM, Railway Directorate, ŽICG, ŽPCG,	continuously		IPA, IFI, WBIF	

		Montecargo				
2.6	Adjust the legal regulations in terms of support to public private partnership and stimulate participation of private sector in future infrastructure projects	MTM,	2018		Budget	
2.7	Mobilize external support for the execution of works (per phases) on residual maintenance of railways and the Port of Bar.	MTM, ŽICG,	2019		IPA, IFI, WBIF	
2.8	Improve maintenance of infrastructure and start the procurement of machinery for maintenance of the same for the purposes of bringing the railways into the designed status and assuming certain jobs on investment maintenance, previously done by external contractors.	MTM, ŽICG	2018-2020		IPA, IFI, WBIF	
3. Quality and accountable maintenance of railway infrastructure and regularity of transport						
3.1	Improve knowledge and human resources of institutions managing the tender documents and conditions of procurement of equipment and selection of contractors and designer companies.	MTM,	2017-2018		IPA, IFI, WBIF	
3.2	Properly control the observance of the contract and apply penalty policy at defaults of the contract by any of the partners executing works related to the railway infrastructure.	MTM, ŽICG,	continuously		Budget	
3.3	Provide the preparation of designs for introduction of smart transport systems such as: video surveillance on railways aiming at permanent supervision of critical points, detection of land slides in certain critical points on the railway, detection of movements in zones dangerous for passengers safety, detection of unpermitted stopping on railway crossings etc.	MTM, ŽICG,	2018		IPA, IFI, WBIF	
3.4	Provide project documents for central remote control of train transport in the railway Bar-Bijelo Polje and cost efficiency of the project	ŽICG	2018	4 mil EUR	IPA, IFI, WBIF	Activities from the grant of WBIF are currently ongoing
3.5	Provide the development of a large number of bylaws in the	MTM, Railway	2017-2019		IPA, IFI,	

	area of safety according to the new Law governing safety of the railway transport through different pre-accession assistance funds.	Directorate			WBIF, Budget	
3.6	Define the safety and security procedures in functioning of the railway transport.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2017-2019		IPA, IFI, WBIF	
3.7	Stimulate the supply of new safety and security equipment and devices in regulation of the railway transport.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2018-2020		IPA, IFI, WBIF	
4. Maximizing the development potentials of Montenegro region through improvement of railway services						
4.1	Coordination of activities with Serbia and Albania and prevention of further deterioration of railways connecting the networks of these countries with Montenegro.	MTM, Railway Directorate,	2018-2022		IPA, IFI, WBIF	
4.2	Support the development of combined transport through the development of terminals in railway stations.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2018-2022		IPA, IFI, WBIF	
4.3	Increase efficiency of procedures in border crossings.	MTM, Railway Directorate	2017-2019		IPA, IFI, WBIF	
4.4	Establish the joint railway border points with Serbia and Albania	MTM, Railway Directorate	2018, 2022	1,4 mil EUR	IPA, IFI, WBIF	IPA funds for the station in Bjelo Polje
4.5	Establish quality chains of services in cargo transport	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2018-2022		IPA, IFI, WBIF	
5. Efficient and effective system of state institutions taking care of the railway sector						
5.1	Reorganization of railway sector institutions in increasing their efficiency according to the European Commission criteria in the process of negotiating the EU accession	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2018		IPA, IFI, WBIF	
5.2	Build administrative capacities through multi-annual training	MTM, Railway	continuously		IPA, IFI,	

	plan oriented to younger staff	Directorate,			WBIF	
5.3	Build capacities (personnel and knowledge) with regard to the contracts on obligation of public transport in passengers transport and contract with infrastructure managers.	MTM, Railway Directorate, ŽICG, ŽPCG	2017-2018		IPA, IFI, WBIF	
5.4	Build capacities with regard to human resources and knowledge for the area of public procurement, legal and financial area, engineering staff from the area of civil engineering, electrical engineering, mechanical engineering and transport	MTM, Railway Directorate,	from 2018.		Budget	
5.5	Permanent upgrade of contracts in annual level through amendments of the essential indicators and system of sanctions for the default.	MTM, Railway Directorate, ŽICG, ŽPCG,	continuously		IPA, IFI, WBIF	
5.6	On budget positions of the MTM envisage funds for the engagement of experts and development of projects related to the investigation of lines and capacities for the obligations of public transport, surveying passengers, innovating contracts in annual level with regard to the operating indicators that will lead to increase of quality of services both in the passengers transport and services provided by railway infrastructure and will raise efficiency of the same.	MTM, Railway Directorate,	from 2018.		Budget	
5.7	System solution for the development of bylaws (primarily of technical regulations) requiring knowledge that is missing in Montenegro, through defining the sources of funding primarily oriented to European funds of assistance and cooperation (twinning and other projects).	MTM, Railway Directorate	from 2018.		IPA, IFI, WBIF	
5.8	Set up the cooperation between the railway sector institutions and related bodies of other countries and provide adequate exchange of knowledge and "good experiences".	MTM, Railway Directorate,	continuously		IPA, IFI, WBIF	
5.9	Provide the budget line for independent external technical and financial audit of concession contracts referring to the provision of railway services.	MTM,	from 2018.		Budget	
5.10	Insist on the development of the law, envisaged plans and programs related to the maintenance and construction of transport infrastructure and on their reasonable implementation and liabilities in cases of non implementation.	MTM, Railway Directorate,	from 2018.		IPA, IFI, WBIF	
5.11	Create assumptions for incorporating the international practice and EU countries practice with regard to the market	MTM, Railway Directorate	From 2018.		IPA, IFI, WBIF	

	regulation, procedures and method of work and other activities of regulatory body.					
6. Functional and modern railway system capable of facing the competition						
6.1	Reactivating efforts in privatization of carriers with checking the privatization plan of railway sector of the Government of Montenegro of 2007 with regard to individual parts of ŽICG.	MTM,	2018, 2019		IPA, IFI, WBIF	
6.2	Division of OŽVS a.d. according to functions of maintenance of passengers and cargo vehicles and their incorporation in Montecargo a.d. and ŽPCG a.d.	MTM, Railway Directorate	2017		IPA, IFI, WBIF	
6.3	Increase attractiveness of railway for private capital through introduction of competition in the network and creation of recognizable independency of regulatory body.	MTM, Railway Directorate	2018-2020		IPA, IFI, WBIF	
6.4	Increase of productivity of railway sector through individual approach to companies where majority owner will conduct activities (Government).	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2017-2020		Budget	
6.5	Continue the stopped process of restructuring of railway companies through professionalization of management and changing the criteria, changing technology and internal organization to the market, improvement of human resources, etc.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	2018-2021		IPA, IFI, WBIF	
6.6	Adjust the number of employees to the scope of work and productivity of railway companies' work with regard to the competition and regional average.	Railway Directorate, ŽICG, ŽPCG, Montecargo	from 2017.		Budget, IFI	
6.7	Continuous improvement of performances of contract between the state and the railway companies according to the EU regulations and in accordance with good practice.	MTM, Railway Directorate, ŽICG, ŽPCG,	From 2018.		IPA, IFI, WBIF	
6.8	Acceptance of new staff and their education through introduction of training with contemporary knowledge in operating and functioning of contemporary railway system.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	From 2017.		Budget, IFI	
7. Preserve the area of Montenegro from negative impacts of transport						

7.1	In all phases and activities related to the railway transport apply the highest standards of environmental protection (technical standard of rolling stock, designing of routes, equipment and devices, disciplines in cargo transport, measures of interventions at preventing and mitigating the consequences of railway accidents).	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	continuously		IPA, IFI, WBIF	
7.2	Take into account effects of climate changes and needs for energy efficiency when financing the transport infrastructure and vehicles (climate resilience of the entire infrastructure, selection of construction material, etc.)	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	continuously		IPA, IFI, WBIF	
7.3	Gradual introduction of costs of noise and air pollution in compensation schemes for the payment of the use of railway infrastructure.	MTM, Railway Directorate, ŽICG,	2022		IPA, IFI, WBIF	
7.4	Promote and raise the quality level of services in railway transport.	MTM, Railway Directorate, ŽICG, ŽPCG, Montecargo	continuously		IPA, IFI, WBIF	
8. Railway network of Montenegro integrated in Trans-European Transport Network (TEN-T)						
8.1	Develop the cooperation network for the expansion of policy in the areas of transport and infrastructure to the closest neighbours in order to establish better infrastructure connectivity and closer market integration, including the preparation of a plan for mobility continuity	MTM, Railway Directorate,	from 2018.		IPA, IFI, WBIF	
8.2	Follow the guidelines for the improvement of railway infrastructure and development of the Core Regional transport Network.	MTM,	continuously		Budget, IFI, WBIF	
8.3	Intensify maintenance and rehabilitation of railway between Bar and border with Serbia through European, regional, accession and other funds.	MTM,	from 2018.	Funds provided in the amount of 64,5 million euro	IPA, IFI, WBIF	New loan from WBIF fund (20+20), irretrievable grant funds, IPA funds
8.4	Applying for the expansion of regional transport network to the railway of Podgorica – Nikšić, paralel to activities on	MTM and Ministry of	from 2017		IPA, IFI, WBIF	PIF form prepared

	construction of railway Nikšić -Trebinje - Čapljina	communications and Transport of Bosnia and Herzegovina				
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