

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR MONTENEGRO

**REPORT ON THE INVITATION TO THE PUBLIC
TO COMMENT**

1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Montenegro was posted on the EBRD web site in English and Montenegrin for 45 calendar days starting from 24 July 2013. For information, the previous Strategy was also made available on the web site in English and Montenegrin at <http://www.ebrd.com/pages/country/montenegro/strategy.shtml>.

Information about the public consultation process was posted on the EBRD's dedicated webpage "Have your say", which highlights the latest opportunities for public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country. The start of the review process was also advertised through social media platforms (e.g. Facebook, Twitter, Google+).

In preparation for the Strategy, a delegation of the EBRD Board Directors met with representatives of CSOs in Podgorica on 18 June 2012. The meeting was attended by the Centre for Democracy and Human Rights (CEDEM), the Center for the Development of Non-governmental Organizations (CRNOVO), MANS, the Association of Business Women of Montenegro, Green Home and the Environmental Movement Ozone. The dialogue focused on the challenges related to the implementation of the rule of law and environmental protection in Montenegro in view of the EU integration process. In particular, civil society raised concerns regarding the struggle against corruption, which prevents the country from developing a sound business environment. The discussion also looked into challenges faced by women in accessing top positions both in the public and private sector as well as in financing entrepreneurship.

As part of the public consultation process, the EBRD Resident Office in Montenegro hosted a workshop with civil society organisations on 5 September 2013 in Podgorica with the aim to discuss and solicit comments on the draft Strategy. The event attracted 18 participants coming from 10 local CSOs operating in Montenegro and four observers from the Delegation of the European Union to Montenegro and the United Nations. The list of organisations to the consultation workshop is provided in the Annex 1.

The objective of this report is to summarize key comments received from the general public and civil society stakeholders during the consultation period dedicated to the review of the Bank's Strategy for Montenegro as well as to provide management responses to these comments. The Bank's management reviewed all public comments and integrated them in the final Strategy for Montenegro as appropriate. The comments received in oral format during the public consultation workshop have been presented in this report to reflect the thematic structure of the Country Strategy; however, no written comment was received during the public consultation period.

2. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
The Bank's portfolio		
1. Implementation of the previous country strategy	<p>1.1 Some concerns were expressed regarding the financial viability of the Bank's investments in railways, in particular with regards to the reconstruction of the Podgorica- Nikšić railway line vis-à-vis the low number of passengers using the service. In addition, concerns were expressed about EBRD's requirements of state guarantees against investment risks related to the Bank's financed projects.</p>	<p>Since 2008 the Bank has been investing EUR 53.5 million in three projects in the railways sector in Montenegro, including the Rail Infrastructure Emergency Rehabilitation Project (in four tranches of Euro 6.0 million, 5.0m, 4.0m and 10m) – for the Bar – Bijelo Polje line; the Rail Infrastructure Emergency Rehabilitation Project II (Euro 15.0 million) for the Podgorica – Nikšić line; and the ZPCG Rolling Stock Renewal Project (Euro 13.5 million) for the purchase of three electromotor units. The Bank has also provided technical support for an amount of Euro 1.77 million in several areas related to the modernisation of railways, including for a ZPCG Passenger Institutional Strengthening Programme.</p> <p>The Bank has been continuously assessing Montenegro fiscal capacity since these loans were guaranteed by the State. It is to be noted that the limited fiscal space represented one of the reasons why the disbursement of the Rail Infrastructure Emergency Rehabilitation Project was split in several tranches.</p> <p>The importance of investments in the railway sector is to be linked to improving security and safety of the railways as well infrastructure in the country.</p>
2. Social context	<p>2.1 The Strategy recognizes that the northern region is the most economically disadvantaged with unemployment rates of nearly one-third of the labour force and 40 per cent of women's unemployment. The Strategy, however, does not identify an</p>	<p>The EBRD welcomes investment opportunities in the North meeting the Bank's criteria for investment, namely additionality, transition impact and sound banking-principles. The Bank has already been investing in the North in transport projects and also in agribusiness (i.e. Mesopromet). In accordance with the operational priorities identified by the Strategy, the Bank will further seek investment</p>

	operational response to address this regional divide.	opportunities in the North, in particular in the sectors of tourism, agribusiness and energy but also in other sectors as relevant to its mandate and required investment criteria.
Strategic orientations		
3. Key challenges and operational responses	3.1 CSOs welcomed the Bank's identified priorities for the upcoming strategy period and encouraged the Bank to maintain the highest standards of transparency and accountability in the selection of its business partners, including of local financial institutions (FIs). In this context, the Bank should take into consideration to involve more extensively civil society organisations in the development of projects with the aim to avoid reputational risk associated with transparency and accountability issues.	<p>The Bank is committed to the highest standards of transparency and accountability and has a system in place to ensure compliance and remedial action if needed. As part of the due diligence process the Bank thoroughly reviews integrity issues related to all its clients, including with regards to reputation, business practices and transparency. In addition, the EBRD seeks to improve corporate governance by encouraging all its clients to adhere to best international standards of corporate governance, and in doing so seeks to have a demonstration effect for others. To learn more about how we review the suitability of prospective clients in terms of integrity please visit our webpage on accountability, integrity and anti-corruption at http://www.ebrd.com/pages/about/integrity.shtml.</p> <p>The Bank encourages CSOs to take part in an open dialogue in every stage of the project cycle. As a public institution promoting good governance, we believe that CSO engagement helps hold the Bank to the highest standards of accountability, and manages local expectations and reputation risk.</p>
	3.2 Does the Bank envisage support to factoring companies?	Yes, the Bank is currently engaging in policy dialogue with the Ministry of Finance and the Central Bank in order to regulate factoring business in the country with an adequate legal framework. The Bank is also exploring opportunities to provide especially dedicated credit lines to factoring companies through financial intermediaries.

<p>4. Supporting sustainable tourism, property and associated environmental and infrastructure needs</p>	<p>4.1 The Bank is expected to maintain an on-going dialogue with the government, including with local authorities to ensure a sustainable development of the tourism sector.</p>	<p>A section on <i>Policy Dialogue</i> highlights the Bank’s commitment to policy dialogue as follows: “<i>The Bank will engage in regular dialogue with the authorities to ensure that its operations in the hospitality and tourism sector are sustainable, environmentally responsible and consistent with the country’s long-term tourism strategy. In cooperation with other IFIs, the Bank will work with the government to prioritise infrastructure projects that are vital for the tourism sector while ensuring the efficient allocation of fiscal space and resources committed to accomplishment of such projects.</i>”</p>
	<p>4.2 The Bank is encouraged to invest in affordable residential housing in view of the country’s shortage of quality and affordable residential housing.</p>	<p>The Bank will support development of quality and affordable residential housing and energy efficiency initiatives in the country either through project financing or a credit line via financial intermediaries. Also, depending on the market demand the Bank will consider providing mortgage credit lines through the exiting Western Balkans and Croatia Financing Facility. It is to be noted that the Bank is working towards the establishment of the first credit facility for affordable residential housing in the Western Balkans region.</p>
<p>5. Promoting energy security and efficiency, and regional integration of energy markets</p>	<p>5.1 How will the EBRD support Montenegro in meeting the EU 2020 targets in order to facilitate the EU accession path of the country? In particular, which projects does the Bank envisage in the energy sector, especially in energy efficiency?</p>	<p>The Bank will support Montenegro in meeting EU requirements in the energy sector through its investments in sustainable energy sources. The Bank is currently looking in several renewable energy projects - wind farms and small hydro power plants, and will also consider investments in solar energy projects if commercially viable. Currently, the Bank is supporting the development of the ESCO market in Montenegro by providing technical assistance to the Ministry of Economy for the establishment of a legal framework for ESCOs. Moreover, the Bank is collaborating with the United Nations Development Programme (UNDP), the Western Balkans Investment Framework (WBIF) and the Government of Montenegro to support energy efficiency projects through the legalisation of housing developments. Montenegro is also beneficiary country of the Western Balkans Sustainable Energy Financing Facility (WeBSEFF) and the Western Balkans Sustainable Energy Direct</p>

		<p>Financing Facility (WeBSEDF). WeBSEFF is aimed at the financing of small scale energy projects and is provided via local commercial banks, whereas WeBSEDF is aimed at larger projects and is provided directly by EBRD. It is to be noted that local banks in Montenegro have not shown interest in accessing WeBSEFF loans, however, the EBRD will continue promoting these credit lines among local banks also in the context of the launch of the WeBSEFF II in January 2013.</p>
	<p>5.2 While assessing the operational environment in Montenegro, the Bank should also take into consideration its investments in the energy sector in the wider Western Balkans region as these are closely interrelated.</p>	<p>The Bank is closely following and promoting regional integration of energy markets in the region. The proposed high-voltage interconnection to Italy through investments in electricity transmission in Montenegro and related strengthened connections to neighbouring countries is aimed at creating a larger and more liquid market with the potential to create a more attractive environment for investors, particularly in renewable energy. Also, the Bank will continue to support the work of the regional Coordinated Auction Office in developing a regional power market.</p>
	<p>5.3 How does the EBRD assess energy poverty while promoting energy security and efficiency?</p>	<p>The Bank is carefully looking into energy poverty issues in the context of the review of its Energy Sector Strategy. Affordability, security and sustainability represent the three main pillars of the Bank's approach to energy. In this context the Bank regards resource efficiency as a key driver to ensure long-term sustainability, mitigate affordability issues and promoting energy security. The Bank recognizes that affordability concerns are best addressed through social policy where the state uses direct intervention to protect the most vulnerable consumers in society, including by helping them to reduce their consumption.</p>
<p>6. Environmental and Social Implications of Bank Proposed Activities</p>	<p>6.1 Despite Montenegro's environmental legislative framework reflects the main elements of the EU's approach to project appraisal and management, it was noted that implementation and compliance of the regulatory environmental framework still lag behind. In this regard, the Bank was encouraged to</p>	<p>Since 2006 the Bank has been supporting capacity building of local experts in the areas of environmental assessments through the implementation of technical cooperation related to approximately 20 projects. The Bank will continue to support the capacity of its clients in meeting its Environmental and Social Policy and Performance Requirements and provide technical assistance on</p>

	support capacity building in conducting Strategic Environmental Assessment and Environmental Impact Assessment.	environmental assessments both with in-house expertise and external consultants whereby relevant.
Annexes		
7. Small Business Support	7.1 The Bank was encouraged to ensure access to loans also to social enterprises and young entrepreneurs, who are facing particularly difficulties in accessing credit due to the lack of collaterals as well as of knowledge on how to access bank's loans.	<p>Social enterprise can benefit from support to MSMEs offered by the EBRD in the context of the Enterprise Growth Programme and Business Advisory Services. EBRD has recently provided financial support to local entrepreneurs such as Codra Hospital, Voli and MPM Cosmetic Market, while for smaller companies and projects, the Bank has provided SME credit-lines through local commercial banks such as Société Générale Banka Montenegro and Hipotekarna Banka.</p> <p>EBRD also recognises the difficulties encountered by young entrepreneurs in accessing loans and has provided visibility of possible investment opportunities at several presentations organised by foreign embassies, American Chamber of Commerce in Montenegro, Montenegrin Foreign Investors Council (MFIC) as well as at the Faculty of Economy at the University of Montenegro.</p>
General remarks		
8. Engagement with civil society	8.1 The participation of civil society in the identification of operational priorities should be ensured in the early stages of the preparation of the Country Strategy to ensure that the Bank's strategic approach complies with governmental priorities and also meet civil society's priorities in terms of market and broader development.	The Bank acknowledges the recommendation and commits to work towards an early engagement with civil society. In the review process of its country strategies, the EBRD engages in a broad consultation with a wide range of stakeholders, including public, private and civil society sector. In the case of Montenegro for instance, a delegation of the Board of Directors met with representatives from civil society in June 2012 to discuss the operational environment in the country ahead of the review of the Country Strategy.
9. Information disclosure	9.1 Does the Bank publish signed contracts of public sector projects?	The Bank does not publish signed contracts of public sector projects, however, according to our Public Information Policy, Board Reports for public sector projects will be made available to

		<p>the public on request, once the project has been approved by the Board of Directors. Information considered confidential, as set out in Section E of the Policy, will be removed from the released documents. For more information about the EBRD Public Information Policy please visit http://www.ebrd.com/downloads/policies/pip/pipe.pdf.</p>
	<p>9.2 The EBRD, as an international financial institution supporting the private sector and engaged in policy dialogue, is expected also to facilitate social dialogue in Montenegro.</p>	<p>The EBRD recognises the importance of social dialogue in the well functioning of the labour market. The Bank extensively engages in policy dialogue for the creation of an enabling environment for the development of market economies, although social development is not a part of its core mandate. Among the international community, other organisations like the International Labour Organization, cover social dialogue issues within their mandate.</p>

ANNEX 1

List of civil society organisations participating to the consultation workshop in Podgorica on 5 September 2013

1. Green Home
2. MANS
3. Institute Alternativa
4. Technical Assistance for Civil Society Organisations
5. Union of Free Trade Unions of Montenegro
6. Chamber of Economy of Montenegro
7. Association of Youth with Disabilities
8. CEDEM
9. Association for Democratic Prosperity (ADP- ZID)
10. Juventas

Observers:

Delegation of the European Union to Montenegro
United Nations Development Programme
United Nations Coordination Office