



# Country Strategy for Montenegro 2026-2031

Approved by the Board of Directors on 23 September 2026



**European Bank**  
for Reconstruction and Development

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| Annex – Political Assessment                                                  | 18 | EC                    | European Commission                                                                      |
|                                                                               |    | EE                    | Energy Efficiency                                                                        |
|                                                                               |    | EFSD+                 | European Fund for Sustainable Development Plus                                           |
|                                                                               |    | EIA                   | Environmental Impact Assessment                                                          |
|                                                                               |    | EIB                   | European Investment Bank                                                                 |
|                                                                               |    | ESPD                  | European Single Procurement Document                                                     |
|                                                                               |    | ETS                   | Emissions Trading System                                                                 |
|                                                                               |    | ETI                   | Estimated Transition Impact                                                              |
|                                                                               |    | EU                    | European Union                                                                           |
|                                                                               |    | FAO                   | Food and Agriculture Organisation                                                        |
|                                                                               |    | FDI                   | Foreign Direct Investment                                                                |
|                                                                               |    | FI                    | Financial Institution                                                                    |
|                                                                               |    | GDP                   | Gross Domestic Product                                                                   |
|                                                                               |    | GEFF                  | Green Economy Financing Facility                                                         |
|                                                                               |    | GET                   | Green Economy Transition                                                                 |
|                                                                               |    | GRECO                 | Group of States against Corruption                                                       |
|                                                                               |    | HR                    | Human Resources                                                                          |
|                                                                               |    | ICA                   | Industry, Commerce and Agribusiness                                                      |
|                                                                               |    | ICGI                  | Investment Climate and Governance Initiative                                             |
|                                                                               |    | ICT                   | Information and Communication Technologies                                               |
|                                                                               |    | IDF                   | Investment Development Fund                                                              |
|                                                                               |    | IEA                   | International Energy Agency                                                              |
|                                                                               |    | IFC                   | International Finance Corporation                                                        |
|                                                                               |    | IFI                   | International Financial Institution                                                      |
|                                                                               |    | ILO                   | International Labour Organization                                                        |
|                                                                               |    | IMF                   | International Monetary Fund                                                              |
|                                                                               |    | KfW                   | Kreditanstalt für Wiederaufbau                                                           |
|                                                                               |    | MAP                   | Multi-Annual Action Plan                                                                 |
|                                                                               |    | MEPI                  | Municipal and Environmental Infrastructure Programme                                     |
|                                                                               |    | MREL                  | Minimum Requirement for Own Funds and Eligible Liabilities                               |
|                                                                               |    | MSME                  | Micro, Small and Medium Enterprise                                                       |
|                                                                               |    | NDC                   | Nationally Determined Contribution                                                       |
|                                                                               |    | NECP                  | National Energy and Climate Plan                                                         |
|                                                                               |    | NEET                  | Not in Employment, Education or Training                                                 |
|                                                                               |    | NGO                   | Non-Governmental Organisation                                                            |
|                                                                               |    | NLB                   | Nova Ljubljanska banka                                                                   |
|                                                                               |    | NPL                   | Non-Performing Loan                                                                      |
|                                                                               |    | ODA                   | Official Development Assistance                                                          |
|                                                                               |    | ODIHR                 | Office for Democratic Institutions and Human Rights                                      |
|                                                                               |    | OECD                  | Organisation for Economic Co-Operation and Development                                   |
|                                                                               |    | OSCE                  | Organization for Security and Cooperation in Europe                                      |
|                                                                               |    | PFI                   | Private Financial Institution                                                            |
|                                                                               |    | PPP                   | Private-Public Partnership                                                               |
|                                                                               |    | PR                    | Performance Requirement                                                                  |
|                                                                               |    | PRS                   | Portfolio Risk Sharing                                                                   |
|                                                                               |    | PTI                   | Portfolio Transition Impact                                                              |
|                                                                               |    | RTCG                  | Radio and Television of Montenegro                                                       |
|                                                                               |    | SCADA                 | Supervisory Control and Data Acquisition                                                 |
|                                                                               |    | SME                   | Small and Medium Enterprise                                                              |
|                                                                               |    | SOE                   | State-Owned Enterprise                                                                   |
|                                                                               |    | SPU                   | Special Police Unit                                                                      |
|                                                                               |    | SSPO                  | Special State Prosecution Office                                                         |
|                                                                               |    | TEN-T                 | Trans-European Transport Network                                                         |
|                                                                               |    | WIB                   | Women in Business                                                                        |
|                                                                               |    | WBIF                  | Western Balkans Investment Framework                                                     |
|                                                                               |    | YiB                   | Youth in Business                                                                        |

Montenegro's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda.

Over the past strategy period, Montenegro has consolidated its position as an EU accession frontrunner and achieved a sustained post-pandemic recovery, supported by strong services-led growth, rising incomes and continued public and private investment. The economy is characterised by a relatively high-income level compared to regional peers, reflecting the dominant contribution of tourism and related services. However, growth remains sensitive to external shocks, while there is scope to further enhance productivity gains and economic diversification. Macroeconomic vulnerabilities persist, including a structural current account deficit, high import dependence, and fiscal pressures linked to demographic trends and public wage dynamics. Sustaining medium-term convergence with the EU will therefore require reforms that raise productivity and support more balanced growth beyond the coastal and tourism-related sectors.

Despite notable progress in regulatory alignment with the EU, Montenegro continues to face structural transition gaps, particularly affecting competitiveness and governance. The private sector remains dominated by micro-enterprises with limited capacity to scale, innovate or integrate into higher value chains, partly as a result of a small market size and bank-centric financial system. Important steps have been undertaken to strengthen SOE governance through the transformation of management structures, but further progress with ongoing reform efforts is needed to address remaining challenges in governance and public sector delivery. Labour-market could also benefit from investments in human capital, lowering of regional disparities, and improved utilisation of female and youth potential, building on recent improvements in participation and employment.

The green transition presents both challenges and opportunities. Montenegro benefits from relatively low emissions intensity and a high share of renewable electricity generation, but the energy system remains concentrated in hydropower and coal, exposing it to hydrological risks and transition pressures. Energy system resilience is constrained by energy efficiency gaps, network losses, and the need for grid modernisation to integrate new intermittent renewable capacity. Transport, energy, and digital infrastructure gaps have implications for internal cohesion and regional integration, particularly outside the main urban and coastal corridors. Addressing these constraints will be critical to improving connectivity, enhancing competitiveness, and supporting a just transition aligned with climate and energy objectives.

Against this background, and building on a strong partnership with the authorities, including credible reform commitment, the Bank is well positioned to support Montenegro's transition over the next strategy period, during which the country is expected to become an EU member state, leveraging its private sector focus, policy engagement, and advisory tools. Working closely with the EU and other international partners, the Bank will prioritise delivering systemic impact by strengthening economic governance, enabling private sector development, and accelerating the green and connectivity related reforms. Interventions will focus on areas with the highest potential to crowd-in private investment, improve institutional performance, and support Montenegro's path towards sustainable EU-aligned growth.

The Bank will pursue the following strategic priorities in Montenegro in 2026-2031:

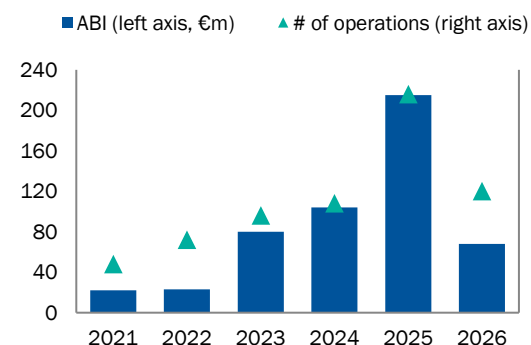
- *Diversify energy supply, improve resource efficiency, and promote economic integration and connectivity*
- *Strengthen economic governance and private sector competitiveness*

# Montenegro – EBRD Snapshot

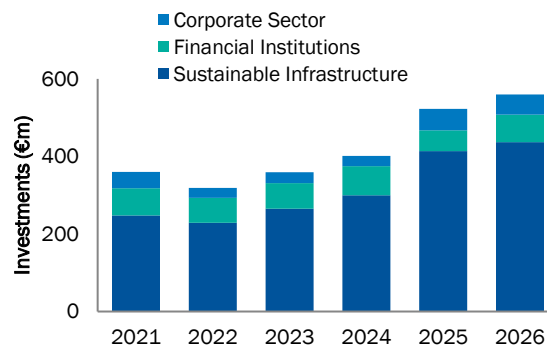
## EBRD investment activities in Montenegro (as of July 2026)

|                                   |       |                     |         |
|-----------------------------------|-------|---------------------|---------|
| Portfolio                         | €560m | Active projects     | 58      |
| Equity share                      | 1%    | Operating assets    | €223m   |
| Private Sector Share <sup>1</sup> | 22%   | Net cum. investment | €1,133m |

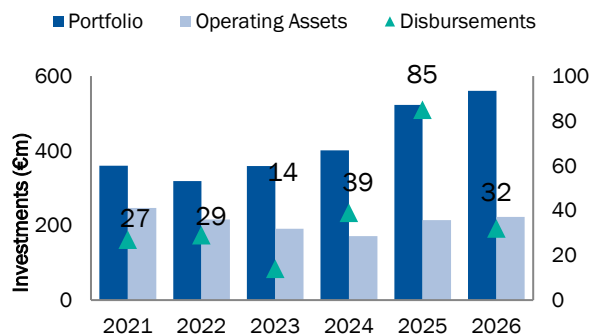
## ABI and operations



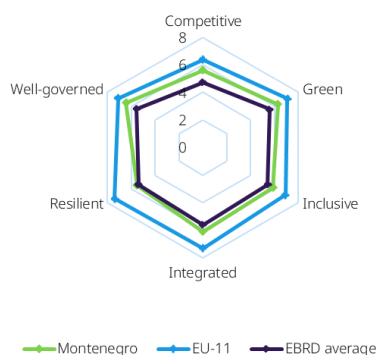
## Portfolio composition



## Portfolio dynamics



## Transition Gaps



## Montenegro context figures

|                                                                                  | Country | Comparators              |
|----------------------------------------------------------------------------------|---------|--------------------------|
| Population (million) <sup>2</sup> (2024)                                         | 0.6     | ALB 2.4<br>MKD 1.8       |
| GDP per capita (PPP, USD) <sup>2</sup> (2025)                                    | 34,408  | ALB 23,372<br>MKD 29,510 |
| New Business Density <sup>3</sup> (New registrations per 1,000 population, 2024) | 17.9    | ALB 2.3<br>MKD 5.2       |
| Unemployment (% <sup>4</sup> (2025))                                             | 10.7    | ALB 8.4<br>MKD 11.5      |
| Youth unemployment (% <sup>4</sup> (2025))                                       | 21.3    | ALB 22.4<br>MKD 29.4     |
| Female labour force participation (% <sup>4</sup> (2025))                        | 54.6    | ALB 57.2<br>MKD 43.3     |
| Energy intensity TES/GDP (GJ/2015 \$) <sup>5</sup> (2023)                        | 2.68    | ALB 1.84<br>MKD 2.72     |
| Emission intensity/GDP (kgCO <sub>2</sub> /2015 \$) (2022) <sup>5</sup>          | 0.22    | ALB 0.09<br>MKD 0.23     |

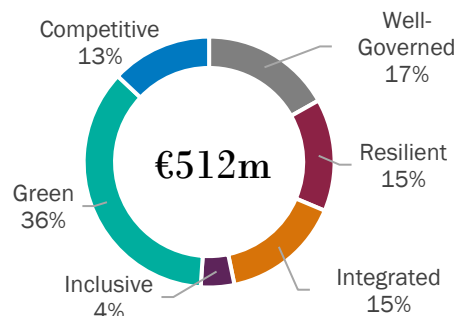
1 Cumulative Bank Investment: 5-year rolling basis on portfolio; 2. IMF WEO; 3. WB Entrepreneurship Survey and database; 4. MONSTAT, ILO; 5. IEA

# 1. Implementation of Previous Strategy (2021-2026)

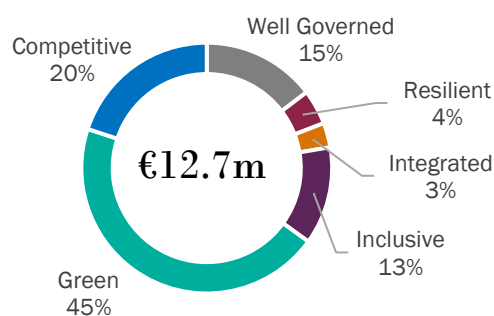
## 1.1. Key Transition Results Achieved during Previous Strategy (1/2)

### Strategic alignment 2021-2026

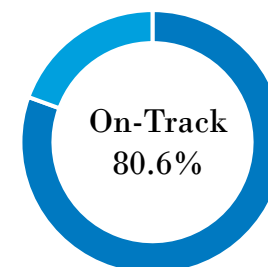
#### Cumulative Business Investment<sup>1</sup>



#### Technical assistance and concessional finance<sup>2</sup>



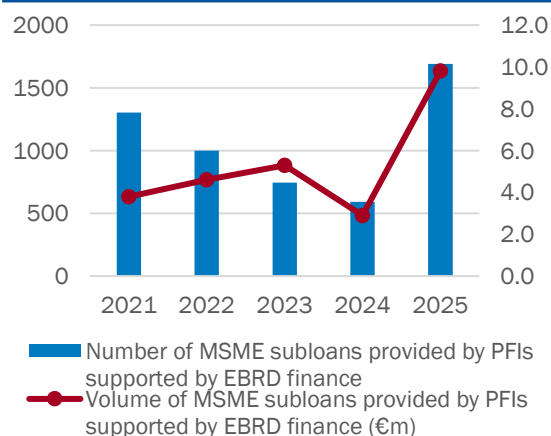
#### Transition impact performance<sup>3</sup>



#### Priority 1

Strengthening competitiveness by enhancing private sector capacity and improving the business environment

#### Key quantitative results



#### Key transition results

- 1,303 MSME clients gained access to finance under €5m MSME credit line to Alter Modis, significantly expanding lending to micro-entrepreneurs and first-time borrowers.
- Helped 147 SMEs improve their business practices through the Advice for Small Businesses programme.
- Signed first portfolio risk-sharing facility with CKB (€50m) to support SMEs.
- Over 1,531 youth entrepreneurs supported under the Youth in Business programme and associated market-development activities between 2023-2025, expanding early-stage entrepreneurship and skills formation.
- Supported women-led businesses through access to finance and advisory services, including 270 Women
- Trademark certifications, multiple WIB credit lines (CKB, NLB, Erste, Alter Modus) and 263 WIB sub-loans, improving women's participation in entrepreneurship and access to capital.
- Key commercial legislation adopted (Company Law, Business Registration Law and bylaws) following
- sustained public-private dialogue via the Competitiveness Council, directly improving firm entry, transparency and regulatory predictability.

1. Cumulative figure of ABI by ATQ for 2021-2026; 2. Cumulative figure based on client signings for 2021-2025. TC data is based on earmarks at the project level. Concessional finance grant amounts historically used to be based on client signings but have since changed to earmarks except for unfunded guarantees; Furthermore, it is important to note that figures only include secured finance for EBRD's use. This excludes some tranches of the WBIF, that EBRD acts as a fund manager for other IFIs; 3. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio

# 1. Implementation of Previous Strategy (2021-2026)

## 1.1. Key Transition Results Achieved during Previous Strategy (2/2)

### Priority 2

### Deepening Montenegro's Green Economy Transition through cleaner energy and more sustainable municipal services

#### Key quantitative results

| Results Indicators                             | 2021-2025 |
|------------------------------------------------|-----------|
| Total renewable energy capacity installed (MW) | 82        |
| Total primary energy saved (GJ/yr)             | 902,497   |

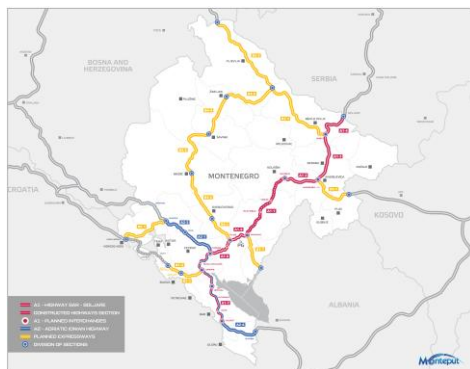
#### Key transition results

- Significant increase in renewable energy capacity and investment readiness, anchored by EBRD financing for the 55MW Gvozd wind farm and its extension to 75MW, establishing utility-scale renewable generation under competitive and transparent procurement frameworks.
- Improved integration of renewables into the power system, supported by major grid investments including the €28m Brezna substation upgrade and €35m SCADA/DMS and smart-meter rollout with CEDIS, enabling the connection of over 400MW of new renewable capacity and improving network reliability.
- Introduction of competitive renewable energy auctions, with the first auction launched for 250 MW, strengthening price discovery, transparency and private-sector participation in the renewable energy market.
- Expanded access to green finance for households and businesses, through GEFF REPower and SME Go Green facilities, supporting energy-efficiency investments and reducing energy costs while contributing to climate mitigation; Provided €4m loan to Voli, Montenegro's largest food retail chain, to finance solar panels and EV charging stations.
- Improved energy efficiency and resilience of public infrastructure, including implementation of large-scale retrofit programmes covering 24 school buildings and 3 hospital buildings, delivering long-term operational savings and improved service quality.
- Enhanced sustainability and service delivery in municipal infrastructure, including roads, water and waste management, supported by infrastructure rehabilitation, performance-improvement plans, and technical assistance.

### Priority 3

### Supporting further connectivity and integration by expanding cross border transport, energy and digital links

#### Key quantitative results



#### Key transition results

- Improved national and regional transport connectivity, anchored by the €200m Mateševo–Andrijevica section of the Bar–Boljaře Highway, co-financed with a €150m EU investment grant, strengthening Montenegro's integration with regional TEN-T corridors.
- Upgraded rail connectivity and service quality, supported by preparation of the Golubovci–Bar rail reconstruction and financing of new electric multiple-unit trains, improving safety, efficiency and passenger experience.
- Strengthened regional electricity transmission and system stability, through major investments including: €28m EBRD loan for the upgrade of Brezna electrical substation; €35m financing to CEDIS for investment in SCADA, ADMS, and smart metering, reducing technical losses and improving grid stability; €15m financing to support upgrade of 220 kV transmission line connecting Montenegro with Albania and Bosnia and Herzegovina; and €9m financing to support the installation of a variable shunt reactor at Lastva substation.
- Improved governance and operational efficiency of transport and energy SOEs, supported by EU reform-facility grants and technical assistance, including corporate governance action plans, improved public service contracts in the passenger train sector, and enhanced regulatory capacity aligned with EU acquis.
- Progressed towards nationwide digital connectivity, through preparation of the Montenegro Broadband Infrastructure Development Plan, with an estimated investment of €22m, supported by WBIF grants and positioning EBRD as a potential lead financier.

# 1. Implementation of Previous Strategy (2021-2026)

## 1.2. Challenges to Implementation and Key Lessons

### Context for implementation

Montenegro has outperformed most regional peers in its progress towards a sustainable market economy, although it continues to lag new EU member states on several metrics. Structural vulnerabilities persist, particularly with respect to resilience and integration, given the economy's reliance on seasonal tourism and existing infrastructure gaps. Following a prolonged period of political instability after 2020, Montenegro has regained reform momentum from 2024 onwards, driven by renewed political continuity and a strengthened EU accession anchor. The country has emerged as a frontrunner among EU accession candidates, provisionally closing nine negotiating chapters between 2024 and 2025. Montenegro is on track to complete the technical phase of accession negotiations by the end of 2026 and is expected to join the EU within the next strategy period. At the same time, implementation capacity remains an important consideration. While legislative alignment with the EU acquis has accelerated, particularly in energy, corporate governance and the business environment, some execution gaps remain due to limited administrative capacity and uneven enforcement. This context calls for carefully sequenced reforms, sustained policy engagement and targeted investments that can deliver impact and support EU accession process while remaining resilient to political and institutional constraints.

### Implementation challenges

- Limited institutional capacity within public administrations, exacerbated by high staff turnover, continues to constrain effective policy implementation and project delivery.
- High domestic liquidity in the banking sector until 2024 reduced demand for EBRD financing, as banks relied on strong and low-cost deposit bases rather than external borrowing.
- Political instability risk delaying new investments and slowing the adoption and implementation of key policy reforms.
- Montenegro's small market size and limited project pipeline constrain opportunities for direct private-sector financing. Additionally, economic activity is heavily concentrated in seasonal tourism, limiting diversification and resulting in a weak pipeline of bankable projects.
- Despite improvements, the business climate remains challenged by informality, complex and inconsistently enforced regulations, and governance weaknesses, which continue to deter foreign investment.

### Key lessons & way forward

- Mobilise donor funding to support project preparation, bridging capacity gaps and unlocking financing. Support capacity building at the municipal level to facilitate effective implementation of MEPI and other sub-national investment programmes.
- Continue to support banks, and in turn MSMEs, through eligible funding and credit lines with strong non-financial additionality, particularly in the context of increased FI demand for credit since 2025 and projected liquidity tightening in 2026. Introduce new unfunded financing instruments such as Portfolio Risk Sharing to help PFIs extend new loans to MSMEs in form of guarantees.
- Maintain a strong project preparation pipeline despite political uncertainty, ensuring investments are financing-ready once conditions stabilise.
- Assist counterparts in developing investment-ready projects and WBIF grant applications, particularly in environment, digital connectivity, energy, and transport, alongside targeted implementation support.
- Strengthen coordination with other IFIs to deliver systemic policy reforms, including through the use of shared reform milestones (e.g. renewable-energy auctions anchored in World Bank DPLs).

## 2. Economic Context

### 2.1. Macroeconomic Context and Outlook for Strategy Period

#### COUNTRY – Main Macroeconomic Indicators

|                                                | 2022  | 2023  | 2024  | 2025  |
|------------------------------------------------|-------|-------|-------|-------|
| GDP growth (% y-o-y)                           | 7.7   | 6.5   | 3.2   | 2.7   |
| CPI inflation (% avg.)                         | 13.0  | 8.6   | 3.3   | 3.9   |
| Government balance (% of GDP)                  | -4.1  | 0.9   | -2.8  | -4.0  |
| Current account balance (% of GDP)             | -12.9 | -11.2 | -17.1 | -20.5 |
| Net FDI (% of GDP)<br>[minus indicates inflow] | -13.2 | -6.1  | -6.4  | -4.5  |
| External debt (% of GDP)                       | 158.1 | 128.2 | 126.6 | 126.3 |
| Gross reserves (% of GDP)                      | 30.9  | 19.1  | 19.7  | 22.4  |
| General government gross debt (% of GDP)       | 69.0  | 58.4  | 59.8  | 58.3  |
| Unemployment rate (%)                          | 14.7  | 13.1  | 11.5  | 10.7  |
| Nominal GDP (\$bn)                             | 6.3   | 7.6   | 8.3   | 9.2   |

Source: National authorities, IMF

Montenegro's small, open, service-driven economy saw a decade of modest 2.8% growth, disrupted by a strong pandemic cycle, before returning to 3.2% in 2024. Growth of similar magnitude is expected in 2025–27, driven by private consumption, rising real wages, infrastructure projects, and tourism. The economy remains dominated by services (80% of value added), with declining share of industrial production, mostly in low complexity sectors.

Income level is higher than peers (around a half of EU level) due to reliance on services with relatively higher value-added. However, strategic approach is needed to ensure sustainable long-term growth above 3 per cent to accelerate convergence, including diversification from coastal tourism, which is susceptible to external and environmental shocks.

Montenegro is an open economy, with trade at around 118% of GDP, but the current account deficit has long remained in double digits due to high import dependence and a narrow export base dominated by tourism and a few low-complexity goods. The current account widened to around 20% in 2025 as imports, especially energy, outpaced services receipts. Only about one-third is financed by net FDI, leaving persistent external financing needs, with the EU and Serbia as key trade partners.

Since the post pandemic supply shock, inflation eased from double digit levels but remained elevated, fuelled by increased demand as well as higher global oil prices. With limited monetary mechanisms, the government introduced administrative measures in the form of margin caps on retail and wholesale prices. However, these measures only provided temporary results, since core inflation pressures are still elevated.

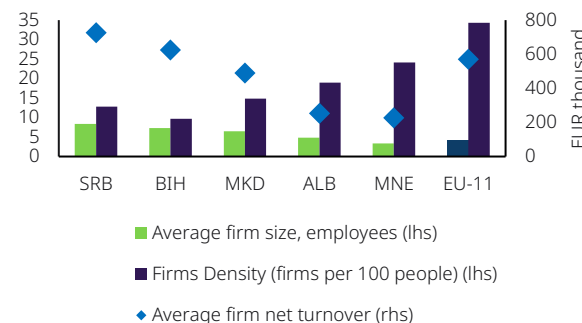
Expansionary fiscal policy and lowering the cost of formality increased the fiscal deficit to 4% of GDP in 2025, despite VAT revenue increase. Public debt, currently around 60% of GDP and projected to rise toward 66% by 2027, is assessed by the IMF as manageable but exposed to shocks, requiring credible fiscal strategy and structural reforms in pensions, health, and public administration to maintain sustainability.

## 2. Economic Context

### 2.2 Key Transition Challenges (I/II)

#### Competitive

- **Fragmented firm structure and limited scaling capacity.** The private sector is dominated by small and micro enterprises, constraining economies of scale, productivity growth and the diffusion of innovation beyond a narrow set of export-oriented firms.
- **Eroding cost competitiveness due to wage-productivity mismatch.** Post-pandemic rapid nominal and real wage growth has outpaced labour productivity gains, leading to rising unit labour costs and loss of relative cost competitiveness vis-à-vis EU-11 peers.
- **Distorted competitive environment from informality and state presence.** Informality, unpredictable parafiscal charges, and large footprint of state and municipally-owned enterprises affect fair competition and negatively impact compliant private firms.



Source: EUROSTAT, author's calculations

#### Well-governed

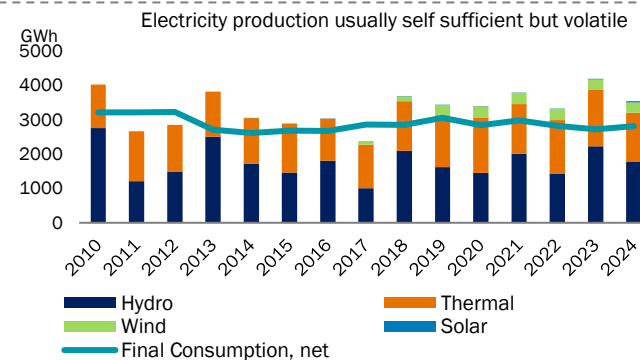
- **Transposition of many EU standards, in the areas of rule of law and anti-corruption should be followed with resolute implementation efforts.** Weak administrative capacity, political influence in public employment and inconsistent implementation continue to undermine governance effectiveness.
- **There is more room for improvement in regulatory quality.** Regulatory unpredictability, slow permitting, weak enforcement and inefficiencies in public administration constrain investment, EU funds absorption and wider economic reform, whilst SOE governance remains below good-practice standards
- **Digitalisation is advancing but remains fragmented** due to limited institutional capacity and past cyberattacks, preventing effective delivery of user-centred public services for citizens and businesses.



Source: World Bank (December 2025)

#### Green

- **Concentrated energy mix:** transport sector heavily reliant on imported oil, while domestically produced hydro and coal dominate electricity generation.
- **Carbon intensity lower than most Western Balkans, but still above EU average;** energy and transport are the main contributors, while residential sector is nearly decarbonised thanks to high share of renewables in electricity production.
- **High share of hydro in electricity production,** contributes to low emissions, but makes the country sensitive to hydrological conditions. In most years, hydropower surpluses make the country a net electricity exporter. Intermittent renewable expansion is advancing rapidly, with wind remaining the leading technology and solar growing at an increasingly fast pace.
- **Energy efficiency urgent:** Consumption currently exceeds the 2030 cap; large public-building retrofits and household incentive schemes launched but must scale quickly.
- **CBAM exposure rising:** EU carbon border charges now fully apply to electricity exports; alignment with EU ETS rules and market coupling are key priorities.



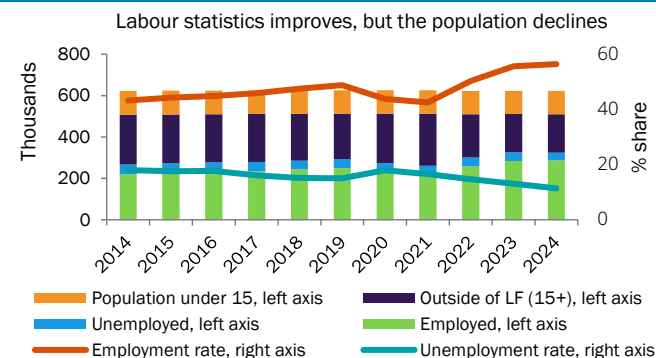
Source: MONSTAT

## 2. Economic Context

### 2.2 Key Transition Challenges (II/II)

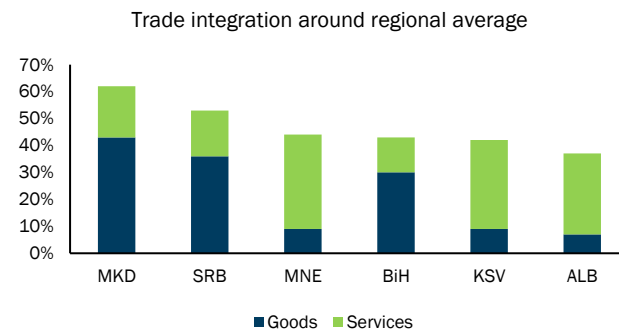
#### Inclusive

- **Labour market improving, but structural gaps remain:** Higher participation and employment, unemployment at historic low, however huge regional divide and long-term unemployment limiting further improvements, with the north of the country experiencing over 20% unemployment.
- **Efforts to formalise employment vs the risk of crowding out SMEs:** Lower tax wedge supports formalisation, but rapid public wage growth risks crowding out SMEs.
- **Demographic pressures, and mixed picture with youth participation:** Ageing, population decline, and high emigration weaken labour supply. Youth unemployment and NEET rates are falling, but skills mismatches and weak VET – employer links persist.
- **Gender gaps remain:** Strong legal framework but persistent 20%+ wage gap and low female leadership.



#### Integrated

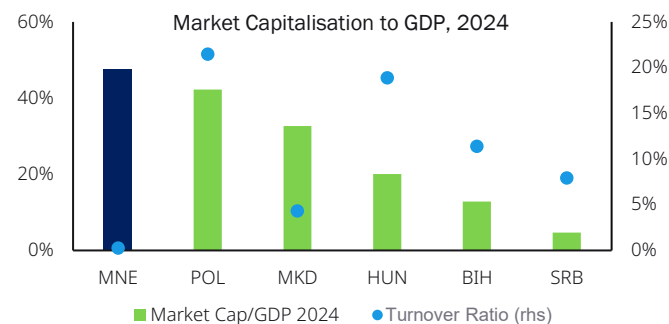
- **Infrastructure bottlenecks and uneven connectivity.** Despite ongoing investments, transport, logistics, and electricity networks remain constrained by ageing assets, difficult terrain and incomplete links, limiting internal cohesion and regional integration.
- **Narrow integration beyond tourism.** Trade and investment integration are heavily skewed toward services, particularly tourism, while goods exports and logistic linkages remain weak, constraining deeper participation in regional and EU chains.
- **Execution risk for large integration projects.** Progress on key transport energy and digital connectivity projects depends on effective project preparation, transparent procurement and institutional capacity, creating risks of delays and under-delivery.



Source: EUROSTAT, author's calculations

#### Resilient

- **Highly concentrated and climate-exposed energy system.** Electricity generation remains heavily reliant on hydropower and a state-controlled incumbent, exposing the system to hydrological shocks and limiting effective competition despite formal market liberalisation and improved cross-border integration
- **Limited financial diversification,** constrained by small market size and a restricted number of companies capable of participating in capital markets. A strongly bank-centric financial system, shallow capital markets, negligible corporate bond issuances, and very low equity liquidity constrain long-term financing and reduce shock-absorption capacity.
- **Undiversified economic structure.** Strong reliance on tourism and services leaves the economy vulnerable to external, climate and demand shocks, while limited development of alternative growth sectors weakens overall resilience.



Source: CEIC, authors' calculations

# 3. Government Priorities and Stakeholder Engagement

## 3.1 Government Reform Priorities

Montenegro's government reform priorities are strongly anchored in the EU approximation process. The government's reform ambitions are laid out in the 'Reform Agenda of Montenegro 2024-2027' as part of the European Commission's Reform and Growth Facility. This articulates the primary objective to achieve smart, sustainable and inclusive economic growth that will enhance the quality of life for all its citizens. The Reform Agenda seeks to achieve this through economic policy measures focused on: (1) diversifying economic activity and increasing competitiveness of the industry; (2) strengthening the resilience of the Montenegrin economy to external shocks; (3) ensuring macroeconomic and fiscal stability; (4) improving the business environment; and (5) launching a strong investment cycle. Within this, the Government of Montenegro has identified and specified reform measures in four key policy areas:

• **Business environment and private sector development:** creating a more competitive, investment friendly economy that can support sustainable, private sector led growth and job creation. This includes regulatory reform to address fragmentation and improve the ease of doing business; SOE governance reform; strengthening competition and state aid policies; inspections reform to address informality; and support to innovation, research and market connectivity.

• **Digital and energy / green transitions:** energy market reform, including implementation of the EU's energy integration package, alongside tariff reform; decarbonisation policy under the National Energy and Climate Plan and improvements to ETS; expanding renewable energy deployment, improving energy efficiency and mitigating air pollution; and advancing digital infrastructure and e-government, and strengthening digital security.

• **Human capital development:** strengthening employability and inclusion through skills development and labour-market activation. This includes lifelong learning and work-based education, increased female labour force participation, activation of social assistance beneficiaries, disability system reform, expanded community-based social services, investment in education infrastructure, and education system digitalisation.

• **Fundamental rights/rule of law:** reinforcing institutions and legal certainty to support EU accession. This includes electoral reform, strengthening judicial independence and efficiency, enhancing the fight against corruption and organised crime, and improving protection against discrimination and gender-based violence.

## 3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Expand sustainable infrastructure, including investments in solar, wind, and energy efficiency, to support the green transition and greater energy security.
- Enhance sustainable local and regional connectivity through the expansion of road, air, and rail infrastructure, supporting trade, inclusion, and tourism, with particular emphasis on the continued development of the Bar–Bijelo Polje highway.
- Strengthen public administrative capacity and support project preparation to facilitate the adoption of government reform commitments and the effective absorption of EU funds.
- Support private sector development and access to finance, with a focus on financial inclusion, accelerated digitalisation, and economic diversification.

## 3.3 Key Messages from Civil Society to EBRD

- Civil society representatives emphasised the importance of strengthening Montenegro's economic competitiveness through continued investments in sustainable infrastructure, transport and energy connectivity, alongside enhanced support for SMEs, longer-term access to finance and workforce skills development. Participants also highlighted the need for greater support for education, professional training and the adoption of international standards to facilitate inclusive and sustainable economic growth.
- Participants underscored the importance of accelerating the green transition through investments in energy efficiency, climate resilience and environmentally sustainable development. Key priorities raised included support for decarbonisation, nature-based solutions, awareness-raising on energy efficiency, particularly in schools and hospitals, and measures to address air pollution and support economic diversification in coal-dependent regions.
- CSO representatives highlighted ongoing governance and institutional challenges, including concerns related to public sector capacity, transparency, political influence in state institutions and the enabling environment for civil society and independent media. Participants stressed the importance of strengthening corporate governance, state-owned enterprise reform, accountability, anti-corruption measures and public participation to support democratic resilience and sustainable development.

# 4. Defining Montenegro Country Strategy Priorities

| What needs to change?<br>(Country Diagnostic)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Can it be changed?<br>(Political Economy)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | What can the Bank do?<br>(Institutional Capabilities)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Strategic Priorities<br>(2026-2031)                                                                            | What We Want to see<br>in 2031                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Limited cross-border energy integration and market depth reduce system resilience and slow progress towards a diversified energy mix.</li> <li>Electricity generation remains concentrated in hydropower and coal, with regulated prices often below cost-recovery levels, and persistently elevated network losses.</li> <li>Despite a service-oriented economy and relatively low industrial emissions, carbon intensity remains above the EU average, highlighting scope to accelerate decarbonisation and energy-efficiency improvements.</li> <li>Gaps in transport infrastructure and pronounced regional disparities constrain economic integration, labour mobility and private investment beyond the coastal areas.</li> </ul>                                                                                                                                                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>Momentum is building for regional energy-market integration, including improvements in cross-border market infrastructure.</li> <li>Coal phase-out plans imply the need for continued investment in diversified renewable energy sources, supported by emerging planning and auction frameworks.</li> <li>Energy-efficiency legislation has been strengthened, with a focus on buildings, providing a platform for scaled-up investment and implementation.</li> <li>Montenegro's inclusion in key regional transport corridors, alongside EU accession prospects, is expected to catalyse further infrastructure investment and strengthen regional integration.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>Accelerate the green transition through investment and policy engagement to support energy security and resilience.</li> <li>Scale renewable energy and enabling infrastructure by investing in clean generation, as well as storage, transmission, and grid.</li> <li>Support resource and energy efficiency, particularly in buildings and municipal infrastructure, combining investment with policy.</li> <li>Promote connectivity and regional integration through investment in transport infrastructure and associated reforms, strengthening internal and cross-border links and reducing regional disparities.</li> <li>Reinforce the resilience of critical infrastructure, including through enhanced cybersecurity and operational reliability where relevant.</li> </ul>                                                                                                                                                                   | <b>Diversify energy supply, improve resource efficiency, and promote economic integration and connectivity</b> | <ul style="list-style-type: none"> <li>Improved energy security, and resource and energy efficiency</li> <li>Improved connectivity and increased regional integration</li> </ul>                       |
| <ul style="list-style-type: none"> <li>Montenegro is an EU accession frontrunner, but the economic impact of regulatory convergence is constrained by implementation gaps and limited institutional capacity.</li> <li>Further improvements in economic diversification and the development of domestic value chains would strengthen resilience, support productivity growth, and contribute to sustained convergence with EU income levels.</li> <li>The private sector is highly fragmented, dominated by micro-enterprises with limited scope for scaling, innovation and productivity gains.</li> <li>The financial system remains predominantly bank-centric, with limited diversification and a marginal contribution of non-bank financial institutions to long-term financing.</li> <li>Women are under-represented in entrepreneurship and senior management, despite progress in the legal framework and labour-market participation.</li> <li>Education infrastructure and digital endowments, particularly in rural areas, remain uneven, contributing to skills mismatches and regional disparities.</li> </ul> | <ul style="list-style-type: none"> <li>The EU accession process continues to provide a strong external anchor, supporting reforms aimed at improving governance, institutional effectiveness and competitiveness.</li> <li>The Reform Agenda under the EU Reform and Growth Facility, linked to the €6 billion Growth Plan for the Western Balkans, provides a clear framework for implementation-focused reforms.</li> <li>Effective delivery of reform milestones, increasingly linked to EU disbursements, will be critical for deepening EU approximation and supporting medium-term growth.</li> <li>The banking sector remains well capitalised and liquid, with improved asset quality, providing a stable basis for financial intermediation.</li> <li>Capital-market legislation is advancing, creating scope for gradual market deepening and diversification of financing sources.</li> <li>Ongoing reforms in education, labour markets and the business environment are beginning to translate into improved labour-market outcomes, including for youth and women.</li> </ul> | <ul style="list-style-type: none"> <li>Strengthen economic governance by enhancing the efficiency and effectiveness of firms, improving transparency, predictability and a level playing field.</li> <li>Support private-sector development and competitiveness through investment, policy, and advisory to reduce market distortions, improve the business environment and crowd in domestic and foreign investment.</li> <li>Leverage selective public-sector engagement to deliver systemic reform, including SOE governance, sector reforms, procurement and implementation capacity</li> <li>Deepen inclusive financial systems and access to finance via partner financial institutions and targeted non-bank market development, supported by policy engagement where needed.</li> <li>Advance human capital and equality of opportunity by supporting access to skills, employment and livelihoods and by integrating inclusion objectives in client operations and chains.</li> </ul> | <b>Strengthen economic governance, and private sector competitiveness</b>                                      | <ul style="list-style-type: none"> <li>Improved economic governance and capacity of the public sector</li> <li>Enhanced competitiveness of the private sector and better economic inclusion</li> </ul> |

# 5. Activities and Results Framework (1/2)

## Priority 1: Diversify energy supply, improve resource efficiency, and promote economic integration and connectivity

| Key Objectives                                               | Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Tracking Indicators                                                                                                                                                                                                                                      |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Improved energy security, and resource and energy efficiency | <ul style="list-style-type: none"> <li>Continue supporting rollout and integration of green technologies, including renewable energy and green building standards, through direct and intermediated financing and policy engagement. Support climate change resilience measures.</li> <li>Promote investments that enhance energy system stability, energy security, reliability and efficiency, including through the development of energy transition relevant green skills, to integrate and manage evolving energy mix through financing key energy infrastructure investments (e.g., grid upgrades, including new transmission and distribution lines, and investments in energy storage). Promote digitalisation and cybersecurity in the energy sector.</li> <li>Continue supporting resource efficiency investments for residential sector, corporates, and public sector, including through dedicated green credit lines and advisory.</li> </ul> | <ul style="list-style-type: none"> <li>Renewable energy capacity installed (MW)</li> <li>Primary energy saved (GJ/year)</li> <li>Number and volume of green investments disbursed through PFIs</li> <li>CO2e emissions reduced (Ktonnes/year)</li> </ul> |
| Improved connectivity and increased regional integration     | <ul style="list-style-type: none"> <li>Continue financing priority transport and energy infrastructure to improve national and regional connectivity and integration.</li> <li>Supporting economic integration, including through potential further expansion of logistic facilities and cross-border infrastructure assets.</li> <li>Seek to expand digital infrastructure and digital skills, including rural broadband.</li> <li>Support expansion of exports and attraction of FDI to assist economic development and diversification.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>Improved energy transmission capacity</li> <li>Number of people benefitting from improved transport services</li> <li>Number of ASB clients reporting increased exports</li> </ul>                                |



# 5. Activities and Results Framework (2/2)

## Priority 2: Strengthen economic governance, and private sector competitiveness

| Key Objectives                                                               | Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Tracking Indicators                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Improved economic governance and capacity of the public sector               | <ul style="list-style-type: none"> <li>Continue policy engagement to improve market regulation, SOE governance, commercialisation and selective restructurings, anchoring interventions in Montenegro's reform commitments and EU accession.</li> <li>Work with the authorities and other development partners to ensure sufficient regulatory and fiscal space for investments in accessible and inclusive infrastructure and other public services, including through advocacy of PPPs and other forms of private role in the provision of public services, and financing for potential follow up projects in infrastructure and energy.</li> <li>Provide support to project preparation and strengthening of public sector capacity, including procurement and project implementation.</li> <li>Encourage and support digitalisation of SOEs and the public sector, including improved digital and cybersecurity governance and capacities.</li> <li>Offer support for improvements of municipal infrastructure, better quality and access to public services, including improvements of performance and governance as well as regionalisation of municipal companies based on the experience in other countries in the region.</li> </ul> | <ul style="list-style-type: none"> <li>Number of SOEs adopting governance or restructuring measures</li> <li>Number of individuals benefitting from improved access to infrastructure services</li> <li>Number of clients with improved corporate governance</li> </ul>                                   |
| Enhanced competitiveness of the private sector and better economic inclusion | <ul style="list-style-type: none"> <li>Continue financing for the private sector both directly and through credit lines, including expanding the range of available instruments. Expand risk sharing and support structured financing instruments (such as Portfolio Risk Sharing) and regulatory capital / finance (such as MREL).</li> <li>Provide advisory for SMEs to scale up, access financing, and expand markets.</li> <li>Support economic diversification, including expansion of value chains.</li> <li>Promote expansion of digitalisation in the private sector, including through Go Digital Credit lines, advisory services for SMEs, and on cybersecurity.</li> <li>Promote market-aligned human capital development by supporting upskilling initiatives and engaging in policies that strengthen workforce capabilities to meet evolving labour market needs.</li> <li>Expand access to finance for underserved population groups through programmes and policy dialogues, such as Women in Business, Youth in Business, WE Finance Code, and regional credit lines for less developed regions outside the capital and the coast to promote balanced regional development.</li> </ul>                                       | <ul style="list-style-type: none"> <li>Number/volume of MSME sub-loans disbursed</li> <li>Number/volume of WiB/YiB loans disbursed</li> <li>Number of ASB clients reporting increased productivity or employment</li> <li>Number of stakeholders with enhanced skills after receiving training</li> </ul> |

## 6. Mapping of International Partners' Complementarity in EBRD Business Areas

### EBRD Business Areas

|                        | Sectors          |       |             |     |                   |                            |           |                |             |                 | Cross-cutting themes  |                     |                        |
|------------------------|------------------|-------|-------------|-----|-------------------|----------------------------|-----------|----------------|-------------|-----------------|-----------------------|---------------------|------------------------|
|                        | Corporate sector |       |             |     |                   | Sustainable infrastructure |           |                | FI          |                 | Strategic initiatives |                     |                        |
|                        | Agribusiness     | M & S | Real Estate | TMT | Natural Resources | Energy                     | Transport | Infrastructure | Banking FIs | Non-banking FIs | Green Economy         | Economic Governance | Human Capital & Gender |
| AFD Group <sup>1</sup> | P                |       |             |     |                   | ⦿                          | P         | ⦿              |             | ⦿               | ⦿                     | P                   | P                      |
| EIB                    |                  |       |             |     |                   |                            | ⦿         | ⦿              |             | ⦿               | ⦿                     |                     | ⦿                      |
| EU                     | ⦿                |       |             | ⦿   |                   | ⦿                          | ⦿         | ⦿              | ⦿           |                 | ⦿                     | ⦿                   | ⦿                      |
| IFC                    | ⦿                |       | ⦿           |     |                   |                            | P         |                |             |                 | ⦿                     |                     |                        |
| KfW                    |                  |       |             |     |                   | ⦿                          |           | ⦿              |             |                 | ⦿                     |                     |                        |
| WB                     | ⦿                |       |             |     | ⦿                 | ⦿                          | ⦿         | ⦿              |             | P               | ⦿                     | ⦿                   | P                      |
| EBRD                   | ⦿                |       |             |     |                   | ⦿                          | ⦿         | ⦿              | ⦿           |                 | ⦿                     | ⦿                   | ⦿                      |

⦿ Area of significant investments

P Policy engagement

● Focus mostly on private sector

○ Focus mostly on public sector

Note: Partner activity mapping (2021-2026) based on publicly available information. Symbols indicate whether an IFI was active in the sector during the period; they do not reflect the scale, value, or number of operations; 1. Proparco and Expertise France, part of AFD Group, are both active in Montenegro

### Potential Areas of Cooperation



#### Well-Governed

- Work closely with the EU and other donors on governance and SOE reforms in the run up to and following EU accession



#### Green

- Co-operate with EU on the Green Agenda for the Western Balkans and with the KfW on energy efficiency and energy reforms



#### Competitive

- Leverage grant financing from the EU and other donors to support access to finance in key sectors



#### Integrated

- Under the WBIF umbrella, continue close coordination with the EU, EIB, KfW and other donors to develop key transport, energy and digital infrastructure projects



#### Inclusive

- Look for opportunities to develop projects under the Cultural Heritage Framework with EU support and advance gender mainstreaming with donors such as the Good Governance Fund

# 7. Implementation Risks and Environmental and Social Implications

| Risks to the strategy implementation                                                                                                                                                                                                                                        | Probability                                                                         | Effect                                                                              | Environmental and social implications                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li><b>Weak administrative capacity and inadequate coordination</b> within and between government institutions resulting in implementation constraints</li> </ul>                                                                        |    |    | <ul style="list-style-type: none"> <li><b>Assessment and Management of Environmental &amp; Social (E&amp;S) Impact:</b> Ensure that direct, indirect, transboundary and, notably, cumulative E&amp;S impacts of projects are appropriately assessed in accordance with EBRD ESRs and EU EIA Directive. Support clients with stronger project planning, especially for project alternatives which should consider E&amp;S impacts, stakeholder engagement and avoidance of sensitive areas. Support public clients to strengthen E&amp;S management capacity, disclosure and handling of complex grievances.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <ul style="list-style-type: none"> <li><b>Limited enforcement of SOE reforms,</b> resulting in continued governance weaknesses amongst key firms in energy, transport, and utilities</li> </ul>                                                                             |    |    | <ul style="list-style-type: none"> <li><b>Labour and Working Conditions:</b> Ensure that clients' Human Resources policies and labour practices comply with EBRD Environmental Social Requirement 2, particularly in respect of labour rights and working conditions, contractor management and oversight, prevention gender-based violence and harassment, preventing discrimination, and promoting of equal opportunities. Support clients to work on assessing and mitigating digital risks.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <ul style="list-style-type: none"> <li><b>Limited fiscal space and concerns about public debt sustainability</b> may prevent expenditure on critical sovereign infrastructure projects, necessitating grant resources or concessional finance</li> </ul>                    |    |    | <ul style="list-style-type: none"> <li><b>Resource Efficiency and Pollution Prevention and Control:</b> Challenges remain in waste and wastewater collection and treatment, district heating, and air pollution. Strengthening construction waste management practices is a key priority. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with best available technologies.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <ul style="list-style-type: none"> <li><b>Political instability</b> could negatively impact reform implementation, in particular fiscal performance, environmental measures / green energy agenda, and PPPs / privatisations</li> </ul>                                     |    |    | <ul style="list-style-type: none"> <li><b>Health and Safety (H&amp;S):</b> Assist in the improvement of occupational and community health and safety, especially for infrastructure and energy projects. Technical Cooperation (TC) support may be required to address road and rail safety issues. Other areas of focus should be the provision and use of safety equipment; work-related H&amp;S information and training; and vulnerable people's H&amp;S needs, particularly migrant workers</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <ul style="list-style-type: none"> <li><b>Limited absorption capacity,</b> restricting the pipeline of bankable projects, particularly in the private sector and on the local municipal level</li> </ul>                                                                    |  |  | <ul style="list-style-type: none"> <li><b>Land Acquisition, Involuntary Resettlement &amp; Economic Displacement:</b> Ensure any projects requiring acquisition of land, either permanently or temporarily, comply with the Bank's compensation and livelihood restoration requirements. Rules for commercial acquisition of land should be transparent and follow good industry practice including consideration to correct information asymmetry for land users/owners.</li> <li><b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Challenges remain concerning potential risks and impacts of project related activities to sensitive and/or legally protected and internationally recognised areas of biodiversity . TC funds for capacity building initiatives and robust biodiversity assessments are required. In line with EBRD requirements for biodiversity protection, ensure that projects result in no net loss, or a net gain when feasible, of priority biodiversity features and a net gain of critical habitat.</li> <li><b>Financial Intermediaries:</b> Ensure that Financial Intermediary partners have adequate E&amp;S capacity and risk management procedures in place.</li> </ul> |
|  High  Medium  Low |                                                                                     |                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

# 8. Donor Partnerships Assessment

## Needs Assessment for the New Country Strategy Period

To achieve the goals of the new country strategy, donor funds are required to support several key activities:

- Technical cooperation (TC), risk-sharing instruments and structured financing tools (e.g. PRS and MREL) to strengthen economic governance and public sector capacity, while improving private sector access to finance, supporting SME growth and diversification, promoting digitalisation and cybersecurity, and encouraging private sector participation through PPPs.
- Risk-sharing instruments and advisory support to promote economic inclusion and human capital development, including skills upgrading aligned with labour market needs and programmes such as WiB and YiB.
- Concessional finance and TC to support renewable energy and resource efficiency investments, including green technologies, grid upgrades and energy storage, while facilitating the development of roads and railways, waste management, energy and digital infrastructure to strengthen connectivity, expand logistics and rural broadband, and support export growth and FDI attraction.

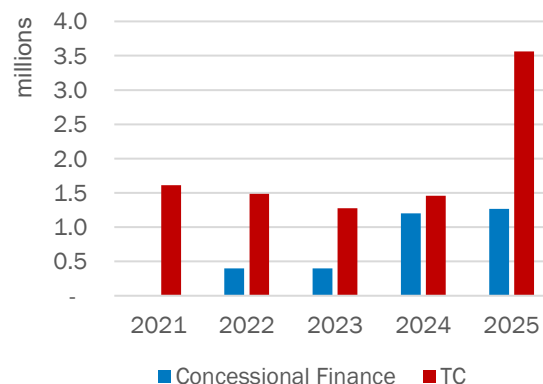
## Potential Sources of Donor Funds

- The European Union is expected to remain a key partner for Montenegro in the lead up to EU accession, deploying grants and EFSD+ guarantees to support reform progress and investments including via the Western Balkans Investment Framework. Investments in infrastructure, private sector development, financial inclusion, digital transformation and green transition remain priorities. Further funding opportunities may be available post EU membership through EU cohesion funds and other EU instruments. In 2026, €150 million in grants supported by the EU will go to support the construction of the 22km long Matesevo - Andrijevac section of the Bar-Boljare Highway.
- Continued involvement from bilateral donors, including Austria, Italy, Luxembourg, the Slovak Republic, Taipei China and the United Kingdom, is anticipated. These donors are expected to continue providing Technical Cooperation (TC) to support project preparation, implementation and policy reforms. Climate-related initiatives can receive support from the High-Impact Partnership on Climate Action (HIPCA), supporting investments in renewable energy, energy efficiency and broader green transition projects.
- Finally, concessional resources will continue through EBRD facilities such as the Shareholder Special Fund, alongside regional funds supporting investment and private sector development in the Western Balkans.

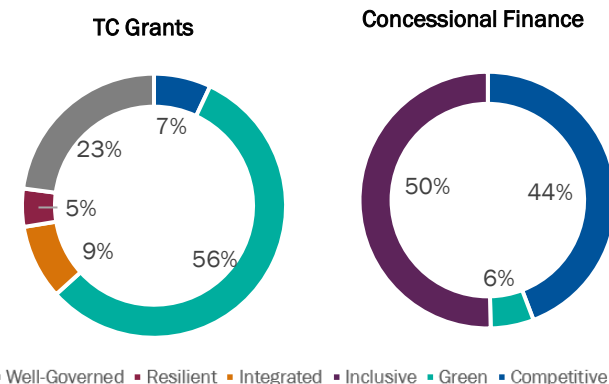
## Selected Affordability Indicators

|                                                        |        | EBRD regional<br>percentile rank <sup>1</sup> |
|--------------------------------------------------------|--------|-----------------------------------------------|
| GDP per capita (PPP, USD)(2025) <sup>2</sup>           | 34,408 | 87%                                           |
| ODA Country                                            | Yes    | N/A                                           |
| ODA as share of Gross National Income (%) <sup>3</sup> | 1.24   | 27%                                           |
| ODA per capita (\$ - current prices) <sup>3</sup>      | 149.9  | 60%                                           |

## Donor finance, 2021-2025 (€m)<sup>4</sup>



## Use of grants in 2021-2025<sup>5</sup>



1. Simple percentile rank reported as the share of EBRD economies represented below Montenegro; 2. Source: IMF WEO; 3. Source: OECD (2023); 4. 2021-2025 TC data is based on earmarks at the project level. Concessional finance grant amounts historically used to be based on client signings but have since changed to earmarks except for unfunded guarantees; Furthermore, it is important to note that figures only include secured finance for EBRD's use. This excludes some tranches of the WBIF, that EBRD acts as a fund manager for other IFIs. 5. Based on the primary Transition Quality of grants earmarked and client signings for unfunded guarantees

Annex



**European Bank**  
for Reconstruction and Development

# Annex 1 – Political Assessment in the Context of Article 1 (1/6)

Montenegro's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda. At the same time many challenges remain. Montenegro shares key institutional weaknesses common to the Western Balkans countries, including weak rule of law, fragility of democratic institutions, and relatively low capacity of public administration, additionally complicated by the country's small size.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities, and for a meaningful role of civil society, are largely in line with international and European standards. Elections are generally conducted in a manner deemed by the OSCE and the Council of Europe to be free.

Progress in democratic reforms since the adoption of the previous Country Strategy has to a great extent been linked with ongoing approximation with the EU, seen by the current governing coalition, in office since 2023, as a key priority for the country. Progress in particular has been made in improving the legislative and institutional frameworks. Implementation remains an area of weakness. The government has achieved significant progress in accelerating preparations for the coveted EU accession driven by its ambition to complete accession negotiations by the end of 2026 and obtain the membership in 2028. To achieve these ambitious objectives, Montenegro, as assessed by the European Commission, which supports them, should focus on further improvements in the critical area of the rule of law and the fight against corruption, and deliver on other democratic reforms.<sup>1</sup>

## Free Elections and Representative Government

### Free, fair and competitive elections

The existing legal framework, which in the past benefited from a series of reforms (the latest in 2025), provides, according to ODIHR/OSCE, a “basis for the democratic conduct of elections”.<sup>2</sup> Montenegro has managed to harmonise its electoral legislation with the Constitution, which was a long-standing recommendation by the OSCE. However, there still remains a number of gaps, ambiguities, and inconsistencies in the electoral legislation. Some previous OSCE/ODIHR recommendations remain unaddressed, including on residency requirements for voting and candidacy rights, registration of candidate lists representing national minorities, campaign finance oversight, media oversight, and election dispute resolution. When issuing the final report after the last general elections, OSCE concluded that a “comprehensive review of the legal framework should be undertaken to address previous ODIHR recommendations and eliminate existing gaps and inconsistencies”.<sup>3</sup>

The Constitution and the Law on the Election of Councillors and Representatives (electoral law) are the primary pieces of legislation that regulate elections. The first post-independence Constitution established a unicameral parliament of 81 deputies, who are elected for four-year terms in a single nationwide constituency under a proportional, closed-list system.

Six general elections have been conducted since the proclamation of independence in 2006. Elections are generally highly competitive, starting with an inclusive and transparent candidate registration process that offers a diverse choice to the electorate. The candidates are able to campaign freely. The Central Election Commission is a permanent body appointed by the parliament and operates normally in an efficient manner. The Electoral Code provides for both domestic and international election observation at all levels of election administration.

1. European Commission, Montenegro 2025 Report, 5 November 2025; 2. OSCE/ODIHR. Final report on early parliamentary elections in Montenegro of 11 June 2023, 11.12.2023. OSCE/ODIHR; 3. Final report on early parliamentary elections in Montenegro of 11 June 2023, 11.12.2023

# Annex 1 – Political Assessment in the Context of Article 1 (2/6)

## Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well-established procedures of legislative oversight in prescribed domains of decision-making – is in place in Montenegro and largely in line with international and European standards, as assessed by the Council of Europe. The scope of powers of the legislature to hold the government to account is largely in line with international standards. Parliament can exercise its powers, including control of the executive, in an overall effective way.

At the end of 2024, a serious institutional crisis emerged over the decision of parliament to unilaterally declare the retirement of a Constitutional Court judge, raising concerns about respect for the independence of the Constitutional Court and the principle of separation of powers. This crisis, like some of the issues mentioned in the section about electoral system, stemmed from a lack of clear rules and conflicting secondary legislation. The above-mentioned crisis was overcome in spring 2025 through a political agreement between political parties, which also included a request for an opinion by the Venice Commission.

## Effective power to govern of elected officials

Montenegro has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, and they are not constrained by any non-democratic veto powers or other undue influences. As in many other transition countries, there has long been a close relationship between business and political elites. However, this does not compromise the powers of elected officials to govern the country.

## Civil Society, Media and Participation

### Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs). The Law on NGOs continues to provide the basis for the establishment and functioning of CSOs. The strategic framework for cooperation between the government and civil society, such as the Strategy for the Development of NGOs, has not been regularly updated or fully implemented in recent years. Institutional mechanisms for structured dialogue, including consultative bodies and working groups, require further strengthening to ensure meaningful participation. The National Office for Cooperation with NGOs, housed within the Ministry of Public Administration, continues to serve as the primary technical body for coordinating government engagement with civil society. Its effectiveness has varied, and concerns persist regarding its ability to facilitate genuine dialogue and support.

Although the role of civil society in monitoring government policies and supporting Montenegro's EU accession process is recognised, its practical inclusion in policymaking processes remains limited. Consultations with civil society are not always conducted in a timely or meaningful manner, and cooperation between CSOs and local authorities remains weak. Among structural challenges are limited domestic funding opportunities and continued reliance on international donor support. Public criticism of CSOs by political actors and pressures affecting independent watchdog institutions have also raised concerns about the operating environment for civil society.

### Independence and pluralism of media operating without censorship

Pluralism in the media, which operates freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards. It includes the new Law on Media, the Law on Electronic Media and the Law on Public Broadcasting Services. A new set of draft media laws is currently under review to bring the legal framework further in line with EU regulations. Print and online media rely upon self-regulation.

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Television channels remain the main source of news, followed by social networks and online media, with print media playing a less prominent role. According to ODIHR/OSCE, the public service broadcaster Radio and Television of Montenegro (RTCG), which runs three national TV channels and two radio stations, has regained public trust following the appointment of a new Council in 2021. Most of the private media outlets across broadcast, print and online media are partially or fully owned by foreign companies, including all four private television channels.

In 2021, the Criminal Code was amended to enhance protection of journalists by imposing harsher punishments for attacks and threats against them. The period since the previous Country Strategy has seen fewer reports of physical attacks, though threats persist. While the decriminalisation of defamation against individuals was an important step, there are still a number of provisions in the existing legislation that are contrary to international standards on freedom of expression, including the “defamation of the reputation of Montenegro”, “insult in public space” and “causing panic by the dissemination of false news”.<sup>4</sup>

## Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. There are certain rules and procedures regarding public consultations, but they are not always enforced, and challenges remain in terms of effectiveness of public consultations. Relatively high proportion of laws proposed by the government, especially related to harmonisation with EU legislation, is adopted by the parliament using fast-track procedures.

## Freedom to form political parties and existence of organised opposition

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. 15 lists, comprising dozens of political parties, participated in the last general elections (2023). The largest opposition party currently holds about 25 per cent of seats in the parliament.

## Rule of Law and Access to Justice

### Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place.

### Independence of the judiciary

The independence of the judiciary is guaranteed by the Constitution, and key legal safeguards are in place to ensure its impartiality. Strengthening of the independence and impartiality of judiciary are at the core of Montenegro's EU accession negotiations. The reforms aimed at strengthening independence of judiciary have intensified after 2023, particularly in 2024 when the European Commission concluded that the country overall met interim benchmarks for the critical rule of law EU accession chapters 23 and 24.<sup>5</sup> The latest (2025) EU Rule of Law Report qualified the progress as “initial positive results”.<sup>6</sup>

The Law on Judicial Council and Judges and the Law on State Prosecution Service are now deemed to be broadly in line with European Standards.<sup>7</sup> In 2024, the Judicial Council unanimously appointed a new permanent President of the Supreme Court, after nearly four years of this position being held on an interim basis. This appointment, alongside other recent judicial appointments, was a milestone in reinforcing the independence and legitimacy of the judiciary.

Nevertheless, the level of perceived judicial independence by public remains very low: 26 per cent of the general population and 35 per cent of companies perceive the level of independence of courts and judges to be ‘fairly or very good’.<sup>8</sup>

4. OSCE/ODIHR. Final report on early parliamentary elections in Montenegro of 11 June 2023, 11.12.2023; 5. Communication from the EC to the European Parliament and the Council on EU Enlargement Policy. 30.10.2024; 6. EU Rule of Law Report 2025, Country Chapter on the rule of law situation in Montenegro. 08.07.2025; 7. European Commission, Montenegro 2025 Report, 5 November 2025; 8. Flash Eurobarometer FL558. Citizens' attitudes towards corruption in selected enlargement countries, 23.10.2025

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## Government and citizens equally subject to the law

The legal framework that sets good standards for the lines of accountability and judicial review is broadly in place. A number of measures implemented in recent years, including provisions for public accessibility of decisions by courts and adoption of the Code of Ethics for governmental bodies and parliament have been designed to increase the accountability of public administration and the judiciary. A new Law on Access to Information has been prepared and is pending parliamentary adoption.

## Effective policies and institutions to prevent corruption

According to Transparency International's 2025 Corruption Perceptions Index (CPI), Montenegro has a score of 46, which places it 65th out of 182 assessed countries globally. This is the best position among Western Balkans countries, and above some of EBRD's EU countries of operations.<sup>9</sup> However, corruption remains a challenge.

The 2025 special Eurobarometer on corruption showed that 88 per cent of respondents considered corruption widespread in their country (EU average 69%). As regards businesses, 79 per cent consider that corruption is widespread (EU average 63%).<sup>10</sup>

The legal framework and secondary legislation on anti-corruption are largely in place and have been further strengthened since the adoption of the previous Country Strategy. In particular, the new Law on prevention of corruption was adopted in 2024, followed by a few bylaws. The legal framework on lobbying improved after the adoption of several bylaws.

Since the adoption of the previous Country Strategy, Montenegro has introduced the electronic European Single Procurement Document (ESPD) in the e-procurement system and started implementing a red flag system to detect irregularities in public procurement procedures.

An assessment on Montenegro's compliance with international anti-corruption standards has been made by GRECO through its usual instruments. GRECO addressed a number of recommendations to Montenegro in its Fourth and Fifth Round Evaluation Reports, some of which remain outstanding.<sup>11</sup>

The institutional framework for preventing and fighting corruption has strengthened. However, the overall capacity and human resources situation in the key bodies, including the Agency for Prevention of Corruption (ASK), the Special State Prosecution Office (SSPO), and the Special Police Unit (SPU) remain insufficient. The condition of the SSPO and SPU's offices are deemed to be below the minimum required by European standards, preventing these institutions from carrying out their duties effectively.<sup>12</sup> Among GRECO's recommendations is clarification of the cooperation framework between ASK and the newly established National Council for the Fight against Corruption.<sup>13</sup>

While the track record on investigations and prosecutions in high-level corruption cases continues to improve, the number of final convictions remains low. The lack of effective and deterrent penalties contributes to a perception of impunity.<sup>14</sup>

9. Transparency International, Corruption Perceptions Index (CPI) 2025; 10. Flash Eurobarometer FL558, Citizens' attitudes towards corruption in selected enlargement countries. 23.10.2025; 11. Council of Europe, Group of States against Corruption (GRECO), Fifth Evaluation Round. Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies. 25.10.2025; 12. EU Rule of Law Report 2025, Country Chapter on the rule of law situation in Montenegro. 08.07.2025; 13. Council of Europe, Group of States against Corruption (GRECO), Fifth Evaluation Round. Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies. 25.10.2025; 14. EU Rule of Law Report 2025, Country Chapter on the rule of law situation in Montenegro. 08.07.2025

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## Civil and Political Rights

### Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognized in international law, including the freedom of speech, information, religion and conscience, movement, association and assembly, and private property. Overall, both the legislative and institutional frameworks in the area of fundamental rights are in place. A new law on the Ombudsperson's Office is being drafted to fully align with the Paris Principles.

Montenegro has ratified most key international human rights instruments. The latest assessment of the track record of Montenegro in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was completed in 2023. The top three recommendations related to equality, violence against women, and minority rights.<sup>15</sup>

### Political inclusiveness for women, ethnic and other minorities

The country has a complex ethnic composition. According to the 2023 census, just over 41 per cent of the population identify themselves as Montenegrins (a decrease compared to the previous census). Ethnic Serbs represent 33 per cent of the population (an increase compared to the previous census). Bosniaks are 9 per cent; Albanians 5 per cent. The legislative framework for the protection of ethnic minorities is broadly in place, and the Law on Minority Rights is being implemented.

Roma, who according to the 2023 census represent less than one per cent of the population, remain, alongside Egyptians (0.27%), the most vulnerable minority and discrimination against them persists. They are the only significant ethnic minority in the country without a minority political party and are not represented in the parliament.

The key legislative elements for promoting and enforcing gender equality are in place. The government has recently adopted a new 2025–2029 National Gender Equality Strategy. However, the legislative framework for preventing gender-based discrimination has had a limited impact due to weak implementation. Women continue to face multiple forms of discrimination, and stigmatisation is prevalent in Montenegrin society. In everyday life, apart from the pay gap, the main issue of concern is domestic violence. Amendments to the Criminal Law, adopted in 2023, resulted in a better definition of criminal acts related to violence in the family. In 2024, the State Prosecutor adopted standard operating procedures for the prosecution when handling cases of sexual and gender-based violence in line with relevant international and EU standards.

The inclusion of women in political life remains low. The dynamics of women's representation in the parliament has been uneven. After years of increase (from the historic low of 11 per cent to 30 per cent in the 2016–2020 parliament), the share of women in the parliament established in September 2020 saw a decrease to 22 per cent and declined further after the latest (2023) early elections – to 20.9 per cent. This successive decline is despite the 2023 elections being the third since the introduction of the gender quota in candidate lists. It would appear that political parties fail to promote women participation beyond the legal minimum. A 2024 amendment to the electoral law increased the quota for the less represented gender from 30% to 40%, alongside additional requirement that at least one out of every three candidates on electoral lists be from the underrepresented gender.

15. United Nations, Universal Periodic Review (UPR), Montenegro. 2024

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Although Montenegro became the first country in the region to adopt a law on same-sex partnerships (seven laws have been since harmonised with that law and the work continues for harmonisation of a few further laws), LGBTIQ rights continue to be challenged, and hate speech against LGBTIQ is still widespread.

## Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice.

A delegation of the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Montenegro in 2025. The preliminary observations, published in 2026, were particularly critical of the situation of persons on remand, highlighting that they were subjected to poor treatment and appalling conditions of detention. The CPT noted no improvement since its previous visit in 2017 in the situation regarding psychiatric patients. Some improvements were noted with regard to social care homes. Overall, CPT believes that "too many of the Committee's previous recommendations" made after the 2017 and 2022 visits remain unfulfilled.<sup>16</sup>

16. European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT). Preliminary observations after the visit to Montenegro from 19 to 27 November 2025. 25.02.2026