

Management Response

“Country-level Evaluation: the EBRD’s activities in Montenegro 2017-2024”

24 October, 2025

1. Executive summary

Management welcomes the evaluation’s comprehensive assessment of the Bank’s engagement in Montenegro during 2017–2024 and finds its analysis broadly balanced. The report highlights areas where EBRD has delivered strong results, as well as where further refinement of operational approaches could enhance impact. Management values this input as it prepares the forthcoming Country Strategy for Montenegro (2026 – 2030).

The Bank’s portfolio performance should be viewed in the context of Montenegro’s small market size and the structural characteristics of its economy. The headline disbursement rate partly reflects the inclusion of contingent instruments, such as the Deposit Protection Fund guarantee, and several large infrastructure projects with inherently longer implementation cycles. Adjusted for these factors, the Bank’s performance remains comparable to that of peers in the Western Balkans.

EBRD’s sustained engagement has contributed to tangible progress in improving the business environment and supporting private sector development. The Bank’s partnership with the Secretariat to the Competitiveness Council has helped advance reforms in company registration, fiscal transparency, and women’s entrepreneurship – achievements now reflected in the EU Growth Plan for Montenegro.

In the area of corporate governance, Management recognises that reform progress varies across State-Owned Enterprises (SOEs). Nevertheless, many Corporate Governance Action Plans (CGAPs) have yielded positive results, often under tight resource constraints. Management intends to build on this progress through stronger monitoring, more structured sequencing of reforms, and, where possible, the deployment of dedicated technical cooperation to enhance sustainability.

Municipal infrastructure remains a challenging, but vital area for EBRD engagement. The Bank’s long-standing collaboration with local authorities has demonstrated both the importance and difficulty of advancing investment in small municipalities with limited institutional capacity. While PPP structures have proven unsuitable at the local level, sovereign and sub-sovereign financing frameworks have shown promise and will continue to be developed in partnership with the EU, IFIs, and other stakeholders.

Looking ahead, Management will focus on consolidating lessons from this evaluation to refine the Bank’s strategic priorities and ensure that its engagement in Montenegro remains both selective and flexible, while staying aligned with the country’s EU accession path and evolving transition needs.

Management’s detailed comments on the recommendations of the study are provided below.

2. Recommendations

Recommendation 1: *Be more selective with the scope of priorities and objectives, including the choice of specific activities, and focus on subsectors with potential for systemic change in the next EBRD Montenegro Country Strategy 2026-30.*

Management **Partly Agrees** with the recommendation to adopt a more selective approach to priorities and objectives in the forthcoming Montenegro Country Strategy (2026 - 30).

Management acknowledges the evaluation's observation that, in a small country context, a broad set of objectives can dilute strategic focus. The Bank's demand-driven mandate and the limited scope of the five-year strategy horizon naturally constrain how selective the Bank can be in practice, particularly when aiming to maintain a meaningful impact across key sectors.

At the same time, Montenegro's transition challenges remain significant and multifaceted, and the country's reform trajectory is strongly shaped by the EU accession agenda and the need to align with evolving EU standards. This creates legitimate demand for EBRD engagement across a relatively wide spectrum of areas. Moreover, the presence of alternative investment partners, including non-traditional actors such as China, underscores the importance of maintaining flexibility to respond to priority needs and uphold the Bank's role as a reliable partner.

Management agrees that sharpening the strategic focus – by signalling a limited number of areas where the Bank's interventions are most likely to catalyse systemic change – can enhance the clarity and effectiveness of the next Country Strategy. However, Management also notes that systemic change is a long-term process, often extending beyond the timeframe of a single strategy period. Therefore, selectivity should be guided by realistic expectations of what can be achieved within one strategy cycle, while retaining the ability to adjust to emerging opportunities and evolving country priorities.

In this context, Management considers that a balanced approach – prioritising a smaller number of high-impact themes while preserving the flexibility to respond to new reform momentum – will offer the most effective means of advancing the Bank's objectives in Montenegro.

Recommendation 2: *Take a more conscious and watchful approach to the adoption of corporate governance reforms at SOEs and institutional capacity building undertaken by the EBRD.*

Management **Agrees** with the recommendation to take a more conscious and watchful approach to the adoption of corporate governance reforms at state-owned enterprises (SOEs) and related institutional capacity-building efforts.

Management recognises that strengthening SOE governance is a gradual and complex process requiring sustained engagement, careful sequencing, and close coordination with the authorities. While the Bank has already supported meaningful progress – particularly, in improving board practices, financial reporting, and compliance – further gains can be achieved through more systematic monitoring and stronger implementation support.

SOEs remain central to Montenegro's transition agenda and the delivery of essential public services, notably in the energy, infrastructure, and municipal sectors. Reinforcing their governance and institutional capacity is therefore both a priority and a precondition for improving efficiency, transparency, and financial sustainability.

Management will continue to apply a tailored and sequenced approach to corporate governance reform, ensuring that each Corporate Governance Action Plan (CGAP) is supported by appropriate oversight, follow-up, and dialogue with stakeholders. In addition, Management sees merit in enhancing the implementation of CGAPs through dedicated technical cooperation (TC) support, which would help sustain reform momentum, strengthen client ownership, and deepen the institutional impact of the Bank's engagement.

This conscious and iterative approach will ensure that governance improvements are both meaningful and durable, consistent with international best practices, OECD standards, and Montenegro's EU alignment objectives.

Recommendation 3: *Given the limited progress in waste and water sanitation and the absence of progress in decarbonising municipal buildings over 2017-24, and the critical role of the municipal sector going forward, reconsider the EBRD's modalities of engagement with municipalities.*

Management **Agrees** with the recommendation.

Over the past eighteen years, the Bank has worked extensively with municipalities to advance local infrastructure development. However, progress has been constrained by the small scale and limited institutional capacity of municipalities, as well as the need for state guarantees and approvals, which complicate project preparation and implementation.

Municipalities play a pivotal role in addressing Montenegro's infrastructure gaps in waste management, water sanitation, urban transport, and building efficiency, all of which are central to achieving national climate and decarbonisation goals and meeting EU environmental directives. Given Montenegro's EU accession path, these areas will require increased investment and institutional strengthening.

The experience to date shows that public-private partnership (PPP) structures have not proven viable in the municipal sector, given the limited project scale and revenue base, even in the largest city, Podgorica. By contrast, sovereign and sub-sovereign lending frameworks have shown greater potential to deliver investments effectively and should be further developed. In this context, the Bank was successful in financing for the first time in the country two projects for the enhancement of energy efficiency in public buildings in the education and health sectors across Montenegro.

Management therefore agrees on the importance of working closely with the EU, other IFIs and DFIs, and national and local authorities to establish mechanisms that can aggregate smaller municipal projects and provide coordinated financing and technical support for their preparation and implementation. To ensure the success of such collaborative approach it is essential that the Government commits to supporting priority municipal investments in close collaboration with the municipal companies and local government authorities. Such measures are expected to help unlock opportunities for preparing, aggregating and implementing municipal investments in Montenegro.