

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

Approved by the Board of Directors on 9 July 2025¹

MONTENEGRO

**TEN-T Route 4, Bar – Boljare Highway,
Matesevo – Andrijevisa Section**

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS

| | |
|------------------|--|
| AADT | Annual Average Daily Traffic |
| BBH | Bar – Boljare Highway |
| B/C | Benefit to Cost |
| BCF | Blended Concessional Finance |
| BDN | Blue Dot Network |
| BMP | Biodiversity Management Plan |
| CAPEX / OPEX | Capital Expenditures / Operating Expenditures |
| CBA | Cost Benefit Analysis |
| CEB | Council of Europe Development Bank |
| CGPA | Competitiveness, Governance and Political Affairs |
| CGAP | Corporate Governance Action Plan |
| CHA | Critical Habitat Assessment |
| CPI | Consumer Price Index |
| CO _{2e} | Carbon dioxide equivalent |
| CRO | Climate Resilience Outcome |
| ECEPP | EBRD Client e-Procurement Portal |
| EHS | Environmental, Health and Safety |
| EIB | European Investment Bank |
| EIRR / FIRR | Economic Internal Rate of Return / Financial Internal Rate of Return |
| ESAP | Environmental and Social Action Plan |
| ESG | Environment, Social and Governance |
| ESIA | Environmental and Social Impact Assessment |
| ESMP | Environmental and Social Management Plan |
| ETC | Electronic Toll Collection |
| EU | European Union |
| EUR | Euro |
| GBVH | Gender Based Violence and Harassment |
| GDP | Gross Domestic Product |
| GET | Green Economy Transition |
| GHG | Greenhouse Gases |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| IPA | Instrument for Pre-accession Assistance |
| IPAM | Independent Project Accountability Mechanism |
| IPF | Infrastructure Project Facility |
| IRR | Internal Rate of Return |
| IUCN EN or CN | International Union for Conservation of Nature Endangered or Critically Endangered Species |
| LARF | Land Acquisition and Resettlement Plan |
| LARP | Land Acquisition and Resettlement Plan |
| LMA | Lender's Monitoring Adviser |
| MDB | Multilateral Development Bank |
| MoF | Ministry of Finance |
| MoT | Ministry of Transport |
| NPV / ENPV | Net Present Value / Economic Net Present Value |
| O&M | Operations and Maintenance |
| PAP | Project-Affected Person |
| PBF | Priority Biodiversity Features |
| PEP | Politically Exposed Person |
| PIU | Project Implementation Unit |
| PP&R | EBRD Procurement Policies and Rules |
| PSD | Project Summary Document |
| SEP | Stakeholder Engagement Plan |
| SIG | Sustainable Infrastructure Group |
| SLA | Service Level Agreement |
| SMART | SOEs Management Assistance Reform and Transformation |
| SOE | State-Owned Enterprise |

| | |
|-----------|---|
| SRG | Sector Risk Guidance |
| SSF | Shareholder Special Fund |
| TC | Technical Cooperation |
| TEN-T | Trans-European Transport Network |
| VAT | Value Added Tax |
| VOC / VOT | Vehicle Operating Cost / Vehicle Operating Time |
| WBIF | Western Balkans Investment Framework |

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Montenegro are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan in the amount of up to EUR 200 million to Montenegro divided into two tranches as follows: (i) a first tranche in the amount of up to EUR 100 million (“Tranche 1”), to be committed at signing; and (ii) a second tranche in the amount of up to EUR 100 million (“Tranche 2”), uncommitted.

The operation will finance the construction of the Matesevo – Andrijevisa highway section, approximately 22 km in length, which is part of the Bar – Boljare Highway (“BBH”) on Route 4 of the Western Balkans Core Network, connecting Port of Bar in Montenegro with the Serbian border (the “Project”). The Project is a strategic priority for Montenegro and has been established as an indicative extension of the Trans-European Transport Networks (“TEN-T”) to the Western Balkans. The operation will support Montenegro’s economic development and contribute to its regional integration by improving connectivity within the country and between the country and neighbouring Serbia and further with Central Europe. The Project will be implemented by Monteput (the “Client” or the “Company”), the state-owned company responsible for the construction, maintenance and operation of Montenegro’s highways and motorways.

The Project is expected to be co-financed with an investment grant in the amount of up to EUR 150 million from the European Union’s (“EU”) Instrument for Pre-accession Assistance (“IPA”) and with Montenegro’s own funds. The EU has already signed a financing agreement with the Government of Montenegro for EUR 100 million whereas the additional EU contribution of EUR 50 million is expected to be approved in 2025.

The expected transition impact of the Project is derived from: (i) the *Integrated* quality by supporting Montenegro’s internal and regional integration through the development of the country’s key transport link; and (ii) the *Well-Governed* quality by supporting the enhancement of the sustainability of Montenegro’s road sector as well as Monteput’s efficiency and corporate governance, helping Montenegro achieve its outstanding objectives under the Transport Community Treaty, and piloting the application of the Blue Dot Network² (“BDN”) environment, social and governance (“ESG”) framework in Montenegro. The Project will also help enhance climate change resilience and road safety. The Project’s GET share is 12 per cent. The Project is Gender Additional through the promotion of equal opportunities and enhancement of women’s role in management.

I am satisfied that the operation is consistent with the Bank’s Infrastructure Sector Strategy, the Strategy for Montenegro 2021-2026, the Green Economy Transition (GET) approach 2021-2025, the Strategy for the Promotion of Gender Equality, the EBRD’s Equality of Opportunity Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

² The Blue Dot Network is a voluntary, private sector-focused and government-supported certification scheme for infrastructure projects. It provides an internationally recognised certification for quality infrastructure projects that are environmentally and socially sustainable, resilient, open and transparent, and economically efficient.

BOARD DECISION SHEET

| MONTENEGRO - TEN-T Route 4, Bar-Boljare Highway, Matesevo-Andrijevisa Section - DTM 55511 | |
|--|---|
| Transaction / Board Decision | Board approval ³ is sought for a sovereign loan to Montenegro (the “Borrower”) of up to EUR 200 million, split into two tranches: (i) Tranche 1, EUR 100 million, to be committed at signing; and (ii) Tranche 2, EUR 100 million, uncommitted. Tranche 2 will be committed at the Bank’s sole discretion, subject to satisfactory progress and implementation of the environmental and social requirements, and is expected by 2028. The approval to commit Tranche 2 will be delegated to Management. The loan will finance the construction of the Matesevo – Andrijevisa section, approximately 22 km in length, of the Bar – Boljare Highway (the “Project”). The Project is expected to be co-financed with EU investment grants of up to EUR 150 million, out of which EUR 100 million were signed between the EU and the Government of Montenegro in December 2024. It is expected that an additional EUR 50 million EU contribution will be approved in 2025. The remainder will be covered by the Borrower’s own funds. |
| Client | The Borrower is Montenegro represented by the Ministry of Finance (“MoF”). The Client is Monteput, the state-owned enterprise responsible for the construction, maintenance and operation of Montenegro’s highways and motorways. Monteput will be implementing the Project with the support of the Borrower and the Transport Administration Department of Montenegro (the “Designated Government Agency”). The Ministry of Transport (“MoT”) has the overall responsibility for the transport policy and strategy in Montenegro. |
| Main Elements of the Proposal | <u>Transition impact</u> : <i>Integrated</i> – by supporting Montenegro’s internal and regional integration through the development of the country’s key transport link between its central and northern regions and between the country and neighbouring Serbia. <i>Well-Governed</i> – by supporting a range of objectives including a review of the financial governance of Montenegro’s road sector, Monteput’s corporate governance, achievement of outstanding objectives of the Transport Community Treaty for introduction of a service level agreement and improved road safety standards, and piloting the application of the BDN certification within Montenegro. <u>Additionality</u> : <i>Financing structure</i> - EBRD offers financing that is not available on the market from commercial sources on reasonable terms and conditions. <i>Standard setting</i> – The procurement will be carried out in accordance with the EBRD Procurement Policies and Rules (“PP&R”). <u>Sound banking</u> – The transaction is a sovereign loan. Montenegro is currently rated Ba3 by Moody’s and B+ by S&P. |
| Key Risks | Political stability : The Project is strongly supported by all political parties in the country and is expected to continue to be widely supported in the future due to its widely recognised public benefit. Project implementation : The key implementation risks [REDACTED] will be mitigated by appointing international consultants, acceptable to the Bank, to assist the Client with project implementation and works supervision. The land expropriation process necessary for the Project will be closely monitored by a lender’s monitoring adviser (“LMA”), which will be appointed prior to the commencement and will oversee the Project overall implementation, including construction works and environmental and social matters. [REDACTED] |
| Strategic Fit Summary | The Project is consistent with the Bank’s Infrastructure Sector Strategy, the Strategy for Montenegro 2021-2026, the Green Economy Transition (“GET”) approach 2021-2025, the Strategy for the Promotion of Gender Equality, the Equality of Opportunity Strategy and with the Agreement Establishing the Bank. |

³ Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

| | |
|--|---|
| EBRD Transaction | A sovereign loan in the amount of up to EUR 200 million to Montenegro, split into two tranches as follows: (i) Tranche 1, up to EUR 100 million, to be committed at signing and (ii) Tranche 2, up to EUR 100 million, uncommitted. [REDACTED] |
| Mutual Reliance | No. |
| Existing Exposure | The Bank's total sovereign portfolio in Montenegro as of 30 April 2025 was EUR 260.2 million, out of which operating assets were EUR 102.9 million. |
| Maturity / Repayment | Tenor of 18 years [REDACTED]. |
| Potential AMI eligible financing | None. |
| Use of Proceeds – Description | The proceeds of the loan will be used to finance the detailed design, works and works supervision services for the Matesevo–Andrijevisa highway section, approximately 22 km in length, part of the BBH, including a tunnel, approximately 3.8 km in length as well as the purchase and installation of the relevant highway equipment. Front-end commission is to be netted from the Loan. The location and alignment of the highway section to be built under the Project is shown in <i>Annex 1</i> . |
| Investment Plan | [REDACTED] |
| Financing Plan | [REDACTED] |
| Key Parties Involved | <ul style="list-style-type: none"> • Montenegro, represented by the MoF – the Borrower; • Monteput – the Client; • Transport Administration Department – the Designated Government Agency. |
| Conditions precedent to effectiveness | [REDACTED] |
| Conditions to first disbursement of Tranche 1 | [REDACTED] |
| Conditions to commitment of Tranche 2 | [REDACTED] |
| Key Covenants | [REDACTED] |
| Security / Guarantees | Sovereign loan to Montenegro. |
| Other material agreements | [REDACTED] |
| Associated Donor Funded TC and Blended Concessional Finance | <p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u></p> <ol style="list-style-type: none"> 1. Preliminary Design and ESIA, funded by the Western Balkans Investment Framework (“WBIF”) - EUR 3.1 million. <i>Completed in 2022.</i> 2. Feasibility Study for the Bar – Boljare Highway, funded by WBIF - EUR 1.3 million. <i>Completed in 2022.</i> 3. Update of the Feasibility Study, funded by WBIF - EUR 300,000. <i>Completed in December 2024.</i> 4. ESIA finalization, including climate resilience, road safety audit, Paris alignment and GET confirmation, funded by the Bank – EUR 86,830 thousand. <i>Completed in January 2025.</i> |

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| | <p>5. PIU support (part I) (Tender preparation support) funded by SSF - EUR 300,000. <i>Approved in December 2024.</i> PIU support (part II) - EUR 2.0 million to be financed from the loan proceeds.</p> <p><u>Post-signing:</u></p> <ol style="list-style-type: none"> 1. ECDP and CGAP for Monteput approved under SOEs Management Assistance Reform and Transformation (“SMART”) - TC Support Programme 2024/2025 by SMART - up to EUR 500,000 to be funded by the European Union Reform Facility (“EURF”) for Montenegro. 2. Lender’s Monitor - EUR 600,000 expected to be financed from the EU IPA (subject to final approval). If not approved, then to be financed by international donors or SSF. <p>Reimbursement and cost sharing: The above assignments are non-reimbursable transactional TCs required to evaluate the investments and assist the Client during project implementation. The Client will be responsible for paying all VAT and other indirect taxes that are applied to the donor-funded TC assignment where they are the contracting party as a parallel cost sharing contribution to the project (VAT is levied at 21 per cent in Montenegro). The Client will via the loan pay more than EUR 20 million for PIU support, detailed design and works supervision and provide in-kind support in the form of office space, communication connections, etc., for the consultants to work, estimated to amount to 3 per cent of the total TC budget.</p> <p>B. Blended Concessional Finance (“BCF”) Type of BCF: Investment Grant. The use of BCF is necessary to facilitate the much-needed financing of the Project. Funding source: EU IPA. Amount/currency and funding status: EUR 150 million (of which EUR 100 million already committed with the Government and EUR 50 million to be approved in Q3 2025).</p> |
|--|--|

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Transport is a vital sector of Montenegro's economy, supporting tourism, trade, and connectivity. The sector faces significant constraints due to its outdated infrastructure, limited highway network, and challenging mountainous terrain. Poor quality of transport infrastructure hampers the country's economic growth due to low quality and high cost of transportation, as well as low safety standards.

The Bar-Boljare Highway ("BBH") is a high priority infrastructure project for Montenegro's national and regional connectivity. It aims to link the Port of Bar on the Adriatic Sea, Montenegro's main seaport, with Podgorica and further with the Serbian border and the central and western Europe. The highway is also part of Montenegro's planned motorway network, which also includes branches to Bosnia and Herzegovina, Albania, and Kosovo. In addition, cutting through the country's mountainous terrain, the BBH will significantly improve connectivity between the underdeveloped northern regions of Montenegro and the more developed central and southern parts.

Montenegro is committed to the development of the indicative TEN-T extensions and links to the neighbouring countries. The MoT has worked continuously with the Transport Community Secretariat to implement its transport actions plans, although progress to date is moderate. Road safety remains a serious concern with casualties way above the EU average. The number of road fatalities per million inhabitants was 118 in 2022, 157 per cent higher than the EU average of 46. However, since the Podgorica – Matesevo highway section of the BBH was opened in July 2022, there has been only one fatality, compared to tens of fatality registered on the old road that passes through the Moraca River gorge. A new road safety strategy for the period 2025-2030 is being prepared and is expected to be adopted in 2025.

The construction of the BBH is the largest infrastructure project in Montenegro and the most important transport project as recognised by the Montenegrin Government since 2013. More than 60 per cent of the Montenegrin population lives within a 20 km-wide corridor and contributes to more than 70 per cent of the country's GDP. The first section of the highway (Podgorica – Matesevo, 42 km in length) [REDACTED] has been completed and is operational since July 2022.

Since 2020, three subsequent governments, including the current one led by Miloško Spajić, decided not to use the special law for the construction of the remaining sections of the BBH. Following the preparation of the feasibility study and its update, as well as the preliminary design, all funded by WBIF, the current government decided to finance the Project through an open tendering procedure with financing from the EBRD and EU.

Montenegro is currently implementing a major investment programme for the development of road and rail sector with focus on the development of Route 4 which is an indicative extension of TEN-T networks. The rail network is undergoing an intensive modernisation and upgrade investment programme to ensure adequate connections for multi-modal maritime-railway transportation from and to the Port of Bar.

The Project is consistent with:

- The Strategy for Montenegro 2021-2026, which has identified the improvement of “*quality and connectivity of transport [...] networks*” with a focus on “*expanding cross-border transport*” as one of three key priorities. The Strategy also encourages to work “*with other IFIs and donors [...] [to] co-finance projects to enhance regional linkages, as well as support regional inclusion*” which in this case would enhance Montenegro’s integration with regional markets in south-east Europe and the Western Balkans.
- The Infrastructure Sector Strategy 2025-2029, which under **Strategic direction 1: improve connectivity** states the following: “*Support the construction of corridors and network plans for both road and rail which are critical to trade development, such as the Trans-European Transport Network (including extensions to the Western Balkans Core Network)*”. The Project also supports the **Strategic Performance 3** (“Strengthen resilience”) by increasing “*the resilience of infrastructure and associated services*” with “*climate resilience, with high-standard, risk-based project preparation*”.
- The EBRD’s Strategy for the Promotion of Gender Equality (“SPGE”) and the Bank’s Equality of Opportunity Strategy through the promotion of equal opportunities and enhancement of women’s role in management.
- The Green Economy Transition (“GET”) approach by improving the resilience of the BBH to climate change.

1.2 TRANSITION IMPACT

The transition impact objectives of the Project are *Integrated* and *Well-Governed*. The Project contributes to the *Integrated* transition quality through the upgrade of a key transport infrastructure which will contribute to the Montenegro’s regional integration by improving the connectivity within its main regions and with the neighbouring countries. The Project will support the *Well-Governed* quality through the implementation of the ECDP and CGAP, targeting several objectives including: (i) a review and enhancement of the road sector funding and financial governance; ii) improvements to the Company’s efficiency and corporate governance; iii) preparation of an SLA; and iv) road safety enhancement, by improving Montenegro’s road design standards in line with EU directives. The Project will also pilot the BDN certification in Montenegro as one of the first cases of its application in the Western Balkans.

Primary Quality: Integrated

| Obj. No. | Objective | Details |
|----------|--|--|
| 1.1 | <i>Provision of new infrastructure between or within regions that are currently inadequately integrated.</i> | The Project will provide a highway connection between Montenegro’s central and northern regions, which are currently inadequately integrated, as well as between Montenegro and neighbouring Serbia. After the Project’s completion, the travel time between the capital city of Podgorica and north-western towns of Berane, Bijelo Polje and Rozaje, as well as central Serbia and Kosovo, will be [REDACTED] shorter. |

Secondary Quality: Well-Governed

| Obj. No. | Objective | Details |
|----------|-----------|---------|
| | | |

| | | |
|-----|---|--|
| 2.1 | <i>A well-defined public service obligation in line with international practice will be introduced (not a revision to an existing PSO) as a first for national transport infrastructure in the country.</i> | Under the <i>Well-Governed</i> quality, the Project will support a range of reform objectives for the development of Monteput as a strategically important state-owned enterprise (“SOE”) for the country and its transport sector. The Project will support the preparation, adoption and signing of an SLA between Monteput and the Government of Montenegro, an outstanding objective under the Transport Community Treaty. |
| 2.2 | <i>Blank - The project supports the Well-Governed quality - [REDACTED]</i> | <p>In addition to the SLA development, the Project will support the development of the ECDP/CGAP) which will cover (i) a review of the road sector funding and its financial governance including recommendations for their improvement; (ii) the identification of cost efficiencies [REDACTED] , (iii) targeted corporate governance improvements including improvements to the functioning of the Board, audit committee, and internal audit functions (explained further below) and iv) improvements to the road design standards via the update of guidance handbooks, in accordance with requirements of Directive 2008/96/EC Road Infrastructure Safety Management.</p> <p>An audit of the Project against the BDN certification process will also be undertaken which may result in the certification of the Project in accordance with the standard. The audit will also provide wider recommendations to Monteput on project development as well as support the piloting of this framework within Montenegro. [REDACTED]</p> |

Delivery risks: [REDACTED] The risk to the *Integrated* objective is related to implementation risk as well as potential environmental and social (“E&S”) issues. The Project’s implementation risk is mitigated by (i) the appointment of the external consultant, who prepared the ESIA and all other relevant E&S documents, (ii) the appointment of international consultants, acceptable to the Bank, to assist the Client with the project preparation, design, procurement, implementation, and works supervision services, and (iii) Monteput’s experience in implementing the Podgorica – Matesevo section of the highway. The risks to the *Well-governed* quality are mitigated by the strong commitment of the MoT and Monteput to adopt and implement the agreed reform measures.

1.3 ADDITIONALITY

No triggers identified.

| Additionality sources | |
|--|---|
| Financing Structure: EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project. | The tenor is up to 18 years [REDACTED]. |
| Standard setting: | The Project includes a TC to assist the Company with procurement capacity |

| | |
|--|--|
| <ul style="list-style-type: none"> Client seeks/makes use of EBRD expertise on best international procurement standards. | building and procurement in line with the Bank's PP&R. |
| <p>Standard-setting: helping projects and clients achieve higher standards</p> <ul style="list-style-type: none"> Client seeks/makes use of EBRD expertise on higher inclusion (e.g. adherence to labour standards which goes beyond the provisions set in PR2 of the environmental and social policy, development of comprehensive and institutional corporate social responsibility programmes), gender standards and/or equal opportunities action plans. | The Company will increase the number of female managers [REDACTED] |

1.4 SOUND BANKING - KEY RISKS

| Risks | Probability / Effect | Comments |
|----------------------------|----------------------|---|
| Sovereign Risk | Low / High | <p>The robust economic growth of the Montenegrin economy continues. After a 6.4% GDP growth in 2022 and 6.3% growth in 2023, the economy expanded by 3.1% year on year in the first three quarters of 2024. Growth was driven by private consumption and fixed investments, supported by expansionary fiscal policies including rising wages and pensions, capping retail and wholesale margins on certain products, and ambitious infrastructure projects.</p> <p>[REDACTED] Given the EBRD's loan tenor and terms, the debt servicing will not represent a significant burden on the budget. There is no currency risk from the Euro denominated EBRD loan as Montenegro unilaterally adopted the Euro. In September 2024, S&P upgraded Montenegro's rating from B to B+, with stable outlook, on the back of prospects for improving external position, supported by the rebound of tourism sector whereas Moody's upgraded Montenegro from B1 to Ba3, with stable outlook, reflecting robust medium term economic growth outlook.</p> |
| Implementation Risk | Medium / Medium | <p>The Project will be implemented by Monteput, which previously implemented the Podgorica – Mateševo section of the BBH. [REDACTED] Mitigant: The Client will be supported by international consultants during tender preparation, evaluation and contract signing, design preparation, procurement and implementation, including works supervision, which mitigates the implementation risk. The budget includes [REDACTED] contingency for potentially high inflation rates and the costs and time overruns.</p> |

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

TI indicators, primary Quality: Integrated

| Obj. No. | Monitoring indicator | Details | Baseline | Target | Due date |
|----------|---|---|------------|------------|------------|
| 1.1 | Expanded access of infrastructure across regions [REDACTED] | The forecasted AADT (vehicles per day) the first year of operation of the | [REDACTED] | [REDACTED] | [REDACTED] |

| | | | | | |
|-----|---|---|------------|------------|------------|
| | | section Matesevo – Andrijevisa. | | | |
| 1.2 | Expanded access of infrastructure across regions | Completion of the Matesevo – Andrijevisa section of the BBH. | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.3 | Expanded access of infrastructure across regions [REDACTED] | The Project will reduce travel time between Matesevo and the town of Berane (and central Serbia). | [REDACTED] | [REDACTED] | [REDACTED] |

TI indicators, secondary Quality: Well-Governed

| Obj. No. | Monitoring indicator | Details | Baseline | Target | Due date |
|----------|--|--|--------------------------------|--------------------------------|--------------------------------|
| 2.1 | Public service contract or Public Service Obligation signed and implemented [REDACTED] | The SLA between Monteput and the Government will be signed and implemented. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.2 | Policy advice delivered: Draft recommendations for improved policy/strategy submitted [REDACTED] | Review of road sector finance and funding framework and preparation of recommendations and implementation of [REDACTED] key recommendations. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.3 | Improved operational performance of the client [REDACTED] | Identification and implementation of cost efficiencies [REDACTED]. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.4 | Policy advice delivered: Draft recommendations for improved policy/strategy submitted | Review / audit of the Project against the BDN certification and preparation of recommendations. | [REDACTED] | [REDACTED] | [REDACTED] |
| 2.5 | Corporate governance improved: Commitment to Corporate Governance [REDACTED] | The Company will improve its corporate governance, structure and functioning of the Board, control environment and processes, transparency and disclosure. | [REDACTED] [REDACTED] | [REDACTED] [REDACTED] | [REDACTED] [REDACTED] |
| 2.6 | New regulatory standard developed – road safety [REDACTED] | Update of road design handbooks, in accordance with requirements of Directive 2008/96/EC | [REDACTED] | [REDACTED] | [REDACTED] |

| Obj. No. | Monitoring indicator | Details | Baseline | Target | Due date |
|----------|----------------------|---------------------------------------|----------|--------|----------|
| | | Road Infrastructure Safety Management | | | |

Additional Indicators

| Indicator type | Monitoring indicator | Details | Baseline | Target | Due date |
|------------------------------|---|---|------------|------------|------------|
| Advisory & Policy Indicators | Practices of relevant stakeholder improved (career progression and remuneration) [REDACTED] | The number of female managers to increase [REDACTED]. | [REDACTED] | [REDACTED] | [REDACTED] |
| Advisory & Policy Indicators | Project implementation support completed: PIU established | PIU appointed. | [REDACTED] | [REDACTED] | [REDACTED] |

3. KEY PARTIES

3.1 BORROWER

The Borrower is Montenegro represented by the MoF. Montenegro is one of the smallest countries in Europe with a total area of approximately 13,800 km², a population of 623,633 inhabitants, and an open economy strongly dependent on tourism. The country's service sector, comprising almost 60 per cent of GDP and employing 73 per cent of workers, has seen steady growth, averaging slightly below 3 per cent annually over the past decade. After a 6.4 per cent GDP growth in 2022 and 6.3 per cent growth in 2023, the economy expanded by 3.1 per cent year on year in the first three quarters of 2024. Growth was driven by private consumption and fixed investments supported by expansionary fiscal policies including rising wages and pensions, capping retail and wholesale margins on certain products, and ambitious infrastructure projects. This was reflected in the production side as well, with trade and catering services contributing to growth while industrial production declined. Net exports contracted due to the decline in revenues from tourism, as the surge of tourists and immigrants from Russia and Ukraine ended after the record of 2023.

3.2 CLIENT

Monteput was established in 2005 as a limited liability company, fully owned by the Government of Montenegro. Since 2014, Monteput is responsible for the construction, management and maintenance of the future sections of the BBH. Monteput's board of directors comprise three members appointed by the Government. The executive director is also appointed by the Government. Monteput reports directly to the Government and coordinates its activities with the MoT.

The Company is responsible for the development, operation and maintenance of the country's highways, the Sozina tunnel and future expressways in Montenegro. Monteput outsources the design and construction services to private companies through open tendering procedures but performs the maintenance of the highway itself. Their main sources of its revenues are the highway tolls and the Sozina tunnel tolls. [REDACTED]

Within Monteput, a special department is responsible for the management of the BBH construction project which employs 22 employees, whereas the highway supervision, management and maintenance department has 31 employees. Monteput also has an internal audit unit which is an independent department.

4. MARKET CONTEXT

Montenegro's road network consists of approximately 6,200 km of roads, of which 42 km are highways, 950 km are classified as national roads, while the remainder are local roads, built and maintained by municipalities. Over the past decade, the Government has allocated an adequate level of finance for the maintenance and upgrade of the national roads network.

Montenegro's regional and main roads are managed by the Transport Administration, a governmental agency responsible for their maintenance, reconstruction and construction of new regional and main roads. The main revenue source of the Transport Administration are state budget payments.

Road transportation is the dominant transport mode for passengers in Montenegro, while railways remain an important mode for freight transport. All freight and passenger operators using roads and motorways are privately owned. Railway operators are still state owned.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 ECONOMIC ANALYSIS

[REDACTED]

5.2 FINANCIAL ANALYSIS

[REDACTED]

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised A (ESP 2019). The proposed construction of the 23.5 km long highway between Mateševo – Andrijevića as part of the Bar – Boljare highway required an Environmental and Social Impact Assessment (ESIA) that was carried out by an independent consultant. To meet EBRD ESP PRs the gap analysis with the national Environmental Impact Assessment (EIA) and additional impact assessment were carried out in 2024. The ESIA package was publicly disclosed on the EBRD's and the Client's website in March 2025, 120 days prior to the Board discussion.

The Project is located in the eastern part of Montenegro and stretches in the east-west direction following the Kraštica River valley. As part of the ESIA, a critical habitat assessment ("CHA") was undertaken. Habitat analyses identified 14 habitats in the Natura2000 network, as well as orchard species of greater importance. All examined habitats are included in Resolution 4 (and the Annex I of the Habitat Directive), however, none are International Union for Conservation of Nature (IUCN) Endangered (EN) or Critically Endangered (CR) ecosystems and were determined as Priority Biodiversity Features (PBF). The alluvial forests area is a priority habitat according to the EU Habitat Directive. The ESIA includes a broad range of biodiversity impact mitigation measures (e.g. restraint of works where certain habitat or plant species are located, prevention of disposal of construction materials or waste in the Lim River, implementing monitoring programs, etc.), that were subject to consultations with the regulatory authorities and CSOs as part of the ESIA disclosure process. The ESAP requires for these mitigation measures to be further strengthened in an extended Biodiversity Management Plan ("BMP"). All these measures will ensure that the integrity of the natural protected areas is not impacted and the Project is structured to meet national, EU and Bank's PR6 requirements.

The ESIA included social mitigation measures to respond to impacts associated with the construction workforce, including adherence to HR policies in line with PR2, a recruitment plan to maximise hiring near the Project and a code of conduct to minimise disruption to local communities, which includes aspects that help identify and reduce the potential for gender-based violence and harassment. A Project-level workers' grievance mechanism will aim to cover all direct contractors and subcontractors. General risks associated with road construction will be managed through the development of a community health & safety plan, emergency preparedness and response plan, infrastructure and utilities management plan and construction traffic management plan.

The Project will affect 525 plots and an estimated 344 project-affected persons (PAPs), including physical displacement of four permanent residences and six seasonal use structures. During the preparation of the detailed design the technical protection measures of these structures will be defined in consultation with the PAPs or they will be expropriated at the owners' request. To mitigate these risks, a standalone Land Acquisition and Resettlement Framework (LARF) has been developed outlining mitigation principles commensurate to the magnitude and scale of impacts stemming from the Project land and resettlement needs. Based on the LARF an actionable Land Acquisition and Resettlement Plan (LARP) will be developed at detailed design stage and completed prior to any construction works. The Bank will monitor the implementation of this, through the appointment of the Lender's Monitoring Adviser (LMA).

A Stakeholder Engagement Plan (SEP) has been developed for the Project and describes the completed to date and planned stakeholder consultation activities as well as a community grievance mechanism to ensure that any concerns and complaints are documented and reported. As part of the national EIA procedure public meetings were conducted in the Project area with the local communities in July-September 2024, as well as four meetings under the Project's ESIA process in May 2025. The feedback received from community in those consultations was mainly related to the highway route alternatives, need to avoid community fragmentation, inquiries about the land acquisition process and impact on locations with sensitive social and biodiversity features. Several written comments registered during the ESIA disclosure period raised concerns about the original route change and potential biodiversity impacts on the Kraštica River and the Lim River. These issues were addressed as part of the ESAP. Additionally, few residents stated that the change of initially proposed alignment caused a loss of compensation for their households avoided now by the new route. Similar complaints can be potentially filed during the remaining disclosure period and further Project's implementation. The Government-led land expropriation procedure commenced some 15 years ago with deficient information on the corridor restrictions and compensations entitlements communication to the residents of the Project area. The future LARP at design stage will address those in line with PR5. A grievance mechanism has been agreed with the Client to address complaints and its details were shared during the public meetings. A Public Consultation Report (PCR) will be finalised and published at the end of the disclosure period to summarise the stakeholder concerns and associated responses and respective updates in ESIA and management plans as needed.

A detailed ESAP, with both corporate and Project-specific requirements, has been developed and agreed with Monteput, pending formal agreement at the signing with the GoM. Other than biodiversity and social mitigation measures described above, it includes an appointment of a biodiversity specialist, community liaison officers, and other environmental, health and safety staff at the Project level; further improvement of the corporate E&S management systems; construction and operational stages health and safety measures; traffic management; regular monitoring of labour conditions; livelihood restoration and resettlement programmes, ongoing stakeholder engagement. The Client is committed to cascading all mitigation measures from the ESMP, ESAP and topic-specific management plans across all relevant construction and operational activities. The Bank will be monitoring the implementation of the Project and ESAP through bi-annual E&S reporting and independent LMA regular site visits during the Project's implementation.

Independent Project Accountability Mechanism (IPAM) case

At present, there is one IPAM case (2024/03) related to the Main Roads Reconstruction Project in Montenegro. On 7 May 2024, IPAM received a request from 25 residents and one affected business (the "Requesters"). The Requesters are members of the Grbalj Bulevar NGO, a registered organization that was set up to raise concerns regarding the road section Tivat - Jaz which is part of the Main Roads Reconstruction Project. The Requesters allege that that project will negatively impact their properties and businesses due to partial expropriation, increased traffic, noise, accident risks, and inadequate stakeholder engagement. The offer of Problem Solving with mediation was not accepted by the Requesters, therefore, IPAM transferred the case to the Compliance function. The assessment to define the scope of IPAM Compliance review is still ongoing. The Management and the Client are cooperating with the IPAM, and several safeguards and mitigation measures identified for the project are progressing, in line with the ESAP which is under implementation, and additional steps taken by the Client to address the raised issues.

6.2 INTEGRITY

Integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

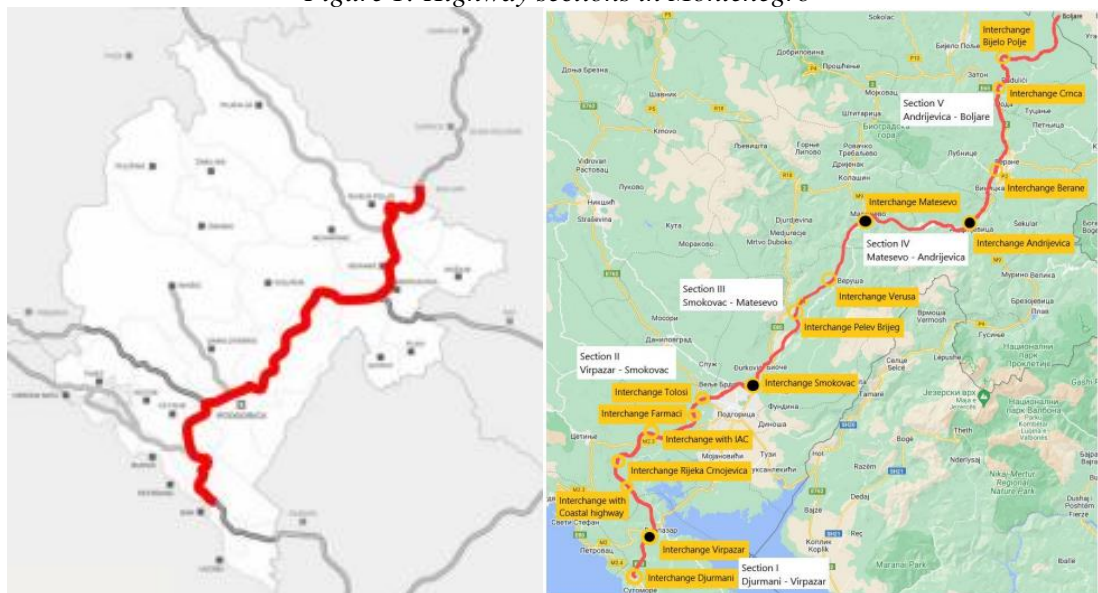
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| ANNEX 1 | Project Description |
| ANNEX 2 | Monteput's Organization Structure |
| ANNEX 3 | Project Implementation and Procurement Plan |
| ANNEX 4 | Transition Impact Scoring Chart |
| ANNEX 5 | Green Assessment |

ANNEX 1 - PROJECT DESCRIPTION

The BBH connects the Port of Bar on the Adriatic coast to the border with Serbia (at Boljare) and belongs to the indicative extension of the Core TEN-T Corridor Orient/East-Med (“OEM”) in the Western Balkans. The BBH is also part of the United Nations Economic Commission for Europe (“UNECE”) Trans-European Motorways (“TEM”) programme which connects the main TEM route (from Gdansk to Athens and Istanbul) with the Adriatic Sea. Also, it is part of the E-80 and E-65 routes comprising TEN-T Road Route 4 Romanian border/Vatin – Belgrade – Podgorica – Bar. Within Serbia, it links to the Pozega-Belgrade highway and further to Romania and Central Europe (Corridor X). In accordance with the Detailed Spatial Plan of the highway and for consistency and analysis purposes of the present study, the BBH is divided into five different sections (see Figure 1):

- Section I: Djurmani – Farmaci;
- Section II: Farmaci – Smokovac (Podgorica Bypass);
- Section III: Smokovac – Matesevo;
- Section IV: Matesevo – Andrijevisa; and
- Section V: Andrijevisa – Boljare.

Figure 1: Highway sections in Montenegro



The BBH passes through various terrains, from the plains of Bar and the Adriatic coast, through the mountain formations of Podgorica, further through the canyons and plateaus of central Montenegro, and finally, through the high mountains and valley rivers of the northeastern part of the country to Boljare and the border with Serbia.

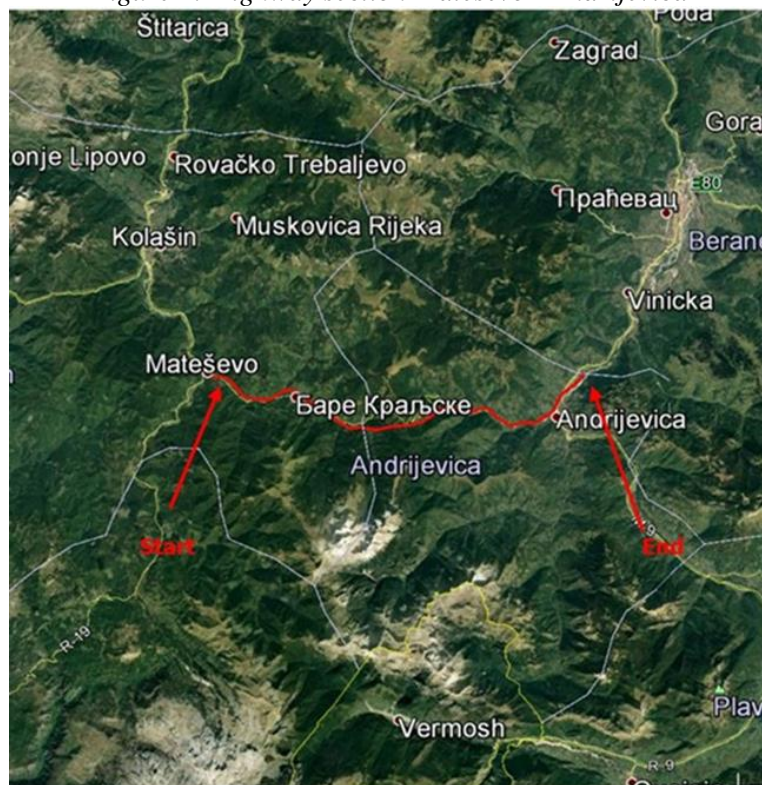
These facts, in conjunction with the strict geometric limitations of the modern highway, result in a large number of large structures needed to be built such as bridges and tunnels, but also smaller ones, such as retaining walls and reinforced earth embankments, culverts, etc. The design speed for Sections 1, 2, 4 and 5 is $V_e = 100$ km/h and $V_e = 120$ km/h.

The length of the Matesevo – Andrijevisa highway section is approximately 22 km. The Project will be implemented in accordance with Yellow FIDIC contract terms, under a “design and build” contract. The Detailed Design shall be developed by the contractor. Works will be carried out based on the approved Detailed Design, ESIA/EIA and construction permit. The total duration of the implementation of the Project is 5 years, plus an additional 2 years for the defects notification period.

The Matesevo-Andrijevica highway section extends over steep slopes through mountainous terrain from Matesevo (at an altitude of approximately 1,060 m) to Andrijevica (at an altitude of around 780 m). Below are the data and solutions from the available Preliminary Design, which need to be further developed at the level of the Detailed Design, following the Terms of Reference and Employer's Requirements. Variant 3 from the Preliminary Design has been selected for further development at the level of the Detailed Design, with the following characteristics:

- Length of the highway: ca 22 km.
- Length of bridges: 4.8 km.
- Length of the Tresnjevik tunnel: 3.8 km.
- Length of galleries and covered excavations: 1.7 km.
- Properties of the designed section from the Preliminary Design that shall be further elaborated are as follows:
- Length of the section: ~ 22 km.
- Design speed: $v = 100$ km/h.
- Most unfavourable longitudinal gradient and its length: 4.98%.

Figure 2: Highway section Matesevo - Andrijevica



ANNEX 2 – MONTEPUT ORGANIZATION STRUCTURE

[REDACTED]

ANNEX 3 - PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification – *Public sovereign*

Project risk assessment:

[REDACTED]

Country Risk Assessment – Moderate/Low

In accordance with the current EBRD Country Procurement Risk Index 2017⁴, Montenegro is allocated a “Moderate/Low” level of risk to be applied to all public sector projects. The index is based on the level of compliance with the EBRD Core Public Procurement Principles as assessed in the EBRD Public Procurement Assessment 2011 and adjusted to take into account the scores from the Transparency International Corruption Perception Index 2017.

The Client’s capacity assessment related risk [REDACTED]

Since the Client is new to the Bank, a client capacity assessment was conducted. The Client has successfully procured and implemented works and services contracts of similar complexity under the national procurement rules. [REDACTED]

To mitigate these risks, a PIU support consultant will help the Client in building capacity and assisting the Client with all aspects of project implementation including procurement. The PIU consultant will also be assisting the Client in identifying potential operational gaps and training relevant staff to address implementation, procurement and monitoring issues.

The Project will also benefit from the support of a works supervision consultant, to ensure performance of works in accordance with high construction standards. Additionally, to facilitate the implementation of the Project, the Bank has provided an advanced procurement consultant to assist the Client with meeting the provisions of EBRD PP&R. The advanced procurement consultant, the PIU support and works supervision consultants will assist the Company and the PIU through tender preparation, procurement process and contract administration to mitigate implementation risks.

Contracts risk assessment – High/Moderate

[REDACTED]

The support of experienced procurement and PIU support consultants will ensure that technical specifications, employer’s requirements and tender documents are suitable for open tendering and aligned with EBRD’s PP&R. Moreover, it will also ensure that the procurement and contracting process is conducted in a fair and transparent manner. Additionally, any procurement and contractual issue that may arise will be addressed in a professional and timely matter. The support of a works supervision consultant will help the Client to cope with the high workload that a day-to-day site supervision requires while ensure support from best international consultants specialized in supervision of works contracts. This will reduce the implementation risks associated with delays and cost overruns. Given the scale and complexity of the Project and the limited capacity of the Client, a LMA appointed prior to the commencement of construction works will provide monitoring support during project implementation.

Project implementation arrangements:

The Company will delegate the implementation responsibility to the PIU, who will have the overall responsibility for the implementation of the Project.

⁴ EBRD Country Procurement Risk Index 2017, Edition V.5 January 2017.
<http://intranet.ebrd.com/ebdnet/depts/procure/guide/assessment.pdf>

The PIU will be supported by experienced international consultants who will be responsible for hands-on support in all planning, project management and procurement processes. The PIU consultant will assist the PIU in all aspects of implementation and in meeting the requirements of the Bank's financing documents. In particular, the consultant will provide support in the areas of project preparation and preparation of procurement documents (including technical specifications). The Client will be assisted by a procurement expert in the selection, procurement and contracting of the PIU consultant.

Moreover, an international consultant will be appointed as supervision engineer. It will act on Client's behalf during the implementation of the envisaged contracts.

The LMA will support the financiers with control and monitoring of the overall project implementation by including but not limited to procurement, environmental and social aspects, potential land acquisition issues, implementation progress and contract management in compliance with the applicable policies.

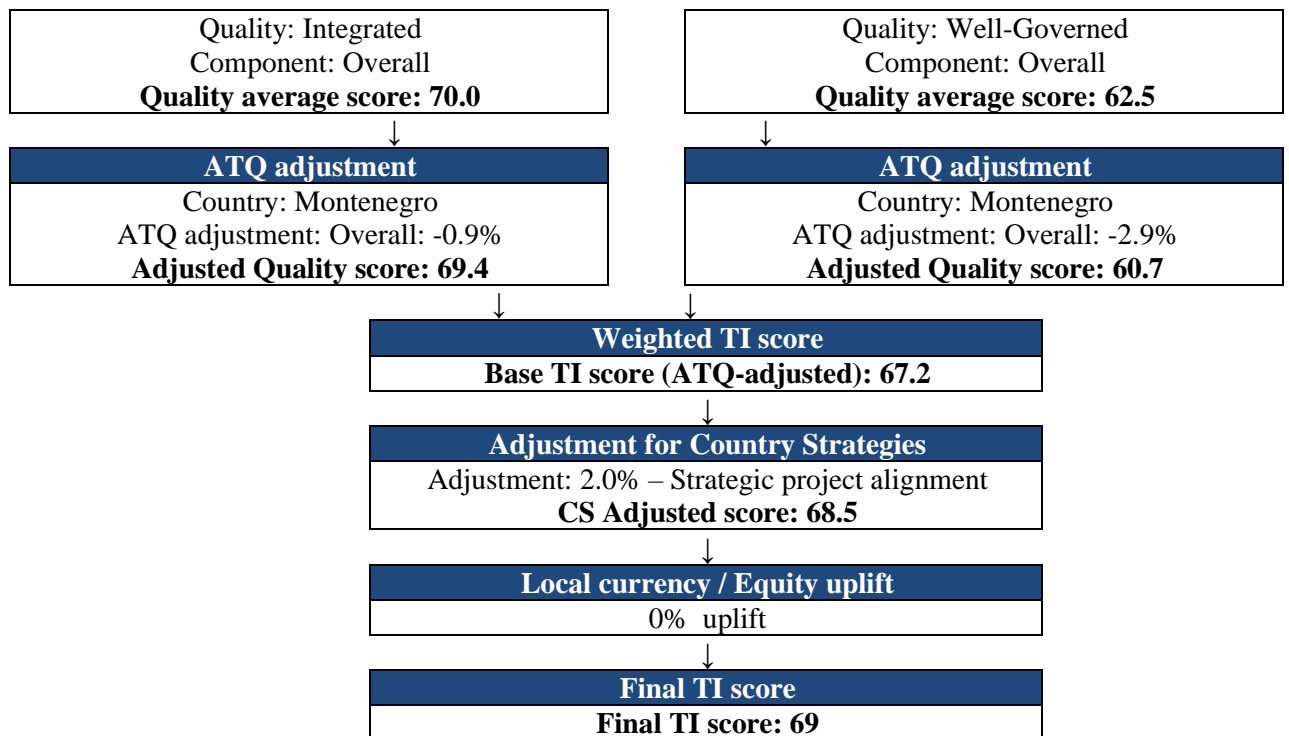
Procurement arrangements:

The Project includes one works contracts for the design and construction of the Matesevo – Andrijevisa section of the BBH. The contract will be co-financed by the proceeds of the Bank's loan, EU grant funds and government funds. It will be procured following open tendering procedures in accordance with the requirements of the Bank's PP&R for public sector operations. It is envisaged that the procurement documents for the procurement of works will be based on the latest version of the Bank's standard procurement documents for procurement of works. In particular, it is envisaged that the works contract will be awarded following a two-stage open tendering process with FIDIC Yellow Book contract conditions.

The Project also envisages four technical cooperation contracts for: (i) the procurement expert; (ii) the implementation consultant supporting the PIU; (iii) an independent engineer to supervise the works; and (iv) the LMA. The consultancy contracts will be procured in line with the provisions of the Bank's PP&R. The contracts will be tendered via the EBRD Client e-Procurement Portal ("ECEPP"). All contracts will be subject to prior review by the Bank.

[REDACTED]

ANNEX 4 - TRANSITION IMPACT SCORING CHART



ANNEX 5 – GREEN ASSESSMENTS

SUMMARY

- The Project entails a **sovereign loan** that will finance the construction of the of the 22 km Matesevo-Andrijevisa section of the Bar-Boljare Highway, a corridor part of the TEN-T network of about 180km connecting Montenegro with Serbia.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement**.
- The Project is attributed **12% GET for climate change adaptation**.

PARIS ALIGNMENT ASSESSMENT

Alignment with the mitigation goals of Paris Agreement

The project was subject to a specific assessment for alignment with the mitigation goals of the Paris Agreement. The key findings from this assessment are as follows:

The Project is consistent with the Montenegrin Nationally Determined Contribution (“NDC”). The Republic of Montenegro is committed to an unconditional target of 35% reduction of its net greenhouse gas emissions by 2030 as compared to 1990 levels, as stated in its NDC submitted in 2022⁵. A review of the NDC indicates that the primary lever for road-based transportation CO2 reductions is through the promotion of electric vehicles. No specific information was identified in the NDC related to the development of inter-urban road infrastructure.

The Project is consistent with a Low-Carbon Pathway (“LCP”). In the absence of a national low-carbon pathway for passenger and freight connectivity, the Bank assessed the project against the regional LCP - the ‘Strategy for Sustainable and Smart Mobility in the Western Balkans’ (“SSMS”).⁶ The SSMS aligns countries in the Western Balkans with EU ambition on transport decarbonisation. Of relevance for this specific project, the SSMS states “by 2050, 90% of all cars, vans, buses as well as new heavy-duty vehicles to be zero-emission.” As such, consistency of the Project with the LCP primarily entails being compatible with EVs and other alternative fuel vehicles and being able to accommodate infrastructure required for charging of future low-carbon vehicle fleets.

The technical assessment of the project identified locations for two service stations within the Matesevo – Andrijevisa road section. Provisions for the installation of charging points are to be included in the design of the service stations, in consistency with the EU AFIR regulation.

The Project demonstrates a low-risk of carbon lock-in. Road infrastructure delivers passenger and freight connectivity, and the infrastructure needs to be considered in the context of a wider transportation system alongside other modes. This Project is part of the Western Balkans Core Network and an extension of the TEN-T network, conceived alongside alternative modes, including rail. The existing railway on that corridor is a single-track line connecting Bar with the border with Serbia at Vrbnica, with speed reductions in several sections. It requires major rehabilitation works and EBRD is actively participating in their financing, in cooperation with other IFIs. The WBIF has already approved EUR 112 million grant for the reconstruction of the section between Golubovci (15 km south from Podgorica) and Bar. EIB and EBRD are to provide loans of EUR 53 million each for this project. [REDACTED]

⁵ <https://unfccc.int/NDCREG>

⁶ <https://www.transport-community.org/wp-content/uploads/2021/06/Strategy-for-Sustainable-and-Smart-Mobility-in-the-Western-Balkans.pdf>

***Conclusion:** The Project is assessed as aligned with the mitigation goals of Paris Agreement (**BB1 aligned**).*

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment.

A comprehensive Climate Risk and Vulnerability Assessment was undertaken for the whole Bar – Boljare corridor. For the Matesevo-Andrijevisa section, the assessment identified floods (assessing together both river flooding and extreme rainfall events, and extreme mass movements resulting from these flooding events) and increased temperature as material physical climate risks for the road. [REDACTED] In addition, the project does not undermine the resilience of wider systems and is not inconsistent with the national policy for context adaptation.

***Conclusion:** The project is assessed as aligned with the adaptation goals of Paris Agreement (**BB2 aligned**).*

[REDACTED]

GET ATTRIBUTION

GET attribution

- The Project is attributed adaptation GET finance.
 - Climate change adaptation (please see more details below): 12% GET due to the adaptation measures integrated in the design. The three-step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below.

***Conclusion:** The Project is attributed 12%.*

[REDACTED]