

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

Approved by the Board of Directors on 17 June 2026¹

MONTENEGRO

INTELLIGENT TRANSPORT SYSTEMS FOR ROADS

[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

A-1	Bar – Boljare – Belgrade Highway
AESR	Annual Environmental and Social Report
AMI	Annual Mobilised Investment
CAPEX	Capital Expenditure
CCY	Currency
DGV	Dangerous Goods Vehicles
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
EHS	Environment, Health, and Safety
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
ESRs	Environmental and Social Requirements
EU	European Union
EUR	Euro
FEF	Front-end Fee
FS	Feasibility Study
GBVH	Gender Based Violence and Harassment
GDP	Gross Domestic Product
GET	Green Economy Transition
GPMP	Green Project Monitoring Plan
G&EI	Gender & Economic Inclusion
HAZMAT	Hazardous Goods Control System
HGV	Heavy Goods Vehicle
IFI	International Financial Institution
IPAM	Independent Project Accountability Mechanism
IPM	Investment Profitability Model
ITS	Intelligent Transport Systems
LGD	Loss Given Default
MDB	Multilateral Development Bank
MoF	Ministry of Finance
MoT	Ministry of Transport
NAP	National Access Point
NTMC	National Traffic Management Centre
NTS	Non-Technical Summary
NPV	Net Present Value
OPEX	Operational Expenditure
OCCO	Office of the Chief Compliance Officer
PA	Paris Alignment
PD	Probability of Default
PEP	Politically Exposed Person
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PPAD	Project Preparation and Appraisal Department
PP&R	EBRD Procurement Policies and Rules
PTZ	Pan, Tilt, Zoom

PSD	Project Summary Document
RAROC	Risk-Adjusted Return on Capital
RMIS	Road Meteorological Information System
RUIS	Road User Information System
SCADA	Supervisory Control and Data Acquisition
SLA	Service Level Agreement
SIC	Standard Industrial Classification
SEP	Stakeholder Engagement Plan
SRG	Sovereign Sector Risk Guidance
SSF	Shareholder Special Fund
TA	Transport Administration
TC	Technical Cooperation
TDCS	Traffic Data Collection System
TEN-T	Trans-European Transport Network
TPRM	Third Party Risk Management
VAT	Value Added Tax
VMS	Variable Message Signs

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Montenegro (the “Borrower”) for the benefit of the Ministry of Transport (the “Client” or “MoT”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to Montenegro, represented by the Ministry of Finance (“MoF”), in the amount of up to EUR 30 million to finance the development and installation of intelligent transport systems (“ITS”) on Montenegro’s road network (the “Project”).

The operation will support the installation of information technology systems for traffic data collection, road meteorological information, traffic and tunnel control, safe parking system for heavy goods vehicles (“HGV”), road user information, hazardous goods vehicles control systems, and national traffic data and management centres. The Project will help Montenegro’s MoT, Transport Administration (“TA”) and Monteput, the highway company, improve road traffic management, enabling safer and more efficient use of road networks and better information access for users.

The expected transition impact of the Project stems from (i) the *Integrated* quality by supporting Montenegro’s efforts for an integrated nationwide ITS environment that will promote data exchange and interoperability between different road transport stakeholders and systems; and (ii) the *Resilient* quality by helping Monteput and the TA enhance infrastructure cyber resilience in line with international best practice.

The Project will strengthen the climate resilience of Montenegro’s roads through ITS functionalities, which will support early warning and emergency response systems against climate hazards. The Project’s Green Economy Transition (“GET”) share is 23 per cent.

Technical cooperation (“TC”) support for Project preparation has been provided by Taiwan Business – EBRD Technical Cooperation Fund and the EBRD’s Shareholder Special Fund (“SSF”). The Bank will also provide post-signing TC support for a lender’s monitor to oversee the Project’s implementation (to be funded by SSF), Tunnel Risk Analysis (to be funded by SSF or other international donor), Cybersecurity Resilience (to be funded by EBRD/Israel Bilateral Fund) and Emergency Response Plans (to be funded by Slovak Republic – EBRD Technical Co-operation Fund).

I am satisfied that the operation is consistent with the Bank’s Strategy for Montenegro 2021-2026, the GET Strategy 2026-2030, the Infrastructure Sector Strategy 2024-2029, the Approach to Accelerating the Digital Transition 2026-2030 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

BOARD DECISION SHEET

MONTENEGRO - INTELLIGENT TRANSPORT SYSTEMS FOR ROADS - DTM 56903	
Transaction / Board Decision	Board approval https://ukc-word-edit.officeapps.live.com/we/wordeditorframe.aspx?ui=en-GB&rs=en-US&wopisrc=https%3A%2F%2Ffebrd0-my.sharepoint.com%2Fpersonal%2Fralevicr_ebrd_com%2Fvti_bin%2Fwopi.ashx%2Ffiles%2F942ebdbbfa9a41a48e9dd2b76d21a839&wdenableroaming=1&mscc=1&wdodb=1&hid=93A800A2-A03A-F000-FC69-D7D6BB4EC4B3.0&uih=sharepointcom&wdlcid=en-GB&jsapi=1&jsapiver=v2&corrid=10c4ecbc-cec0-6a14-0eef-fae09bdf9fca&usid=10c4ecbc-cec0-6a14-0eef-fae09bdf9fca&newsession=1&sftc=1&uihit=docaspx&muv=1&ats=PairwiseBroker&cac=1&sams=1&mtf=1&sfp=1&sdp=1&hch=1&hwfh=1&dchat=1&sc={"pmo"%3A"https%3A%2F%2Ffebrd0-my.sharepoint.com"%2C"pmshare"%3Atrue}&ctp=LeastProtected&rct=Normal&wdorigin=ItemsView&wdhostclicktime=1773693328150&afdfight=59&csiro=1&instantedit=1&wopicomplete=1&wdredirectionreason=Unified_SingleFlush² is sought for a sovereign loan of up to EUR 30 million to Montenegro (the “Borrower”) represented by the Ministry of Finance (“MoF”) to finance the development and installation of intelligent transport systems (“ITS”) on Montenegro’s road network (the “Project”).
Client	The Borrower is Montenegro represented by the Ministry of Finance (“MoF”). The client and implementing agency is the Ministry of Transport (the “Client”), which will be supported by Monteput (“Monteput”), the state-owned enterprise, responsible for the construction, maintenance and operation of Montenegro’s highway and motorways, and Transport Administration (“TA”), a state agency, responsible for the management of the construction, reconstruction, and maintenance of national roads. The MoT will establish a project implementation unit (“PIU”) comprising representatives of Monteput and the TA.
Main Elements of the Proposal	Transition impact: Integrated – by supporting Montenegro in introducing an integrated nationwide ITS environment that will enable data exchange and enhance interoperability between different road transport stakeholders and systems. Resilient – by strengthening the cybersecurity resilience of the road sector and key stakeholders, including through investment into cybersecurity technologies. The percentage of EBRD proceeds qualifying as Green finance is 23 per cent. Additionality Financing Structure: EBRD offers financing that is not available on the market from commercial sources on reasonable terms and conditions. Standard setting: The procurement will be carried out in accordance with the EBRD Procurement Policies and Rules (“PP&R”). Sound banking: The transaction is a sovereign loan.
Key Risks	Implementation risk: [REDACTED] This risk is mitigated by the appointment of international consultants, acceptable to the Bank, to assist the Client with design, procurement, implementation, and works supervision services. A lender’s monitor will also be appointed to oversee the Project’s implementation.
Strategic Fit Summary	The Project is consistent with the Bank’s Infrastructure Sector Strategy, the Strategy for Montenegro 2021-2026, the GET Strategy 2026-2030, the Approach to Accelerating the Digital Transition 2026-2030, and with the Agreement Establishing the Bank.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to EUR 30 million to Montenegro represented by the Ministry of Finance (“MoF”) for the benefit of the Ministry of Transport (“MoT” or the “Client”), supported by Monteput and TA, to finance the development and installation of intelligent transport systems for roads (“ITS”) in Montenegro (the “Project”).
Mutual Reliance	No.
Existing Exposure	Total EBRD sovereign portfolio (sovereign and sovereign guaranteed loans) in Montenegro as of 30 April 2026 stood at EUR 306.6 million, out of which operating assets were EUR 89.4 million. Sovereign loans include eight projects for a total of EUR 190.7 million, out of which five projects are in the transport sector for a total portfolio of EUR 158.7 million and operating assets of EUR 58.6 million, whereas three projects are in the municipal infrastructure with a total portfolio of EUR 32.0 million and operating assets of EUR 0.3 million. The remaining part of EUR 115.9 million are sovereign guaranteed loans related to rail infrastructure, electric bulk power transmission and water and sewage systems.
Maturity/ Repayment	Tenor of 15 years[REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds - Description	The proceeds of the Bank’s loan will finance the installation of the following components: 1. Open Roads Systems: (i) Traffic Data Collection System; (ii) Road Meteorological Information System; (iii) Road User Information System, (iv) National Traffic Management Centre; 2. Traffic and Tunnel Control Systems; 3. HGV Parking areas on main roads and A1 highway; 4. National Access Point. Please refer to Annex 1 for further details. The loan proceeds will also finance the PIU support and works supervision consultants as well as the front-end fee (“FEF”).
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	MoF, MoT, Monteput, TA.
Conditions precedent to effectiveness	- Legal opinion with respect to the Loan Agreement.
Conditions to first disbursement	[REDACTED]
Key Covenants	[REDACTED]
Guarantees	Sovereign loan.
Other material agreements	None.
Associated Donor Funded TC and Blended Concessional Finance	Technical Cooperation (TC) Pre-signing: TC1: Project Preparation for the Development and Implementation of ITS for Roads Transport in Montenegro 1. Information, analysis, recommendations and documentation needed to comprehensively assess, structure and prepare the Project for implementation. 2. Funding source: Taiwan Business – EBRD Technical Cooperation Fund and SSF. 3. EUR 384,000.

	Post-signing: TC2: Tunnel Risk Analysis 1. The Risk Assessment for Dangerous Goods Transport through Road Tunnels to analyse potential risks associated with transporting dangerous goods, evaluate the likelihood and severity of incidents, and determine the overall risk to people, infrastructure, and the environment. 2. Funding source: international donor or the SSF. 3. EUR 75,000. TC3: Cybersecurity Resilience Programme 1. Support the TA and Monteput in conducting for the first time a cybersecurity gap analysis and develop a cybersecurity roadmap (mapped to the CIS18 cybersecurity framework, IG2) in line with international best practice. 2. Funding source: EBRD/Israel Bilateral Fund. 3. EUR 40,000. TC4: Lender's Monitor 1. Independent monitoring of all aspects of the Project's implementation. 2. Funding source: SSF. 3. EUR 250,000. TC5: Emergency Response Plans Using ITS 1. Assist Monteput and the TA in developing operational manuals for emergency response for the road network of Montenegro, embedding ITS capabilities into incident detection, operator decision-support, communications and road-user information, and defining interfaces with other key stakeholders for emergency response. 2. Funding source: Slovak Republic – EBRD Technical Co-operation Fund. 3. EUR 75,000.
[REDACTED]	

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Montenegro is a candidate country for membership in the European Union (“EU”) and is currently actively negotiating accession. It has so far opened all 33 negotiation chapters and provisionally closed 13, making it the most advanced candidate country in the Western Balkans. Montenegro's goal is to join the EU by 2028.

In accordance with EU policy and relevant guidelines, enhancing road safety is a key strategic objective for the country. The Project will enable Montenegro in aligning with Directive (EU) 2023/2661 and the broader EU digital mobility agenda. This directive provides the updated legal and operational framework for the coordinated deployment of ITS in the road transport and their interfaces with other transport modes. A core element of this revised directive is the obligation for the EU Member States to ensure harmonised collection, management, and exchange of transport-related data through National Access Points. These platforms must make specific datasets - such as real-time traffic and travel information, road safety data, and information on alternative fuel infrastructure - available in machine-readable and interoperable formats, thereby enabling the provision of EU-wide ITS services.

The Project will introduce the application of ITS which will help the Client improve traffic management on Montenegro’s road network by reducing time losses caused by stoppages, improving intermodal transport as well as improving road infrastructure management. Greater efficiency of road transport reduces the impact on the environment and improves the energy efficiency of road transport. Moreover, ITS functionalities will support early warning and emergency response systems against climate hazards thereby increasing the resilience of the road network. The Project will also help addressing the cyber resilience of digital assets deployed and operated under the Project, through dedicated cybersecurity TC support to Monteput and the TA, who will hold the operational responsibility of such assets. This cybersecurity TC support will increase the Client’s cybersecurity resilience by (i) conducting a comprehensive gap assessment of the Client’s digital assets and related processes, focused on identifying gaps and corresponding mitigation measures, mapped against the CIS 18 cybersecurity framework³; and (ii) using the findings of this gap analysis to create a prioritised list of essential cybersecurity controls for the Client (including detailed technical specifications and 3-year cost estimates), along with an implementation action plan.

The Project is in line with the Traffic Development Strategy of Montenegro 2019-2035, as well as the Programme of Development and Implementation of Intelligence Transport Systems in Road Traffic 2022-2026, adopted on basis of Article 16 paragraph 3 of the Law on Roads (“Official Gazette of Montenegro” No. 80/2020).

The Project is in line with the EBRD Strategy for Montenegro 2021-2026, which identifies as the Bank’s strategic priority further support for connectivity and integration by expanding cross-border transport, energy and digital links through improved quality and connectivity of digital infrastructure. The Project is also in line with the Bank’s Infrastructure Sector Strategy 2025-2029, which under Strategic

³ The CIS Critical Security Controls 18 framework, developed by the Centre for Internet Security, consists of 18 critical security controls designed to help organisations mitigate common cyber threats and enhance their cybersecurity posture. <https://www.cisecurity.org/controls/cis-controls-list>

Framework states that “...the Bank will seek to address safety improvements in the transport sector, focusing on improving road safety through its transport operations”. It also states that “...the Bank will engage the governments of the region in policy dialogue on development the investment climate to support growth in the sector, including development of regional intermodal systems and nodes, integrated planning and the use of intelligent technologies”.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The technology introduced to expand/improve infrastructure is a first for the region (country and all bordering countries or all countries in the same EBRD grouping) and the technology is in line with international BAT standards.</i>	The installation of the proposed ITS components will achieve a comprehensive modernization of road infrastructure, resulting in safer, more efficient, and better-connected transportation networks. By integrating real-time data collection with centralized management, the Project will transition road management from reactive to proactive, improving the reliability and safety of travel for both commercial and public users.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>The project helps the client achieve, for the first time, international best practice in infrastructure cyber resiliency (e.g. IEC 62443, MITRE ATT&CK, ICAO (aviation), IMO(Maritime), CIS 18 IG 2 or equivalent)</i>	The Project will support Monteput and TA in achieving alignment with the international best practices of CIS18 IG1/2 ⁴ , via: 1) a comprehensive assessment of Monteput and TA’s digital assets and processes, and 2) the development of a strategic action plan to enhance both entities’ overall cybersecurity posture including investments into cybersecurity to close identified gaps.

Delivery risks: [REDACTED] This risk is mitigated by the Government’s commitment to supporting the Project and the Bank’s ongoing policy dialogue with the Montenegrin Government. The Project’s implementation risk is mitigated by (i) the appointment of an experienced independent consultant who prepared the Project’s technical specifications, (ii) the appointment of international consultants, acceptable to the Bank, to assist the Client with the Project’s preparation, design, procurement, implementation, lender’s monitoring and works supervision services, and (iii) TA and Monteput’s experience in implementing Bank financed projects. The risks are further mitigated by the strong willingness of the MoT, TA and Monteput to adopt and implement agreed measures.

⁴ The CIS 18 framework controls are organized into three Implementation Groups (IGs) based on an organization's size, resources, and risk profile:

IG1 (Essential Cyber Hygiene): The foundational on-ramp for all organizations, designed to protect against common, non-targeted attacks.

IG2 (Foundational Cyber Hygiene): Builds upon IG1 for organizations with more resources and moderate risk exposure.

GENDER SMART TAG: Gender Aware

Digital Approach: The Project is aligned with the Adaptation area of intervention outlined in the EBRD Approach to Accelerating the Digital Transition 2026-2030, as it will enable the Client to enhance its cybersecurity resilience. The digital - cybersecurity component of the Project is in support of the *Resilient* transition quality as outlined above and in monitoring indicators 2.1-2.2.

1.3 ADDITIONALITY

Identified triggers
n/a
Additionality sources
Financing Structure - The Bank provides long-term financing, which is not readily available in Montenegro from local or commercial banks. The proposed tenor [REDACTED] are above the market average and are necessary to structure the Project given its use of proceeds. - Public sector: EBRD investment is needed to close the funding gap. At the same time, the EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.
Standard-setting: helping projects and clients achieve higher standards. - The Bank's experience in financing similar projects, existing long-term relationship with the Government and on-going policy dialogue on sector reform process is highly appreciated by Montenegrin side. The Client will also comply with the Bank's environmental and social policies and PP&R. - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the Client.
Standard setting: - Standard-setting: helping projects and clients achieve higher procurement standards. - Enhance project design and implementation and transparency.

1.4 SOUND BANKING – KEY RISKS

Risks	Probability / Effect	Comments
Sovereign & Macroeconomic Risk	Low / High	After three quarters of solid growth, economic activity slowed to 1.5 per cent year on year in Q4, bringing overall GDP growth in 2025 down to 2.7 per cent. Inflation declined to 2.9 per cent in January 2026, after a year of persistent inflationary pressures fuelled by expansionary fiscal policy, double-digit real wage growth and a substantial pension increase, as well as utility prices increase. Montenegro budget deficit has been increasing in the previous years together with the government debt which rose slightly to 59.8 per cent of GDP in 2024, but due to GDP growth, it declined back to 58.6 per cent in Q3 2025. The budget deficit increased to 3.2 per cent of GDP in 2024 and further up to 4.0 per cent in 2025, largely due to higher public sector wages and public investment. Growth is projected at 3.2 per cent in 2026 and 2027 supported by EU accession progress, infrastructure investment, and solid domestic demand. New risks are emerging from the conflict in the Middle East, which has already caused spikes in oil and gas prices and disrupted supply. Given Montenegro's heavy reliance on oil imports, this could generate renewed inflationary pressures and even potential oil shortages, affecting all sectors of the economy. To mitigate an immediate surge in prices, the government reduced excise duties on oil products, absorbing part of the international price

Risks	Probability / Effect	Comments
		shock but simultaneously lowering fiscal revenues. On the other hand, a positive effect may arise from higher tourism inflows [REDACTED]. As a result, the tourism-oriented Western Balkan countries may potentially benefit from a partial redirection of tourism flows. Considering its relatively stable level of debt to GDP as well as gradual fiscal consolidation and ongoing structural reforms, credited in recent positive rating outlook revisions, Montenegro is deemed creditworthy. The debt stock is larger than rating and regional peer medians, standing at around 60% - but remains relatively stable. Montenegro continues to face fiscal risks; its fiscal stance has been expansionary in recent years due to the “Europe Now 2” programme and loosened further in 2025. Expenditure remains elevated but the 2026 budget points to gradual fiscal consolidation.
Regulatory Risk	Medium / Medium	The introduction of ITS in Montenegro presents several regulatory and legal risks, primarily stemming from the need to align with European Union (EU) standards while operating within a developing legal framework. Key risks include the lack of specific AI-related regulations, potential data protection breaches, and weak administrative capacity to enforce complex technical standards. The adoption of necessary legal amendments, defined by the Bank’s consultant and agreed by the MoT, for the operation of the proposed systems is a CP to disbursement.
Implementation Risk, incl. cost overruns	Medium / Medium	The Project will be implemented by the MoT which has experience in working with EBRD and other IFIs but not with procurement of complex ITS systems. The Client has already been supported by an international consultant engaged by the Bank, who prepared the procurement and implementation strategy as well as the technical and functional specifications for the tender. It will also be supported by an international consultant (adequately qualified ITS consulting firm, with relevant sector experience) during procurement, contracting, implementation including work supervision, as well as a lender’s monitor which further mitigates the implementation risk. In addition, the Project cost estimates include 15% contingencies for potentially high inflation rates and costs overruns.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

TI indicator(s), primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Share of regional road tunnels over 500m covered by continuous traffic monitoring	Percentage (in km) of road tunnels over 500m covered by continuous traffic monitoring	70%	80%	[REDACTED]
1.2	Reduction in accidents	10% reduction in road accidents compared to 2024 as recorded by the national statistical authority	3,228	2,905	[REDACTED]
1.3	Reduction in incident detection time on motorways	≥20% reduction in incident detection time on motorway network	>20s	16s	[REDACTED]
1.4	Reduction in false incidents alarms on motorways	≥20% reduction in false alarms on motorways	>20%	16%	[REDACTED]
1.5	Adoption of the Emergency Response Plans	Adoption of the emergency response plans	No	Yes	[REDACTED]

TI indicator(s), secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Demonstration of substantial alignment with one or more aspects of a recognised cybersecurity standard	1.a. Improved cybersecurity standards: Demonstration of substantial alignment with one or more aspects of a recognised cybersecurity standard (CIS18 Implementation Group 2). [REDACTED]	No	Yes	[REDACTED]
2.2	Demonstrated quantitative evidence of improved cybersecurity resilience	1.b. Reduction in number of known vulnerabilities facing the Internet. This figure will be determined by a combination of consultant's final report, and Third-Party Risk Management vulnerability scoring. Scoring is done on a numeric scale (1-100, calculated according to TPRM methodology employed by consultant), with cyber posture broken down by category, and scored based on the scan's findings. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Project preparation product approved: Harmonisation with the EU Directive 2023/2661 on ITS	Project preparation product completed and the harmonised with EU Directive 2023/2661 on ITS	No	Yes	[REDACTED]
Advisory & Policy Indicators	Project preparation product approved: Project Preparation for the Development and Implementation of Intelligent Transport Systems (ITS) for Roads Transport in Montenegro	Project preparation product completed and the final report approved.	No	Yes	[REDACTED]
Advisory & Policy Indicators	Project preparation product approved: Tunnel Risk Analysis	Project preparation product completed and the final report approved.	No	Yes	[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, population of slightly over 600,000 inhabitants and an open economy strongly dependent on tourism, with the service sector comprising almost 60 per cent of GDP and employing 73 per cent of workers.

Key domestic developments include strong household consumption supported by wage and pension growth, and robust investment driven by large infrastructure projects, such as the Bar-Boljare highway. Net exports contributed negatively due to higher imports, including electricity after the closure of the Pljevlja thermal power plant, as well as softer activity in ICT sector and weaker industrial output hampering exports.

In March 2026, S&P affirmed Montenegro's sovereign long term rating at B+, and Moody's confirmed long term Ba3 rating. Both agencies raised outlook to positive from stable, on the back of stable macro fundamentals and public debt, and progress in the EU accession talks.

3.2 CLIENT

The Client and implementing entity is the MoT. A PIU comprising representatives of the TA and Monteput will be established for the purpose of the Project's implementation.

- *MoT* has overall responsibility for administrative and monitoring tasks regarding transport and traffic in Montenegro, as well as harmonization of regulatory framework of its jurisdiction with EU. MoT is also responsible for the preparation and assessment of investment projects and development of sector policy.
- *TA* is the government agency responsible for national road infrastructure. It was established in 2006 as a government agency under the EBRD's first road sector project in Montenegro. TA is responsible for the management, development, construction, reconstruction, maintenance and protection of the state roads of Montenegro. It also develops the implementation of ITS solutions along national roads although currently this implementation is limited to the traffic data collection system and consequently it has not required real time operation.
- *Monteput* is a limited liability company, 100 per cent owned by the Government of Montenegro. It was established in 2005 as the business successor of the Directorate for the Construction of Highways Podgorica. Monteput is responsible for the management, development, construction, reconstruction, maintenance and protection of the highways (currently existing section of A-1 Bar – Boljare highway). For the development of its role in terms of traffic management and operation along A-1 highway, a control centre centralizes the operation and management of ITS solutions implemented along the highways. Additionally, Monteput has been assigned for the operation of Sozina and Raš tunnels located out of the A-1 highway.

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. 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.

Improving connectivity within the Western Balkans, as well as between the Western Balkans and the EU is a key factor for promoting economic growth in the region. Alongside important investments for the development of key road infrastructure, the Government of Montenegro has prioritised the implementation of technical standards and soft measures such as information systems, road safety and third-party access, as key investments to enhance operability, connectivity and safety of its road networks.

In this context, the Government of Montenegro has adopted the Programme for the Development and Implementation of Intelligence Transport Systems in Road Traffic 2022-2026 which is aligned with the Traffic Development Strategy of Montenegro 2019-2035 and coordinated with Directive 2010/40/EU of the European Parliament and the Council of the EU on the framework for the deployment of Intelligent Transport Systems in the field of road transport and for interfaces with other modes of transport. The programme establishes key activities for a harmonized implementation of ITS solutions.

5. ECONOMIC ANALYSIS

5.1 ECONOMIC ANALYSIS

[REDACTED] [REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category B (ESP 2024). The environmental and social (“E&S”) impacts associated with the Project are site-specific, within existing rights-of-way, and mitigable.

An environmental and social due diligence (“ESDD”) has been conducted by an independent consultant to assess the impact of ITS components (traffic data, meteorology, tunnel control, enforcement, Road User Information System (“RUIS”), HGV parking, Hazardous Goods Control System (“HAZMAT”), National Traffic Management Centre (“NTMC”), National Access Point (“NAP”)). Key Project documents and studies reviewed were Project design descriptions per ITS component; DATEX II standard (covering vehicle traffic and signalling); ADR Convention (for hazardous goods transport standards); internal capacity notes from Monteput and TA.

Risk assessment revealed cybersecurity breaches as medium-high[REDACTED]. Mitigation measures were included in the environmental and social action plan (“ESAP”) to mitigate the risk (e.g. Implementation of ISO 27001, strict role-based access controls and staff background check, regular safety drills simulating tunnel incidents, backup control centres and emergency override system).

Proposed installations are within existing road corridors and developed areas resulting in low biodiversity sensitivity; there will be limited new civil works, except HGV parking. Monteput and TA have implemented ISO 9001 and are updating its Quality Policy (environment, health and safety (“EHS”), energy, road safety) as part of commitments within current projects with EBRD. Monteput has been satisfactorily implementing ESAP under ongoing project and reporting annually on E&S matters as required. Despite no formal ISO 14001/45001 systems, Monteput and TA have institutional experience in carrying out operations in line with good environmental management practices and ESAP (e.g. waste separation, stormwater management, noise protection, and landscaping), with capacity strengthening needed via project environmental and social management system (“ESMS”).

To achieve compliance with EBRD Environmental Social Responsibility (“ESR”), an ESAP has been prepared as part of the ESDD and agreed by the Client. The main actions proposed are to establish Project ESMS; monitoring/reporting; contractor management procedures; establish worker grievance; supply chain compliance; gender-based violence and harassment (“GBVH”) policies; develop or improve procedures for hazardous materials storage; verification of product safety; temporary traffic management during installation works; stakeholder engagement.

A stakeholder engagement plan (“SEP”) and a non-technical summary (“NTS”) have also been prepared as part of the ESDD scope and will be implemented by the Client.

The monitoring of the Project will be performed through regular PIU reporting on ESAP actions, EHS key performance indicators (“KPIs”), incident logs, and stakeholder engagement reports.

Independent Project Accountability Mechanism (IPAM) case

At present, there is one IPAM case (2024/03) related to the Main Roads Reconstruction Project in Montenegro, with the TA as the implementing Agency. 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, pollution from increased traffic, noise, pedestrian safety 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 case is in Compliance Assessment where the compliance team determines whether the case meets the eligibility criteria to initiate an investigation or not. The end of this stage, materializing in the issuance of the Compliance Assessment Report, is planned in June 2026

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was conducted on the MoT, Monteput, TA, as well as MoF, ministers, secretaries of State, and other relevant parties [REDACTED].

[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

ANNEX 1	Description of the proposed ITS investments
ANNEX 2	Green Assessments
ANNEX 3	Project Implementation
ANNEX 4	Transition Impact Scoring Chart

ANNEX 1 – DESCRIPTION OF THE PROPOSED ITS INVESTMENTS

1. Traffic Data Collection System

The Traffic Data Collection System (“TDCS”) comprises hardware and software elements integrated to collect, process, and analyse data relevant to monitor, understand and forecast on road mobility patterns. The system is supported by a back office able to collect traffic data in terms of multiple traffic parameters such as vehicle speed, density, classification, occupancy and travel time; and that can be provided by multiple traffic sensors of multiple technologies such as magnetic loops, cameras, and microwaves. The TDCS for the roads will be operated by TA.

2. Road Meteorological Information System

The Road Meteorological Information System (“RMIS”) comprises hardware and software elements integrated to collect, process, and analyse meteorological conditions that affect traffic conditions that could be relevant to be inform to the road users or to develop road network management. The system will be supported by the SCADA for traffic management, that is able to collect meteorological data in terms of multiple parameters such as temperature, humidity, temperature, rainfall and visibility. The implementation of the RMIS for the roads will be operated independently by TA and Monteput.

3. Traffic and Tunnel Control Systems

Traffic and tunnel control systems within road ITS are to be built upon a seamless integration of hardware and software components to guarantee proper traffic and safety conditions in road tunnels. Each subsystem incorporates dedicated hardware devices that collect data or perform specific actions, while software platforms process this information, analyse system status, and coordinate responses to ensure optimal performance and safety. The most common hardware components are:

- Surveillance Cameras (PTZ, Fixed): Enable both manual and automated incident detection throughout the tunnel.
- Environmental Sensors: Monitor smoke, gas concentrations, temperature, and visibility to support safety and ventilation management.
- Variable Message and Speed Limit Signs: Deliver real-time instructions and information to drivers within the tunnel.
- Emergency Telephones and Public Address Systems: Facilitate direct communication between tunnel users and operators, as well as mass notification during emergencies.
- Barriers and Traffic Lights: Regulate tunnel access and restrict entry when necessary.
- Ventilation and Lighting Systems: Always ensure adequate air quality and visibility.
- Firefighting Systems: Detect and suppress fires to maintain tunnel safety.
- These subsystems are integrated into centralized tunnel management platforms-typically SCADA-based or specialized solutions which provide unified monitoring, control, and coordination of all tunnel operations.

4. Road User Information System

The Road User Information System (“RUIS”) comprises hardware and software elements integrated to process and provide real-time information about road conditions, traffic flow, weather and other relevant factors to road users. Given that Monteput already has in operation RUIS to inform their road users, the implementation of the RUIS for the roads will only be operated by the TA. RUIS includes the following:

- Variable Message Signs installed in key locations of the road.
- Website and Mobile App developed as digital channels for users to access relevant information independently from their location.

The system should be able to integrate data sources (internal and external to Transport Administration) to give a more comprehensive vision of the whole road system, for example, integrating Monteput's data in order to publish relevant messages on the Variable Message Signs (VMSs) near the entrances to the A-1.

5. Safe HGV Parking System

Safe HGV Parking System corresponds with the parking area, disposed facilities and implemented systems for the management, supervision and information of the parking area. The parking areas are designed taking into account existing European regulation and in compliance with the requirements stated for level Bronze.

Under the Project four parking areas are to be built: one on the A-1 highway managed by Monteput and the other three on the main roads network managed by TA.

6. Hazardous Goods Control System (HAZMAT)

The HAZMAT corresponds with hardware and software elements integrated to enable the automatic detection, classification, and reporting of hazardous substances transported on the road network. The system is based on video analysis to identify the vehicle by license plate automatic recognition and transported good according to that declared by ADR plate. Information registered by distributed cameras is centralized and reported to the SCADA as notifications for the road operators.

The system will be aligned with the international Agreement concerning the International Carriage of Dangerous Goods by Road. In the context of the project, the HAZMAT system will be implemented on the A-1 highway managed by Monteput. Under the Project five HAZMAT locations with detection cameras along A-1 highway, which correspond with its entries/exits and rest areas, will be built.

7. National Traffic Management Centre (NTMC)

ITS implementation allows to digitalize mobility control and operation. According to the European Commission, traffic management provides guidance to the traveller and hauler on the condition of the road network, detecting incidents and emergencies, implementing response strategies to ensure safe and efficient use of the road network and optimizing the existing infrastructure, including across borders. Incidents can be unforeseeable or planned: accidents, road works, adverse weather conditions, strikes, demonstrations, major public events, holiday traffic peaks or other capacity overload. In this context, the traffic management centre centralizes the information and manages the traffic along the road network, that is identified by the European Directive 2010/40 as a relevant element on ITS implementation.

Currently, Montenegro has only one control centre operated by Monteput on A-1. Since this is not intended to serve as a national management centre for national roads, the Transport Administration will operate the NTMC. In alignment with traffic management responsibilities, the Centre's role is to develop and coordinate the planning, monitoring, and operation of traffic on the national road network, with the goal of ensuring sustainable, efficient, and safe mobility. The following functions of the NTMC are identified:

- Analysis and forecast of the mobility and traffic along the national road network in order to identify modifications that should be performed in the infrastructures or installations of the national road network to improve the mobility conditions in Montenegro.
- Traffic monitoring and operation of the roads (including tunnels) under the authority of Transport Administration, including surveillance, traffic regulation and organization, and inspection.
- Coordination of the operation with other management centres (of mobility, emergencies or others), considering the exchange of information that could be useful for the development of the competences of each of them.

- Distribution of traffic-related information to the media and other information channels and services, that could be useful for the customers in terms of journey-planning and serve as a channel for direct feedback from the NTMC. The official website and mobile application can be useful channels to inform road users about traffic and road conditions, incidents, events and travel recommendations.

8. National Access Point (NAP)

NAP corresponds to the IT platform that implements traffic data integration and publication. It involves software and hardware elements that support data services to integrate traffic data from multiple traffic stakeholders and consequently make available this traffic information for other traffic stakeholders as well as for citizen.

NAP shall offer information about mobility service to external and internal agents to be informed about the evolution of mobility (users), analysis and research mobility (investigators) and develop business related directly or not with the mobility (developers). It is a digital point of access, where data are collected, properly formatted, associated with metadata, and made available for exchange and reuse between users and institutions.

ANNEX 2 – GREEN ASSESSMENTS

SUMMARY

- The Project consists of the implementation of a series of ITS investments in road transport across different parts of the road network of Montenegro.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **23% Green finance.**
- Climate-related financial risks have been assessed [REDACTED]

PARIS ALIGNMENT ASSESSMENT

For Direct finance projects

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project's activity is included in the 'MDBs' aligned list' under the category Road upgrading, rehabilitation, reconstruction, and maintenance without capacity expansion
- There are no activities included in the 'non-aligned list'.

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 and indicated that some ITS components of the Project face potentially material physical climate risks, in particular extreme heat. Measures were identified to mitigate those risks, such as the installation of thermal insulation and ventilation systems for roadside electronic equipment. Moreover, it was agreed to incorporate the use of the ITS functionalities to increase the resilience of the road network against climate hazards and this will be monitored through the Green Project Monitoring Plan ("GPMP").

The Project is not inconsistent with relevant adaptation and resilience policies and is likely to have a positive impact on the climate resilience of the wider system in which it operates.

CLIMATE RELATED FINANCIAL RISK

[REDACTED]

GREEN FINANCE ATTRIBUTION

The Project is attributed 23% Green finance. This share has been calculated in line with the approach to attributing green finance for adaptation activities. The three-step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below.

J-MDB methodology for attribution of climate adaptation finance *Step 1 – Climate vulnerability context*

The ITS financed by the Project will be deployed across the whole road network of Montenegro, which is highly exposed to climate-related natural hazards, including:

- Landslides and rockfalls in mountainous and tunnel areas.
- Floods (fluvial and pluvial) in valleys and low-lying areas.
- Snowdrift in high-altitude passes.
- Temperature rise, which can affect pavement integrity, structural performance, and operational safety.

These risks are material to the road network, which is the wider system in which the ITS operate. Although ITS components generally exhibit low vulnerability to climate hazards, certain elements may be affected by extreme heat events. Roadside cameras, sensors, and electronic cabinets can experience overheating, leading to reduced performance or failure. Data centres and control systems, while typically housed in climate-controlled environments, may face indirect risks from power outages during heatwaves. No significant vulnerability to flooding or precipitation was identified for ITS components, as they are generally elevated and protected. Therefore, only extreme heat is a material risk to the ITS components of the Project.

Step 2 – Statement of intent

The EBRD engaged with the Client to improve the resilience of the Project to the identified climate hazards and to improve the wider resilience of the system through the use of the ITS components of the Project. Adaptation measures to protect the ITS systems were identified. In addition, while the Project does not include specific hazard-control or adaptation measures directly aimed at coping with particular natural threats, it nevertheless integrates elements that support adaptation by enhancing prevention, awareness, and understanding of such hazards. The Project design therefore incorporates tools and systems that contribute indirectly to strengthening resilience and reducing the vulnerability of the infrastructure to extreme weather events. Some examples are:

- Landslides / Rockfalls: Environmental sensors in tunnels, early warning through cameras and SCADA; variable message signs for preventive closures.
- Floods: Real-time hydrometeorological monitoring through meteorological stations connected with the Institute of Hydrometeorology and Seismology of Montenegro.
- Snowdrift / Winter Events: Meteorological monitoring and RUIS alerts to inform users and trigger maintenance operations.
- Temperature Rise: Ventilation and lighting systems in tunnels are designed to operate safely under high temperatures and prevent fire hazards.
- Traffic Disruptions: Variable Message Signs and mobile/web platforms provide real-time information on climatic hazards and alternative routes.
- Operational Safety: Safe and secure HGV parking areas equipped with lighting, surveillance, and resilient facilities during extreme events.

These features demonstrate a planned and integrated response to the identified hazards, enhancing both the structural and operational resilience of the transport network.

Step 3 – Link between climate vulnerability and project activities

Specific climate adaptation measures integrated in the Project to protect the ITS components from extreme heat are the following:

- Install thermal insulation and ventilation systems for roadside electronic equipment, to be included as technical requirements of the elements to be on road.
- Implement preventive maintenance protocols during summer months.

- Ensure redundancy in power supply and cooling systems for data centres and control rooms.

More importantly, Emergency Response Plans against climate extreme events will be developed to incorporate ITS functionalities of the Project components into early warning systems and operational protocols to increase the resilience of the road network.

GET Adaptation Finance Attribution

Several ITS components contribute to adaptation co-benefits by reducing systemic vulnerabilities and improving climate risk management. These interventions enhance knowledge, capacity, and technological readiness, which are recognized by the methodology to determine the green finance attribution of EBRD investments as enabling adaptation (Section 4.44). Examples include:

- Real-time traffic and meteorological data collection, supporting early warning and operational planning.
- Integrated tunnel and traffic control systems, improving emergency response during extreme events.
- Road user information systems, disseminating alerts to minimize accidents under hazardous conditions.

These features contribute to reducing underlying causes of vulnerability and removing barriers to adaptation at a systemic level. The use of ITS will result in reduced weather-related disruption and reduced weather-related damage. Based on section 4.44 of the GET methodology, 25% of the CAPEX for relevant ITS components is attributed to adaptation co-benefits. Next Table below summarizes this attribution.

ITS Component	CAPEX (EUR)	GET Co-Benefits	Attribution	Valorised GET (EUR)
Traffic Data Collection System	750,634	Yes	25.00%	187,658.41
Road Meteorological Information System	840,651	Yes	25.00%	210,162.63
Traffic and Tunnel Control Systems	15,578,868	Yes	25.00%	3,894,717.04
Safe HGV Parking System	1,748,037	No	0.00%	-
Road User Information System	1,811,268	Yes	25.00%	452,817.06
Hazardous Good Detection System	350,609	No	0.00%	-
National Traffic Management Centre	1,953,808	Yes	25.00%	488,451.94
National Access Point	220,628	Yes	25.00%	55,157.00
Total	23,254,503			5,288,964.07

GET share: 23%.

[REDACTED]

ANNEX 3 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

Project risk assessment:

[REDACTED]

[REDACTED]

The Client's capacity assessment related risk – Moderate

The Client and implementing entity is the MoT, which is going to set up and coordinate the PIU comprising representatives of TA and Monteput. The Client has successfully procured and implemented works and services contracts under national procurement rules, but not of a similar complexity under national procurement rules. While the MoT has been implementing projects financed by the Bank or other international financial institutions, it did not manage procurement of complex ITS systems.

To mitigate these risks, the Project will benefit from project implementation support, lender's monitor and works supervision consultants, which will facilitate smooth procurement processes and project implementation. An experienced PIU and supervision consultant will guide the Client and the PIU through tender preparation, procurement process, contract administration and project monitoring to mitigate implementation risks. 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.

Contracts risk assessment – High/Moderate

[REDACTED]

[REDACTED]

The support of an experienced PIU consultant will ensure that technical specifications, requirements and tender documents are suitable for open tendering and aligned with EBRD 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 manner.

Taking into account the cybersecurity-related considerations connected with the Project, TC consultant will also help ensuring that the EBRD requirements are met.

The support of a supervision consultant 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 lender's monitor will provide monitoring support during project implementation.

Project implementation arrangements:

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

The PIU will be supported by an experienced international consultant 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 tender 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 lender's monitor will support the financiers with control and monitoring of the overall project implementation by including but not limited to procurement, E&S aspects, potential land acquisition issues, implementation progress and contract management in compliance with the applicable policies.

Procurement arrangements:

[REDACTED]The contracts will be financed by the proceeds of the Bank's loan. They will be procured following open tendering procedures in accordance with the requirements of the Bank's PP&R for public sector operations and will be subject to prior review by the Bank. It is envisaged that the procurement documents for the procurement of goods and related conditions of contract will be based on the latest version of the Bank's standard procurement documents for procurement of supply and installation of information systems.

[REDACTED]

[REDACTED]

The procurement documents for all contracts will be based on the latest version of the Bank's standard procurement documents. For the IT systems, to ensure the suitability of the proposed form of contract, this aspect will be subject to further consultation with the PIU support consultant when mobilised, and if necessary, subject to market consultation with potential tenders prior to the commencement of the procurement process.

[REDACTED]

ANNEX 4 – TRANSITION IMPACT SCORING CHART

