

# Montenegro Country Strategy

2021-2026

Approved by the Board of Directors on 15 September 2021



**European Bank**  
for Reconstruction and Development

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European Bank  
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## Glossary of Key Terms

<b>ABI</b>	Annual Business Investment	<b>IFI</b>	International Financial Institution
<b>ASB</b>	Advisory for Small Businesses	<b>ILO</b>	International Labour Organization
<b>BAT</b>	Best Available Techniques	<b>IMF</b>	International Monetary Fund
<b>BIFIDEX</b>	Business & Financial Data Exchange	<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>CEDIS</b>	Crnogorski elektrodistributivni sistem	<b>MAP</b>	Multi-Annual Action Plan
<b>CGAP</b>	Corporate Governance Action Plan	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>CRM</b>	Common Regional Market	<b>NDC</b>	Nationally Determined Contribution
<b>CoOs</b>	Countries of Operation	<b>NGO</b>	Non-Governmental Organisation
<b>COP</b>	Conference of the Parties	<b>NLB</b>	Nova Ljubljanska banka
<b>CPI</b>	Consumer Price Index	<b>NPL</b>	Non-Performing Loan
<b>CSO</b>	Civil Society Organisation	<b>ODA</b>	Official Development Assistance
<b>E&amp;S</b>	Environmental and Social	<b>ODIHR</b>	Office for Democratic Institutions and Human Rights
<b>EC</b>	European Commission		
<b>EE</b>	Energy Efficiency	<b>OECD</b>	Organisation for Economic Co-Operation and Development
<b>EIA</b>	Environmental Impact Assessment	<b>OSCE</b>	Organization for Security and Cooperation in Europe
<b>EIB</b>	European Investment Bank		
<b>EPCG</b>	Elektroprivreda Crne Gore	<b>PFI</b>	Private Financial Institution
<b>ETI</b>	Estimated Transition Impact	<b>PPP</b>	Private-Public Partnership
<b>EU</b>	European Union	<b>PR</b>	Performance Requirement
<b>FAO</b>	Food and Agriculture Organisation	<b>PTI</b>	Portfolio Transition Impact
<b>FDI</b>	Foreign Direct Investment	<b>REEP</b>	Regional Energy Efficiency Programme
<b>FI</b>	Financial Institution	<b>SME</b>	Small and Medium Enterprise
<b>GDP</b>	Gross Domestic Product	<b>SOE</b>	State-Owned Enterprise
<b>GEFF</b>	Green Economy Financing Facility	<b>TC</b>	Technical Cooperation
<b>GET</b>	Green Economy Transition	<b>TFP</b>	Trade Facilitation Programme
<b>GRECO</b>	Group of States against Corruption	<b>TPES</b>	Total primary energy supply
<b>HR</b>	Human Resources	<b>UN</b>	United Nations
<b>ICA</b>	Industry, Commerce and Agribusiness	<b>UPR</b>	Universal Periodic Review
<b>ICGI</b>	Investment Climate and Governance Initiative	<b>WB</b>	Western Balkans
<b>ICT</b>	Information and Communication Technologies	<b>WBIF</b>	Western Balkans Investment Framework
<b>IDF</b>	Investment Development Fund	<b>WDI</b>	World Development Indicators
<b>IEA</b>	International Energy Agency	<b>WEF</b>	World Economic Forum
<b>IFC</b>	International Finance Corporation	<b>WiB</b>	Women in Business
		<b>YiB</b>	Youth in Business

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

Montenegro has a small, open economy, strongly dependent on tourism, with GDP per capita roughly one third higher than the Western Balkan average. Growth has primarily derived from domestic demand, mainly consumption, although investment linked to large infrastructure projects such as the Bar-Boljare Highway has also been a major contributor in recent years. Growth had already begun to slow in 2019 (to 4.1 per cent) as several large projects neared completion, and this downturn accelerated strongly with the COVID-19 pandemic. GDP fell by over 15 per cent in 2020, driven by a significant decline in exports of services, primarily due to falling revenues in tourism. Public debt reached a record high level at end-2020, the consequence of shrinking GDP on the one hand and economic support measures undertaken to mitigate the pandemic on the other. However this sharp recession is expected to give way to a partial recovery in 2021, provided the pandemic eases both locally and globally.

The smallest country in the Western Balkans, Montenegro has outperformed its regional peers in its progress towards a sustainable market economy, although it still lags new EU member states in a number of metrics, including **competitiveness** (where there is a pronounced need to diversify the economy away from 'sun, sand and sea' seasonal tourism, reform large but inefficient state-owned enterprises and strengthen economic inclusion) and **green** (in light of the country's still high carbon and energy intensity from legacy coal and aluminium industries). Further **integration** into regional transport and energy networks, as well as digitalisation to foster greater connectivity and job creation, would also be highly beneficial, although the high public debt has already led to a fiscal consolidation that will likely limit government spending on large infrastructure projects for the foreseeable future. Nonetheless, the regional dimension will continue to be highly significant, with EU approximation remaining the key external anchor for reforms, and related initiatives such as the Common Regional Market underway. Ongoing cooperation with the EU, including through successive Instruments for Pre-Accession Assistance (IPA), and donor coordination through mechanisms such as the Western Balkans Investment Framework (WBIF) will continue to be essential.

As in its other countries of operation, the EBRD is providing stepped up support to help Montenegro weather the COVID-19 crisis under the Solidarity Package, providing emergency liquidity and developing targeted investments responding to specific challenges in sectors such as MSMEs, agribusiness and renewable energy. Together these measures will provide critical short term financial support, aiding the economic recovery while also advancing the Bank's longer term strategic priorities in Montenegro. The EBRD stands ready to assist the new government in responding to these myriad challenges.

With that in mind, the Bank is set to pursue the following strategic priorities in Montenegro in 2021-2026:

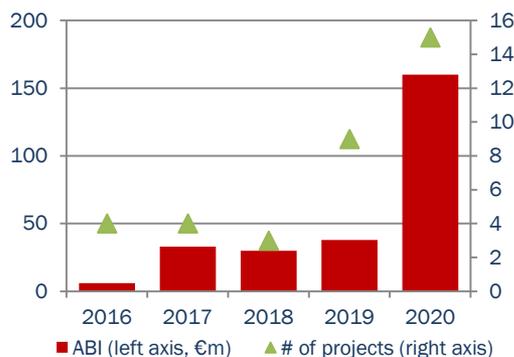
- *Strengthening competitiveness by enhancing private sector capacity and improving the business environment*
- *Deepening Montenegro's Green Economy Transition through cleaner energy and more sustainable municipal services*
- *Supporting further connectivity and integration by expanding cross-border transport, energy and digital links.*

# Montenegro - EBRD Snapshot

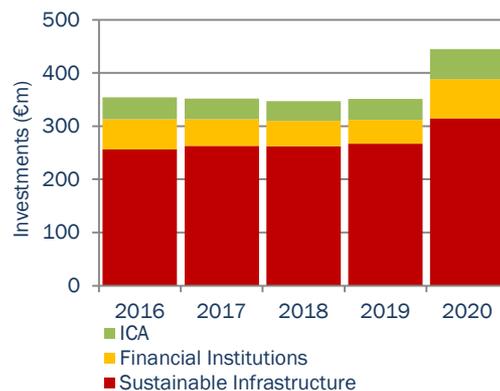
## EBRD Investment Activities in Country (as of July 2021)

Portfolio	€367m	Active projects	42
Equity share	1%	Operating assets	€254m
Private Share <sup>1</sup>	35%	Net cum. investment	€684m

### ABI and Operations



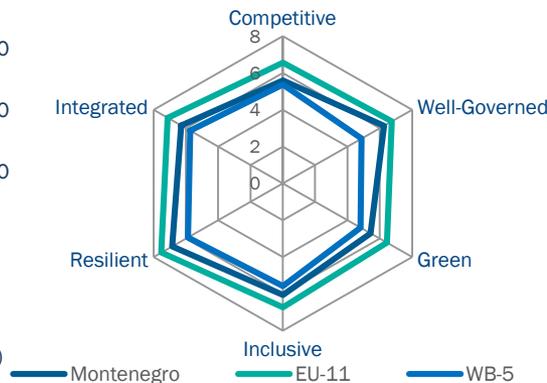
### Portfolio Composition



### Portfolio Dynamics



### Transition Gaps<sup>2</sup>



## Montenegro Context Figures

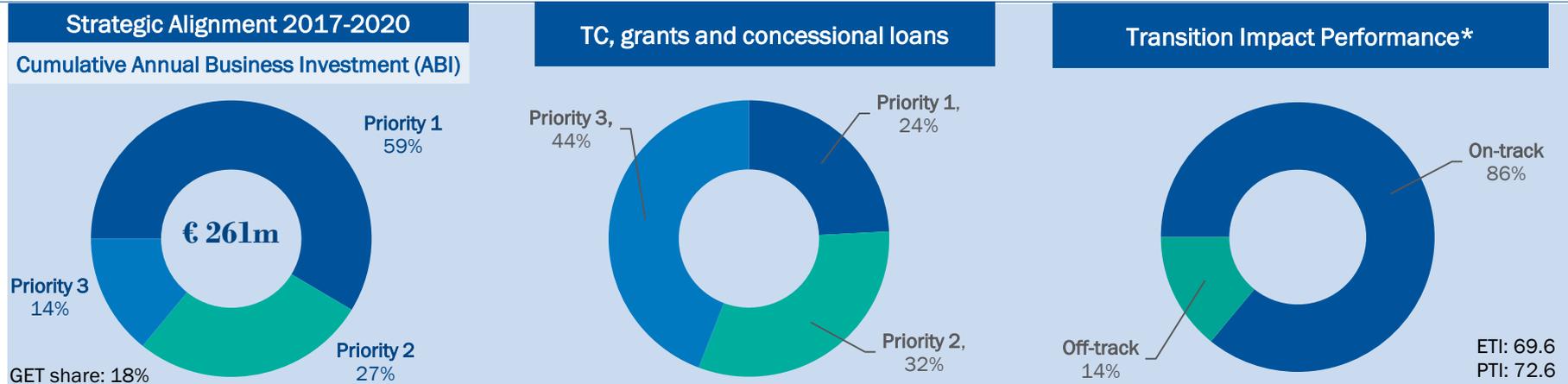
	Country	Comparators
Population (million) <sup>3</sup>	0.6	BIH (3.5) North Macedonia (2.1) Serbia (7.0)
GDP per capita (PPP, USD) <sup>3</sup> (2019)	22,348	BIH (15,604) North Macedonia (17,313) Serbia (18,972)
Global Competitiveness Index (WEF) (2019)	73 <sup>rd</sup> (out of 141)	BIH (92 <sup>nd</sup> ) North Macedonia (82 <sup>nd</sup> ) Serbia (72 <sup>nd</sup> )
Unemployment (%) <sup>4</sup> (2019)	15.4	BIH (15.7) North Macedonia (17.3) Serbia (10.4)
Youth unemployment (%) <sup>4</sup> (2019)	25.2	BIH (33.8) North Macedonia (35.6) Serbia (27.5)
Female labour force participation (%; ILO est.) <sup>5</sup> (2019)	46.5	BIH (35.4) North Macedonia (43.0) Serbia (47.4)
Energy intensity (TPES/GDP) <sup>6</sup> (2018)	0.2	BIH (0.4) North Macedonia (0.2) Serbia (0.4)
Emission intensity/GDP (kgCO <sub>2</sub> /2015 \$) <sup>6</sup> (2018)	0.6	BIH (1.3) North Macedonia (0.7) Serbia (1.0)

<sup>1</sup> Cumulative Bank Investment: 5 year rolling basis on portfolio.

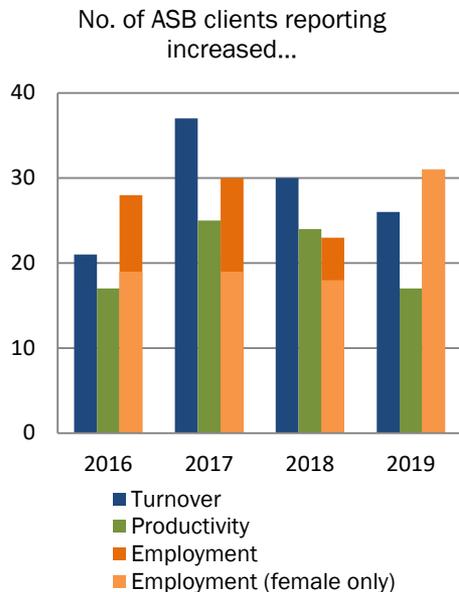
<sup>2</sup> Cf. EBRD Transition Report 2017-2018. <sup>3</sup> World Bank WDI. <sup>4</sup> International Labour Organisation. <sup>5</sup> IEA's Energy Atlas.

# 1. Implementation of Previous Strategy (2017-2020)

## 1.1. Key Transition Results achieved under previous Country Strategy



**Priority 1: Enhance Competitiveness of the private sector, including by developing agribusiness value chains and backward linkages in the tourism sector**



### Key Transition Results

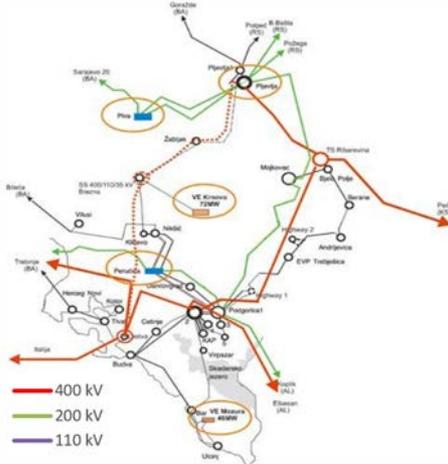
- Through direct investments, enhanced links between SMEs in the agribusiness sector and aggregators, food processors and retailers (e.g. two €10m loans to local wholesale retailer Voli to support local production and vertical integration with a €300k IPARD grant). Also worked with Voli and FAO to promote sustainable value chain integration in the fruit and vegetable sector through various studies carried out with hotels, supermarkets and local producers.
- Provided €17m in credit lines to help MSMEs strengthen operational effectiveness and resource efficiency, including the first two Women in Business credit lines (€3m in total to Alter Modus and NLB).
- Assisted more than 250 SMEs through the Advice for Small Businesses programme, including direct advisory to 148 companies as well as market development activities for an additional 100. Also launched the Blue Ribbon and Star Venture programmes in 2017 and 2019, respectively.
- Increased to €50m a stand-by agreement with the Deposit Protection Fund to ensure a more resilient banking sector.
- Helped improve the investment climate through sustained policy engagement, including efforts to
  - set up a dedicated secretariat at the Competitiveness Council to improve business legislation (e.g., company and bankruptcy laws), coordinate key business environment reforms (e.g. business registration) and processes (establishment of a register of levies) and strengthen private sector involvement in economic policy;
  - combat informality by building capacity at the Administration for Inspection Affairs, as well as harmonisation and digitalisation of the inspection control process;
  - strengthen the capabilities of the Competition Authority and misdemeanour courts to process competition cases;
  - support the Ministry of Finance in enhancing the regulatory framework and institutional set-up for PPPs; and
  - provide legislative support on leasing and factoring for a non-banking financial institutions law adopted in 2017.

# 1. Implementation of Previous Strategy (2017-2020)

## 1.1. Key Transition Results achieved under previous Country Strategy

### Priority 2: Improve connectivity and regional Integration by expanding cross-border transport and energy links

#### Transmission lines

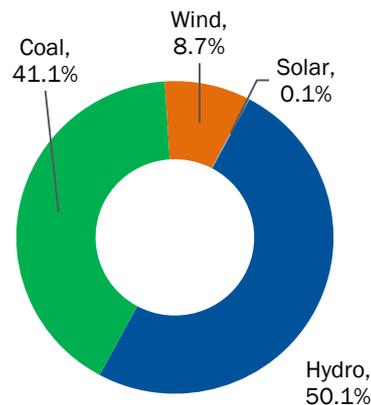


#### Key Transition Results

- As part of efforts to improve regional connectivity, supported the rehabilitation and upgrade of 3 main roads (Rozaje – Spiljane (€10m), Podgorica – Danilovgrad (€15m) and Jaz – Tivat (€15m)) as well as one local road (Jezerino – Ljubice (€26m)). Also issued a €20m loan to Port of Adria, the starting point of the Bar-Boljare highway, to help the sponsor fulfill privatisation commitments (capital investment and social programmes) to the Government under the concession.
- Assisted the Transport Administration in preparing a Climate Resilience Strategy and helped incorporate related measures in detailed designs for local and main road reconstruction projects. Also advised on various environmental, health, safety and social impact matters.
- Helped enhance regional energy connectivity by financing the development of a 400kV high voltage transmission line from Donja Lastva on the coast to Pljevlja in the north, which connects with the underwater cable to Italy.
- Contributed to work with other IFIs on a WBIF-funded preliminary design for relevant sections of the Ionian Adriatic Pipeline (IAP) and potential gasification of Montenegro.
- Continued to provide trade finance, including a new TFP facility with NLB (€5m) and increased facility with Hipotekarna Banka (€5m). Supported other initiatives to develop a regional common market (e.g. regional business registry portal - BIFIDEX, Western Balkans Six Chamber Investment Forum).
- Launched a study for the development of broadband in remote areas ('white zones') with WBIF support.

### Priority 3: Continue to foster transition to a Green economy, including sustainable tourism

#### Energy Share



#### Key Transition Results

- Supported a series of projects to promote resource efficiency and environmentally sustainable practices in municipal and tourist infrastructure, including a €24m loan to the Regional Water Supply Company (RWSC) to improve water supply to coastal towns and facilitate sustainable tourism development. Also financed a feasibility study for installation of solar panels and mini hydro power plants along the RWSC pipeline and completed a water resources management plan.
- Carried out a pre-feasibility study to support sustainable district heating (biomass) in Zabljak and commissioned a study to improve solid waste management in Northern Montenegro.
- Introduced the first Green Energy Financing Facility (GEFF) in Montenegro (€2m to Podgoricka Banka (now CKB)) to fund residential energy efficiency.
- Provided a €50m senior loan to national power utility EPCG as part of the Solidarity Package, to help stabilise energy provision and support the green agenda.
- Promoted greater energy efficiency through an €18.5m loan to finance smart meters with newly established distribution utility CEDIS and provided advice under the GET Policy Framework to develop a sustainable electric tariff methodology.
- Invested in the regional Taaleri Solar Energy Fund (€2m allocated to Montenegro) and financed the first wind farm in the country (Krnovo). Also assisted the government in implementing the Renewable Energy Source Action Plan.
- Launched a study to strengthen transmission and distribution networks in Montenegro in order to accommodate additional renewable energy production in the future.

# 1. Implementation of Previous Strategy (2017-2020)

## 1.2. Implementation Challenges and Key Lessons

### Context for Implementation

The smallest country in the Western Balkans, Montenegro has outperformed its regional peers in its progress towards a sustainable market economy, although it still lags new EU member states in a number of metrics, including competitiveness (where there is a pronounced need to diversify the economy away from ‘sun, sand and sea’ seasonal tourism) and green (in light of the country’s high carbon and energy intensity). Further integration into regional transport and energy networks would also be highly beneficial, although high public debt has already led to a fiscal consolidation that will likely limit government spending on large infrastructure projects for the foreseeable future. Nonetheless, the regional dimension will continue to be highly significant, with EU approximation remaining the key external anchor for reforms, and related initiatives such as the Common Regional Market underway. Ongoing cooperation with the EU, including through successive Instruments for Pre-Accession Assistance, and donor coordination through mechanisms such as the Western Balkans Investment Framework will continue to be essential. Since commencing operations in Montenegro, the Bank has invested over €700 million across a portfolio heavily weighted towards energy and infrastructure, and it stands ready to assist the new government in responding to these myriad challenges as the country seeks to recover from the COVID-19 crisis.

### Implementation Challenges

- Many SMEs lack the know how to take advantage of export opportunities or integrate into European supply chains. At the same time a liquid corporate banking sector exists and significant IFI finance is available through the IDF.
- Relatively low environmental awareness among the population has limited interest in energy efficiency and green financial products. However looming EU regulations may soon mandate substantial investment into greener municipal infrastructure.
- While some steps have been taken to decarbonise the economy in line with the EU acquis, Montenegro has not yet fully harnessed the requisite private sector investment to develop more sustainable energy, especially from renewable sources.
- Montenegro has large infrastructure needs but very limited sovereign debt capacity. Administrative capacity to implement projects also remains low.
- Service-oriented economy is heavily tilted to a seasonal tourism model that has yielded few bankable projects. The sector is likely to suffer severe damage from the COVID-19 crisis.
- Although improving, the business environment is still adversely impacted by informality, sub-optimal regulations (with inconsistent enforcement), and weak governance, all of which inhibit foreign investment.

### Key Lessons & Way Forward

- Couple direct lending with advisory services to help improve standards and export potential while focusing intermediated finance on targeted segments (e.g., WiB, GEFF), leveraging donor funds as needed.
- New products like GEFF can build awareness and expand scope (e.g., public buildings). Green and Smart Cities initiatives can also provide important operational platforms to catalyse action at the municipal level, along with critical capacity building.
- Further investments to upgrade transmission and interconnection, along with new generation and development of a supportive policy framework, can unlock Montenegro’s full potential. Ongoing work with EPCG may present an opportunity to advance cleaner energy and decarbonisation.
- Look to mobilise greater private sector involvement in developing and operating public infrastructure, including via blended finance (EU/WBIF), and complement investments with stepped-up institutional capacity building (e.g. project preparation and implementation support).
- Initiatives such as the Cultural Heritage Framework can facilitate more inclusive tourism with stronger backward linkages. Investments in digital infrastructure can unlock a more innovative, competitive services sector.
- Continue to leverage ICGI and other tools to improve the business environment, including through regional business fora,.

## 2. Economic Context

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

Montenegro - Main macroeconomic indicators					
	2016	2017	2018	2019	2020
GDP growth (% y-o-y)	2.9	4.7	5.1	4.1	-15.2
CPI inflation (% avg.)	-0.3	2.4	2.6	0.4	-0.2
Government balance (% of GDP)	-6.2	-6.9	-6.2	-2.4	-10.8
Current account balance (% of GDP)	-16.2	-16.1	-17.0	-15.2	-25.9
Net FDI (% of GDP) [neg. sign = inflow]	-9.4	-11.3	-6.9	-7.0	-11.2
External debt (% of GDP)	162.6	160.6	164.7	170.2	n.a.
General government gross debt (% of GDP)	64.4	64.2	70.1	77.2	105.2
Unemployment (% pop)	17.7	16.1	15.2	15.1	17.9
Nominal GDP (€bn)	4.0	4.3	4.7	4.9	4.2

Source: National authorities, IMF and EBRD calculations

- The economy experienced a strong recession in 2020.** GDP growth had already slowed in 2019 (to 4.1%), as large investment projects neared (the Bar-Boljare highway) or achieved (power link to Italy) completion, although the tourist season was the strongest on record. In Montenegro, around one-fifth of GDP normally comes from tourism. Due to the COVID-19 pandemic, but also a strict border policy toward neighbouring Western Balkans countries, foreign tourist arrivals declined by 85% in 2020. Consequently, GDP contracted strongly (by 15.2%), primarily on the back of falling services exports (tourism). Investment and consumption also declined strongly, and the economy entered deflation in the second quarter of 2020, with year-on-year inflation averaging -0.2% for the year as a whole.
- Public debt reached a record high level in 2020.** As in other countries, economic support measures aimed at mitigating the coronavirus pandemic, combined with falling government revenues, led to an increased budget deficit in 2020 (above 10% of GDP). At the end of 2020, public debt reached 105% of GDP, almost 30 percentage points higher than at end-2019. In addition to coronavirus-related measures, the previous government announced a pension hike (raising minimum pensions by around 13% retroactively from 1 January 2020) ahead of parliamentary elections at the end of August.
- The current account deficit increased significantly in 2020.** Montenegro has run high current account deficits for many years, reaching 15% of GDP in 2019. In 2020, the deficit increased to 26% of GDP on account of the strong decline in export of services (tourism).
- A partial GDP rebound of 8.5 per cent is expected in 2021** (EBRD September 2020 forecast). However the forecast is subject to high uncertainty over the further development of the pandemic and speed of recovery. While the worsening of the epidemiological situation in the first quarter of 2021 and slow vaccination progress may slow the recovery, the strong contraction last year and the consequent positive base effect, as well as the expected change in the border policy this year, will act in the opposite direction.

# 2. Economic Context

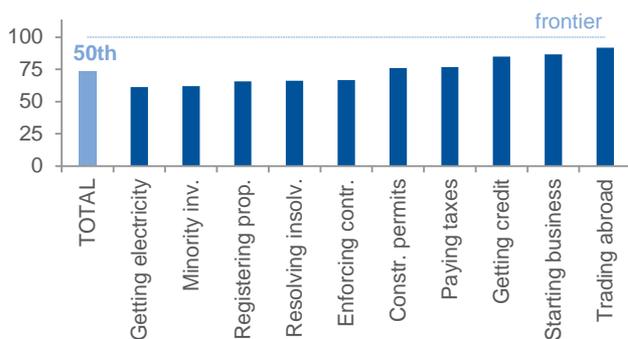


## 2.2 Key Transition Challenges

### Competitive (5.4)

- Limited diversification of the economy, which remains heavily reliant on (highly seasonal) sun-and-beach tourism
- Trade and construction account for more than half of turnover
- Informal economy is large (estimated to reach up to 1/3 of GDP)
- SMEs have difficulty accessing finance
- Country ranks 50th out of 190 for ease of doing business (World Bank 2020)
- Montenegro is at an intermediate stage of knowledge economy
- A structural mismatch between labour demand and labour supply remains, affecting in particular innovative firms
- ICT sector, adding around 4% of GDP, might have potential for job creation

Ease of doing business



### Well-governed (6.1)

- Montenegro scores better than the WB-5 average across all six World Bank World Governance Indicators, but also lags new EU members, particularly in relation to voice and accountability
- Montenegro has made limited progress in the fight against corruption over the past decade, scoring 45/100 on the Corruption Perceptions Index (unchanged for five years)
- Rule of law challenges include the efficiency and accountability of the judiciary and absence of systematic financial investigations in all corruption cases
- EC assesses Montenegro as moderately prepared to combat organised crime
- SOE corporate governance remains weak

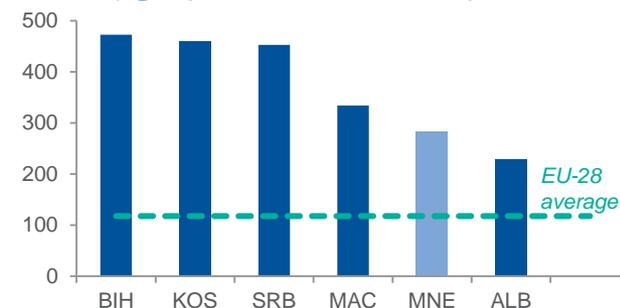
Governance indicators



### Green (5.4)

- Almost all electricity in the country is generated by one lignite power plant and two hydro-power plants; the production of the latter varies in line with hydrological conditions
- Two private wind plants have been commissioned since 2017
- High energy & carbon intensity above the EU average
- There are significant energy saving potentials, particularly in buildings
- Development of an integrated waste management system is still at an early stage
- There is a strong reliance on landfills, with reuse, recycling and separate collection systems and infrastructure lagging behind
- Montenegro is vulnerable to climate change risks, especially floods

Energy intensity 2017  
(kgoe per EUR 1,000 of GDP)



Source: World Bank Doing Business 2020

Source: World Bank's Worldwide Governance Indicators 2018

Source: EUROSTAT

# 2. Economic Context

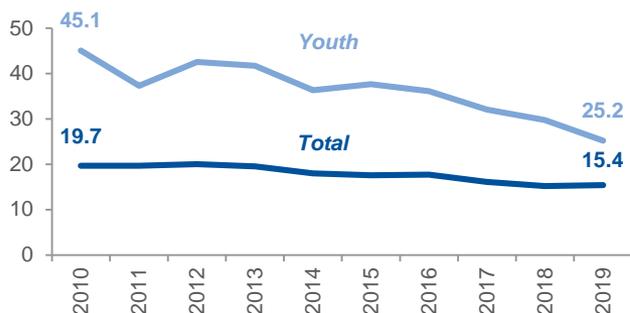


## 2.2 Key Transition Challenges

### Inclusive (5.3)

- There is a prominent gap between male and female participation in the labour market (63% versus 47%), with more than half of women being economically inactive; the gap has increased somewhat in recent years
- Close to one-third of work is undeclared
- Informal employment affects mostly men, young people, less educated and elderly workers
- Unemployment rate is high, especially for youth (25%), in part due to skills mismatches. Relatively strong remittances inflow also reduces incentives to work
- Unemployment is several times higher in the north of the country than in the coastal region

Unemployment rate (per cent)

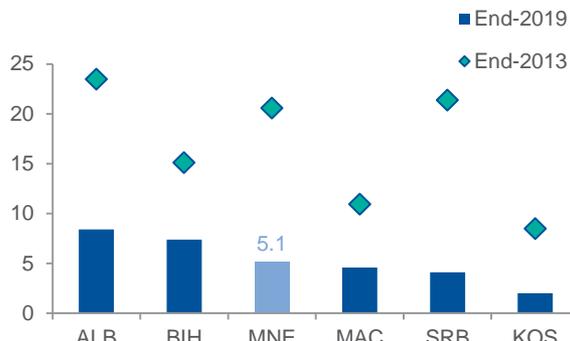


Source: National authorities via CEIC

### Resilient (6.4)

- Banking sector is well-capitalised and liquid; NPLs have declined significantly since 2013
- Microfinance institutions are present as well
- Capital markets are under-developed; stock exchange is not an important source of funding for most companies and corporate bond issuances are negligible
- Montenegro is a regional leader in electricity market reforms and has fully unbundled transmission and distribution operators
- Electricity prices have been liberalized for most retail consumers
- Establishment of a power exchange and increased market integration is needed
- There is no established gas market

Non-performing loans (%)

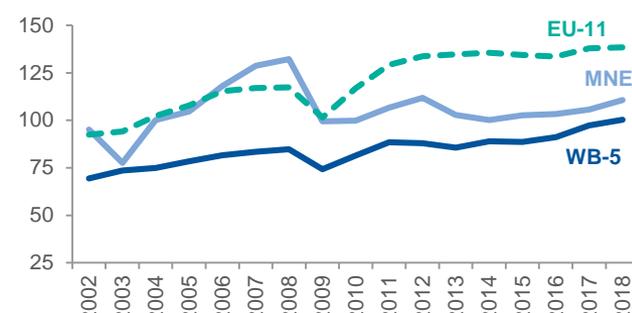


Source: IMF and national authorities

### Integrated (6.2)

- Trade openness is relatively high, but reliant on export of services (tourism)
- Exports of goods (8.5% of GDP) consist primarily of metals, raw minerals and chemicals
- Transport and municipal (e.g. water, waste) infrastructure are inadequate; the country ranks low on road connectivity and non-road transport infrastructure
- Montenegro performs somewhat worse than an average WB-5 country on cost of trading across borders
- FDI stock per capita is high; however, significant part of FDI inflows went into real estate
- Electric power transmission and distribution losses are relatively high

Trade openness (per cent of GDP)



Source: World Bank WDI

# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

In recent years, and particularly since EU accession negotiations formally launched in 2012, Montenegro has implemented a number of structural reforms and other measures to support broad-based economic growth. While the new government has not yet set out its economic policies in detail, it is expected to pursue many of the following priorities:

- **Energy:** Integrate networks with the region and EU. Further liberalise the energy market focusing on increasing renewable generation (Renewable Energy Source Action Plan) and market trading arrangements. Investments to comply with EU Industrial Emissions Directives. Preparation of a National Energy and Climate Plan.
- **Transport:** In addition to prioritisation of ongoing projects in roads/railways, consider new investments (including ports/airports), to enhance regional linkages in line with EU transport corridors.
- **Tourism:** Diversify the sector beyond 'sun, sea & sand' tourism, including by lengthening the season, addressing regional disparities and focusing on backward linkages and upscale higher value added tourism.
- **Fiscal policy:** Notwithstanding temporary spending increases to manage COVID-19, continue fiscal adjustment in view of the high level of public debt. Prioritisation of public investments will therefore be crucial.
- **More efficient state institutions:** Modernise and digitalise public administration; decrease administrative burdens; streamline public service and improve governance of SOEs with a view to privatise them.
- **Stronger business environment:** improve the regulatory framework, enhance public-private dialogue and reduce informality in the economy; address skills mismatches to increase employment and inclusion.
- **EU Accession:** to close outstanding chapters, implement the Economic Reform Plan and follow up on the Joint Conclusions and prepare projects under the Economic Investment Plan and the Instrument for Pre-Accession. Implement the Digital Agenda for the Western Balkans and prepare a strategy for digital transformation and the ICT sector.

## 3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Further diversification of the economy, enhancement of the investment climate and support for corporates and SMEs to improve access to finance, enhance competitiveness, and strengthen backward linkages and value chain integration.
- Building greater administrative and project implementation capacity through policy dialogue, including for municipalities and SOEs.
- Support for Montenegro's Green Economy including decarbonisation and Just Transition, and increased penetration of renewables in the energy sector through investment and advisory on energy auctions.
- Support for transport and energy connectivity in cooperation with the WBIF and EU Economic and Investment Plan for the Western Balkans and private sector involvement in selected areas such as the airport concession.
- Continued support for Montenegro's digital transition, including policy advisory for ICT and e-governance, and potential investment in digitalisation-enabling infrastructure.
- Continued investments to strengthen municipal services and address water scarcity and climate change impacts on municipal infrastructure.

## 3.3. Key Messages from Civil Society to EBRD

- Civil society organisations endorsed the priority of strengthening competitiveness by enhancing private sector capacity and improving the business environment. In particular, CSOs view EBRD support as needed in the area of facilitating access to finance for SMEs and young entrepreneurs (including women). They ask that the Bank also help foster stability of the investment climate and fiscal policy.
- CSOs also welcomed the Bank's focus on deepening Montenegro's Green Economy Transition, highlighting that more needs to be done to build capacity and educate the private sector on GET, especially regarding circular economy and renewable energy.
- CSOs further endorsed the Bank's support for greater connectivity and integration by expanding cross-border transport, energy and digital links. CSOs consider digital transformation to be particularly important for the country's development.
- According to CSOs, further improvements are necessary in the area of gender and economic inclusion, especially with regard to economic disparities and access to the labour market for women, ethnic minorities and people with disabilities. CSOs also shared their concern regarding a perceived shrinking space for civil society and lack of proper inclusion into public consultations and policy making.

# 4. Defining EBRD Montenegro Country Strategy Priorities



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What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Institutional Capabilities)	Strategic Priorities (2020-2025)	What We Want to see (Key Objectives)
<ul style="list-style-type: none"> <li>Economy needs to diversify to reduce reliance on 'sun, sea and sand' tourism, with further damage from COVID-19 crisis felt across sectors</li> <li>SMEs need to improve productivity and require better access to finance</li> <li>Large, inefficient SOE sector requires stronger corporate governance</li> <li>Regional disparities and gender gaps in the labour force persist; high youth unemployment &amp; skills mismatches</li> <li>Informality remains pervasive and weighs on the business environment</li> </ul>	<ul style="list-style-type: none"> <li>EU approximation remains key external anchor for reforms</li> <li>Opportunities to strengthen linkages between tourism and other sectors, e.g., agriculture and health</li> <li>Complicated legacy from previous privatisation efforts, with asset quality and transparency uncertain</li> <li>Public administration capacity is relatively limited, especially at the municipal level</li> <li>Initial government efforts to address informality, e.g., 2019 Labour Law</li> </ul>	<ul style="list-style-type: none"> <li>Effective support for SMEs, including credit lines, short-term liquidity and non-financial tools through ASB</li> <li>Specialised support for underserved segments including WiB, YiB</li> <li>Strong track record in supporting commercialisation and improved corporate governance in SOEs</li> <li>EBRD can promote skills-enhancing solutions, greater financial inclusion and equal access to opportunities</li> <li>Policy engagement can support further business climate reforms</li> </ul>	<p><i>Strengthening competitiveness by enhancing private sector capacity and improving the business environment</i></p>	<ul style="list-style-type: none"> <li>Strengthened capacity of SMEs and greater diversification of the economy</li> <li>Increased commercialisation and private sector participation</li> <li>Increased skills and economic inclusion</li> <li>Improved governance and business environment</li> </ul>
<ul style="list-style-type: none"> <li>High energy and carbon intensity, largely from coal and key industries such as aluminium</li> <li>Challenge to meet EU climate goals</li> <li>Electricity generation subject to seasonal fluctuations, with coal still prevalent and hydropower exposed to climate change impacts</li> <li>Energy consumption in the building sector is very high; need to modernise building stock</li> <li>Waste management systems need modernising, including recycling</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing process to harmonise energy efficiency and environmental policies with EU law will impact investment decisions, although not evenly across regions</li> <li>Gov't pledges under COP21 NDC</li> <li>Renewable energy a key government priority under Energy Development Strategy; targets aligned with Paris Agreement and already met</li> <li>Upcoming investment needs in municipal infrastructure to meet EU requirements (Chapter 27)</li> </ul>	<ul style="list-style-type: none"> <li>Strong record of institutional and financial support for renewable energy and climate resilience</li> <li>EBRD advisory can assist with Just Transition-related initiatives if/as needed</li> <li>EBRD products can strengthen energy &amp; resource efficiency as well as the circular economy (e.g., GEFs)</li> <li>Considerable experience developing sustainable infrastructure via dedicated GET frameworks (e.g., REEP, Green Cities)</li> </ul>	<p><i>Deepening Montenegro's Green Economy Transition through cleaner energy and more sustainable municipal services</i></p>	<ul style="list-style-type: none"> <li>Increased renewable energy capacity</li> <li>Increased energy and resource efficiency and climate resilience</li> <li>Improved performance, service delivery and sustainability of municipal infrastructure</li> </ul>
<ul style="list-style-type: none"> <li>Road connectivity poor and non-road transport infrastructure needs large, exacerbating regional disparities</li> <li>Cost of trading across borders lags WB neighbors and EU-11</li> <li>Transmission and distribution losses relatively high</li> <li>Greater energy market integration needed to enhance inter-connections with neighbors</li> <li>Further digitalisation of public sector needed as well as country-wide high-speed broadband infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Geographic location at crossroads of regional infrastructure corridors</li> <li>Regional connectivity initiatives through the EU Economic Investment Plan with support of the WBIF</li> <li>Common Regional Market Action Plan (CRM AP) for Western Balkans</li> <li>Public debt could rise to 90% of GDP, which limits fiscal space</li> <li>Montenegro a regional leader in electricity market reforms</li> <li>National strategy for broadband recognises potential of ICT sector</li> </ul>	<ul style="list-style-type: none"> <li>Along with other IFIs and donors, EBRD can co-finance transport projects to enhance regional linkages, as well as support regional inclusion</li> <li>EBRD can fund energy connectivity, including regional networks</li> <li>EBRD advisory can facilitate private sector participation and strengthen capacity, including for PPPs</li> <li>EBRD can support regional broadband infrastructure development</li> </ul>	<p><i>Supporting further connectivity and integration by expanding cross-border transport, energy and digital links</i></p>	<ul style="list-style-type: none"> <li>Improved quality and connectivity of transport and energy networks</li> <li>Improved quality and connectivity of digital infrastructure</li> </ul>

# 5. Activities and Results Framework



## Priority 1: Strengthening competitiveness by enhancing private sector capacity and improving the business environment

Key Objectives	Activities	Tracking Indicators (Outcomes)
Strengthened capacity of SMEs and greater diversification of the economy	<ul style="list-style-type: none"> <li>Provide direct finance to corporates and SMEs, including to strengthen and diversify agribusiness supply chains and linkages, and short-term working capital/liquidity under the Resilience Framework</li> <li>Provide tailored advisory through the ASB programme to help MSMEs scale up, increase productivity (including digitalisation), strengthen corporate governance, increase export readiness and better comply with EU standards. Continue to identify clients for the Blue Ribbon and Star Venture programmes, with a focus on ICT/digital companies</li> <li>Partner with local banks/MFIs through blended credit lines and scale up related advisory, including to target niche and underserved areas, such as women, youth, agribusiness, tourism and green finance</li> <li>Continue to provide trade finance through the Bank's Trade Facilitation Programme</li> <li>Look to develop new SME products (e.g., risk sharing, trade support facilities and/or leasing), and in light of the ongoing impact of the current crisis, explore options for a credit guarantee fund or similar mechanism and provide policy support for post-COVID-19 tourism recovery</li> </ul>	<ul style="list-style-type: none"> <li>Number of ASB and corporate clients reporting increased exports and/or productivity</li> <li>Number/volume of MSME sub-loans provided by PFIs supported by EBRD finance</li> </ul>
Increased commercialisation and private sector participation	<ul style="list-style-type: none"> <li>Selectively engage with SOEs to                             <ul style="list-style-type: none"> <li>promote improved corporate governance, financial and operational performance and commercialisation, as well as support for potential restructuring;</li> <li>Encourage transparent privatisation (including, potentially, of key tourism and ICT assets); and</li> <li>where possible, increase private sector participation (e.g. PPPs in municipal infrastructure)</li> </ul> </li> <li>Policy engagement and related advisory, with the support/co-operation of other IFIs, to improve governance in the SOE sector, e.g., development of a state ownership policy, improved climate disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance improved (commercial practices in supported SOEs, including through CGAPS)</li> </ul>
Increased skills and economic inclusion  Improved governance and business environment	<ul style="list-style-type: none"> <li>Alongside corporate clients and other partners, support policy and skills development initiatives to help address gaps and mismatches, e.g., enhancement of vocational/training programmes and coordination with local skills councils to update curricula with the needs of the labour market</li> <li>Look for opportunities to develop a more diverse, sustainable and inclusive tourism sector (including related infrastructure) with strong backward linkages</li> <li>Continue to support improvements to governance and the investment climate, including measures to:                             <ul style="list-style-type: none"> <li>strengthen e-governance (e.g. digitalisation of relevant public services, digital one-stop shop);</li> <li>reduce informality (e.g., inspections reform);</li> <li>assist public-private dialogue mechanisms to promote business-friendly reforms (e.g. Competitiveness Council, commercial mediation); and</li> <li>further develop regional business and investment platforms and policies</li> </ul> </li> <li>Seek opportunities to strengthen financial system resilience, effectiveness and inclusion through advisory and technical assistance to the Central Bank and Deposit Protection Fund</li> </ul>	<ul style="list-style-type: none"> <li>Number of inclusion target groups (women, youth, other) receiving new/improved skills and/or employment opportunities as a result of training</li> <li>Legal, institutional and/or regulatory improvements to the business environment</li> </ul>



# 5. Activities and Results Framework



## Priority 2: Deepening Montenegro's Green Economy Transition through cleaner energy and more sustainable municipal services

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased renewable energy capacity	<ul style="list-style-type: none"> <li>• Provide direct and intermediated finance to further develop and integrate renewable energy projects (primarily wind and solar), coupled with advisory to support implementation of best market practices and environmental and social standards, as well as to promote greater climate resilience</li> <li>• Provide advisory to harmonise relevant legislative and regulatory frameworks for renewable energy use with EU requirements (including support schemes and implementation of the Government's Renewable Energy Source Action Plan) as well as potential targeted assistance in support of the Government's decarbonisation commitment and related socio-economic aspects to help affected regions transition to a new economic model</li> <li>• Help further increase the electrical grid's capacity to absorb renewable energy through expanded use of smart grid and metering tools and other measures to encourage private investment</li> </ul>	<ul style="list-style-type: none"> <li>• Total renewable energy capacity installed (MW)</li> <li>• Legal, institutional and/or regulatory frameworks supporting renewable energy</li> </ul>
Increased energy and resource efficiency and climate resilience	<ul style="list-style-type: none"> <li>• Support greater energy and resource efficiency and climate resilience in the energy sector through rehabilitation and upgrade of EPCG assets in generation and distribution</li> <li>• Support green economy investments and related advisory in the private sector to improve energy and resource efficiency, including as part of ASB support to small businesses</li> <li>• Deploy GEFFs to provide energy and resource efficiency credit lines through partner FIs (with an initial focus on the retail sector and residential buildings, and potential later expansion to public buildings, SMEs and circular economy) and seek additional opportunities to advance energy efficiency through the REEP</li> <li>• Advisory support to promote environmentally sustainable and climate resilient practices in the tourism and hospitality sector, in line with EBRD performance criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Total primary energy saved (GJ/y)</li> <li>• Number/volume of EE loans extended by PFIs supported by EBRD finance</li> </ul>
Improved performance, service delivery and sustainability of municipal infrastructure	<ul style="list-style-type: none"> <li>• Subject to the availability of sovereign guarantees, look to finance sustainable, low carbon and climate resilient municipal infrastructure and related services, including water and wastewater, waste management and district heating, combined with technical assistance/capacity building to improve quality and efficiency of service delivery and compliance with EU environmental directives, potentially as part of the Green Cities Framework</li> <li>• In conjunction with the above, seek opportunities to deploy private sector solutions such as PPPs</li> <li>• Seek opportunities to promote smart, sustainable transport systems (e.g., electric vehicles, inter/intra city charging infrastructure) through advisory, capacity building and direct or intermediated finance</li> <li>• Continue investments to strengthen regional water supply and address water scarcity and climate change impacts in coastal regions, including to implement the Water Resources Management Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Total CO2e reduced (ton/y)</li> <li>• Total water saved (m3/y)</li> </ul>



# 5. Activities and Results Framework



## Priority 3: Supporting further connectivity and integration by expanding cross-border transport, energy and digital links

Key Objectives	Activities	Tracking Indicators (Outcomes)
<p>Improved quality and connectivity of transport and energy networks</p>	<ul style="list-style-type: none"> <li>Working closely with multilateral donors such as the WBIF and taking into account sovereign debt capacity, seek to further develop key transport and energy infrastructure enhancing Montenegro's integration with regional markets in South-east Europe and the Western Balkans, employing commercial and, where possible, private sector solutions to:                             <ul style="list-style-type: none"> <li>upgrade internal road networks, particularly those feeding into cross-border corridors, including connections to Serbia and Bosnia and Herzegovina;</li> <li>modernise and rehabilitate railways and links to Serbia and Albania;</li> <li>upgrade port and airport facilities;</li> <li>enhance the high-voltage energy grid within the country and interconnections with neighbours, including Albania; and</li> <li>further explore regional gas interconnections between Croatia, Albania and Montenegro through the proposed Ionian Adriatic Pipeline</li> </ul> </li> <li>In conjunction with the above, provide technical assistance to improve institutional capacity, including to design, select, procure and implement infrastructure projects (including potential future PPPs), integrate gender mainstreaming into planning and management and build in low carbon and climate resilience for all critical transport and energy systems, including electrification</li> <li>Explore approaches to enhance economic opportunities and labour market participation, including for rural populations, through improved access to transport infrastructure and services</li> <li>Policy engagement to develop a regional energy market, leveraging inter-country linkages</li> </ul>	<ul style="list-style-type: none"> <li>Transport or energy network capacity improved or increased through Bank-assisted projects</li> <li>Infrastructure PPPs/concessions implemented utilising private financing</li> </ul>
<p>Improved quality and connectivity of digital infrastructure</p>	<ul style="list-style-type: none"> <li>Building on the WBIF-funded feasibility study, continue to support initiatives to enhance countrywide access to information and communication technologies, including to under-served populations, by exploring options to develop broadband infrastructure, providing related legal and regulatory advisory (e.g. shared use of infrastructure and licencing) and potentially investing in select ICT companies</li> <li>Provide policy advisory on digital development in line with the Western Balkans Digital Agenda, Economic and Investment Plan for the Western Balkans and CRM AP</li> <li>Explore potential investments in data centres and other ICT-critical public infrastructure in support of greener e-government</li> <li>Support introduction of smart cities solutions to enhance efficiency and reliability of urban infrastructure through engagement in the Green Cities Framework</li> </ul>	<ul style="list-style-type: none"> <li>Legal/institutional/regulatory improvements supporting ICT sector</li> </ul>



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



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EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative annual investment/ grants (2017-2020 average, € million)		Agribusiness	ICT	Manufacturing & Services	Natural resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business
EIB	116						€P	€P	€		€	P		€
EU *	65	€P				€	€P	€P	€		€P	P		P
World Bank	62	€P	P				€P		€P		€P			
KfW	31						€	€		€	€			€
IFC	3.5					€		€P		€				
EBRD	58	€	€P			€P	€P	€P	€		€P	€P		€P

€	Area of significant investments	●	Focus mostly on private sector
P	Area of significant policy engagement	○	Focus mostly on public sector

## Potential Areas of Cooperation



### Competitive:

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



### Integrated:

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



### Green:

Co-operate with KfW to promote energy efficiency and seek opportunities to advance together with the EU the Green Agenda for the Western Balkans



### Inclusion:

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

Note: IFI activity mapping based on publicly available information. \* EU financial support via the WBIF and Instrument for Pre-Accession (IPA) II programme. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2017 onwards. Average exchange rate 2019 is used.

# 7. Implementation Risks and Environmental and Social Implications



Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li><b>Political instability</b> resulting from a diverse coalition government with a razor thin parliamentary majority could negatively impact reform implementation, in particular fiscal performance, environmental measures (including the green energy agenda) and privatisation</li> </ul>			<ul style="list-style-type: none"> <li><b>Assessment and Management of E&amp;S Impacts, Stakeholder Engagement:</b> Ensure that direct, indirect, cumulative and transboundary E&amp;S impacts of projects are appropriately assessed in accordance with the EU EIA Directive and EBRD PRs. Support clients to strengthen E&amp;S management capacity and disclose reports.</li> <li><b>Labour and Working Conditions:</b> Ensure that clients' HR policies and labour practices comply with EBRD and EU requirements, particularly in respect of labour rights, contractor management, preventing potential discrimination in the workplace and promoting equal opportunities and inclusion.</li> <li><b>Resource Efficiency and Pollution Prevention and Control:</b> Challenges remain in waste &amp; wastewater collection and treatment, and air pollution. Help clients comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with BAT as part of the GET mandate.</li> <li><b>Health and Safety:</b> Improve occupational and community health and safety with a specific focus on activities which are considered common causes of accidents reported on the Bank's projects. Additional emphasis will be placed on road safety by raising awareness within communities, reducing occupational road risks and improving road safety engineering standards, which will require TC support.</li> <li><b>Land Acquisition, Involuntary Resettlement &amp; Economic Displacement:</b> Ensure any projects requiring acquisition of land either permanently or temporarily comply with the Bank's compensation and livelihood restoration requirements, and impacted stakeholders including vulnerable groups are meaningfully engaged and consulted.</li> <li><b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Challenges remain concerning the need to adequately consider the potential risks and impacts of project related activities to sensitive and/or legally protected and internationally recognised areas of biodiversity value. TC funds for capacity building initiatives and robust biodiversity assessments are required to ensure that species and habitats of conservation importance are protected where projects could encroach upon nature protected areas, proposed Emerald sites and/or Key Biodiversity Areas.</li> <li><b>Cultural Heritage:</b> Ensure appropriate assessments and stakeholder engagements are carried out for projects within areas recognised as culturally important and protect tangible and intangible cultural heritage.</li> <li><b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li><b>Monitoring and Supervision:</b> Work with clients to monitor E&amp;S performance and address legacy issues associated with the Bank's portfolio, which may require TC support.</li> </ul>
<ul style="list-style-type: none"> <li><b>Prolonged COVID-19 containment and mitigation measures</b> are likely to further depress economic output and cause particular disruption to the tourism industry, delaying the economic recovery and deterring longer term investment</li> </ul>			
<ul style="list-style-type: none"> <li><b>Tight fiscal space</b> and concerns about public debt sustainability will leave little room for infrastructure projects, necessitating substantial grant resources or concessional finance</li> </ul>			
<ul style="list-style-type: none"> <li><b>Weak administrative capacity</b> and ministerial restructuring could delay and affect project preparation and implementation, particularly for large-scale infrastructure projects</li> </ul>			
<ul style="list-style-type: none"> <li><b>Sovereign-guaranteed SME lending</b> from other IFIs may make EBRD products uncompetitive</li> </ul>			
<ul style="list-style-type: none"> <li><b>Environmental risks and vulnerability to climate change</b>, on par with other WB countries, could disrupt orderly implementation of the Strategy</li> </ul>			
<ul style="list-style-type: none"> <li><b>Dependence on regional initiatives</b> leveraging Western Balkans-wide frameworks and resources may affect pace and scope of implementation, particularly on integration and green economy</li> </ul>			

# 8. Donor Co-Financing Assessment

## 8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including for:

- Supporting larger investments to enhance regional integration and connectivity in the transport, energy & digital infrastructure sectors.
- Policy dialogue and support to further strengthen governance (particularly in the SOE sector), the investment climate and digitalisation, as well as to help develop a regional energy market.
- Guarantee support for SMEs along with advisory to boost productivity, export readiness, digitalisation, value chain integration, energy efficiency and compliance with international best practices.
- Enhancing vocational/training programmes to help increase skills development, equality and access to economic opportunities.
- Supporting the implementation of energy efficiency finance facilities.
- Capacity building to improve the delivery of municipal infrastructure services and bring these in line with EU environmental directives.

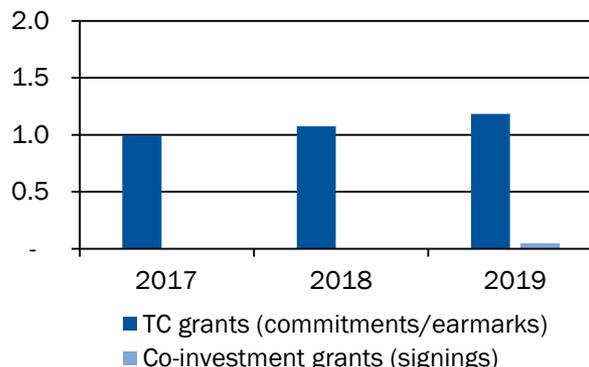
## 8.2. Potential Sources of Donor Funds

- **Western Balkans Investment Framework (WBIF):** A joint initiative of the beneficiary governments, the EU, bilateral donors and IFIs. TC and co-investment grants are available for priority investments in transport, energy, environment, digital, social and private sector development projects. The **EU's Western Balkans Guarantee Facility** can also be drawn on to mitigate risks in both public and private sector investments.
- In addition to funds channelled through the WBIF, other **EU Instrument for Pre-Accession funding (IPA)** may also be available. Priority areas for Montenegro under IPA II include governance, legal reforms, environment, transport, competitiveness, employment and social policies, agricultural & rural development and regional cooperation. Funding available under IPA III will start to deploy in 2021.
- Support from **bilateral donors** will continue to be sought. Funds can also be channelled through **Multi-Donor Accounts** such as the Small Business Impact Fund.
- Montenegro is eligible for **Green Climate Fund** and **Global Environment Facility** funds.
- The **EBRD Shareholder Special Fund** can also serve as a vital complementary source of funding by helping to bridge mismatches between unmet needs and available donor support (including for certain policy dialogue and governance projects).

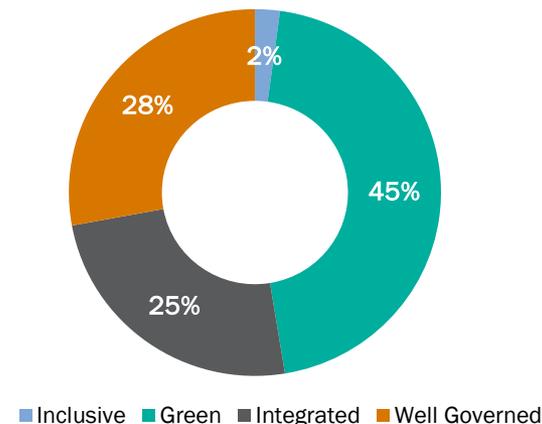
Selected Affordability Indicators

		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, 2019, \$) <sup>2</sup>	22,348	59 <sup>th</sup>
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	2.83	68 <sup>th</sup>
ODA per capita (\$ - current prices) <sup>3</sup>	251.13	88 <sup>th</sup>

Donor finance during last strategy (€m)<sup>4</sup>



Use of grants in 2018-19<sup>5</sup>



1. Simple percentile rank reported as the share of EBRD economies that are represented below Montenegro.

2. Source: WDI (2019 or most recent year)

3. Source: OECD (2018)

4. 2017-2019 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings.

5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2018 and 2019.

# Annexes



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

The period since the adoption of the previous Country Strategy saw uneven political dialogue and consensus building practices, culminating in frequent parliamentary boycotts and periodic street protests.

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

Progress in democratic reform since the adoption of the previous Strategy has to a great extent been linked with ongoing approximation with the EU. Progress in particular has been made in improving the legislative and institutional frameworks. Implementation remains an area of weakness. Montenegro has managed to harmonise its electoral legislation with the Constitution, which has been a long-standing recommendation by the OSCE. However, the authorities need to address the continuing lack of public confidence in the electoral process and implement a number of outstanding concrete recommendations by the OSCE. Serious challenges remain in the area of anti-corruption.

Montenegro is a frontrunner in EU approximation in the region. Since the adoption of the previous Strategy, it has managed to complete the process of opening all negotiating chapters for the EU accession negotiations, of which three (out of 33) have been provisionally closed. Focus is therefore shifting to closing the remaining chapters. The pace of this process will, according to the EC, crucially depend on meeting the interim benchmarks set in the rule of law chapters.<sup>1</sup>

## Free Elections and Representative Government

### *Free, fair and competitive elections*

The existing legal framework, which in the past benefited from a series of reforms, provides, according to ODIHR/OSCE, a “basic regulation for the conduct of democratic elections”. At the same time, a number of previous OSCE/ODIHR recommendations remain unaddressed, including professionalism, impartiality and transparency of the election administration; mechanisms for authentication of credibility of voter signatures and audit of the voter register; media supervision during electoral campaigns; and measures against the misuse of state resources.<sup>2</sup>

1. European Commission, Montenegro 2020 Report, 6 October 2020.

2. OSCE/ODIHR. Statement of Preliminary Findings and Conclusions, 30 August 2020 parliamentary **PUBLIC** in Montenegro, 31.08.2020.

The Constitution and the Law on the Election of Councillors and Representatives (electoral law) are the primary pieces of legislation that regulate elections. The first post-independence Constitution established a unicameral parliament of 81 deputies, who are elected for four-year terms in a single nationwide constituency under a proportional, closed-list system. The subsequent amendments removed reserved minority seats, providing instead a reduced threshold for all minority parties. This was done in compliance with the constitutional requirement for “authentic representation” and enabled broader minority representation.

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

Despite the overall transparent and well-administered conduct of elections, there have been persistent allegations of state and governing party confluence. The last general elections, in particular, which took place in August 2020, were found by the International Election Observation Mission (IEOM) to provide the ruling party with “undue advantage through misuse of office and state resources and dominant media coverage”.<sup>3</sup>

On the positive side, no political party boycotted the August 2020 elections. Furthermore, while the elections resulted in an unprecedented (first since independence in 2006 and first time in decades) change of the parliamentary majority and although the opposition’s victory was razor-thin, the defeated governing party conceded promptly and the initial transfer of power was peaceful.

### *Separation of powers and effective checks and balances*

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well-established procedures of legislative oversight in prescribed domains of decision-making – is in place in Montenegro and largely in line with international and European standards, as assessed by the Council of Europe. The scope of powers of the legislature to hold the government to account is largely in line with international standards, but the parliamentary oversight of the government’s activities needs to be strengthened. Boycotts of the parliament by the opposition are not conducive to this end.

### *Effective power to govern of elected officials*

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

3. Ibid.

## Civil Society, Media and Participation

### *Scale and independence of civil society*

There is a satisfactory legal framework for civil society organisations. A new CSO strategy and action plan were adopted in January 2018. The implementation of the strategy is monitored by the National Office for cooperation with NGOs, which is a technical body of five staff members under the Ministry of Public Administration. The adoption of five pieces of secondary legislation aimed at implementing the Law on NGOs (amended in 2017) improved the legal framework for civil society organisations. The dialogue between public institutions and civil society has improved since the Council for the Development of CSOs resumed its work in 2018. The mandate of the Council is to improve cooperation between CSOs and national authorities. Under the new organisational structure, the Council is chaired by the Minister of Public Administration and consists of 12 members (six state officials and six CSO representatives), which are appointed for 3 years.

Although the role of civil society in monitoring of government policies is recognised, its practical inclusion in policy-making processes remains limited. Consultations between civil society and local governments also need to be strengthened. Controversial dismissals of prominent CSO representatives from regulatory and watchdog bodies represent a matter of concern.

The right to form trade unions is enshrined in law and labour and trade union rights are generally respected in practice. However, the capacity of the Social Council remains limited.

### *Independence and pluralism of media operating without censorship*

Pluralism in the media, which operates freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards. New laws on media and on the public broadcaster were adopted in 2020. The newly elected authorities announced their intention to make further changes in media laws. The media environment is highly politicised, reflecting the polarisation of political elites, which often leads to self-censorship by journalists. The existence of two national self-regulatory bodies with similar objectives and conflicting political views highlights the existing divide. The transition of the Radio Television of Montenegro from a state agency to a proper public service broadcaster has not been completed, and its editorial independence needs to be strengthened.

Persistent allegations of intimidation against journalists is a matter of concern. A number of historic cases, such as the murder of the editor-in-chief of a daily newspaper, remain unsolved, while new attacks against journalists have been reported since the adoption of the previous Strategy, including the shooting of an investigative journalist.

The decriminalisation of defamation was an important step to improve the media environment. However, there are still a number of criminal and other provisions in the existing legislation that are contrary to international standards on freedom of expression, including the “defamation of the reputation of Montenegro”, “insult in public space” and “causing panic by the dissemination of false news”.

Recent years have witnessed an explosive growth in internet access. According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew from 33 per cent in 2008 to 71.5 per cent in 2018. Social media is playing an increasingly important role and about 61 per cent of Montenegrins are active Facebook users.<sup>4</sup>

## *Multiple channels of civic and political participation*

Multiple channels of civic and political participation are in place. There are certain rules and procedures regarding public consultations, but they are not always enforced.

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

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. Eleven lists, comprising dozens of political parties, participated in the last general elections (2020).

## **Rule of Law and Access to Justice**

### *Supremacy of the law*

Necessary legislative and institutional safeguards for the supremacy of the law are in place. In accordance with the new approach by the EC, Montenegro's accession negotiations have started with the most difficult chapters 23 and 24 – related to the rule of law – in order to provide sufficient time for the country to address all shortcomings and reinforce focus on the rule of law. Meeting the interim benchmarks set in these chapters remains among the key points of leverage for further improvement.

### *Independence of the judiciary*

The independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality. However, challenges remain with respect to practical implementation of the independence of the judiciary. During the reporting period, there were allegations of interference in the work of the Special State Prosecution (SPO). Concerns were raised regarding re-appointment of several presidents of the courts, including the President of the Supreme Court, beyond the constitutional limit of two terms. While the appointment procedures for the Judicial Council are in line with international standards, the Council of Europe Group of States against Corruption (GRECO) has recommended certain measures for strengthening the Judicial Council's ability to withstand undue political influence. In May 2021, the new parliament adopted amendments to the Law on Public Prosecution. While the earlier versions of these amendments caused significant controversy, particularly as regards proposed dismantling of the SPO, the final one took on board some, although not all, suggestions from the Venice Commission.

4. ITU Statistics and Internet World Stats, <https://www.internetworldstats.com>

## *Government and citizens equally subject to the law*

A number of measures implemented in recent years, including provisions for public accessibility of decisions by the Administrative Court and other courts, appointment of Commissions for monitoring compliance with the Codes of Ethics of judges and prosecutors, and adoption of the Code of Ethics for governmental bodies and parliament have been designed to increase the accountability of public administration and the judiciary. However, the track record of enforcement of the codes of ethics remains limited. A new law on free access to information is under preparation.

## *Effective policies and institutions to prevent corruption*

Corruption remains a serious problem, and is perceived by citizens to be a widespread phenomenon. According to Transparency International's 2020 Corruption Perceptions Index (CPI), Montenegro had a score of 45, which places it 67th out of 180 assessed countries. Although the country's score has remained stagnant in the last few years, it is still the best among Western Balkans countries.<sup>5</sup>

Montenegro is party to all relevant international anti-corruption conventions, including the UN Convention against Corruption. The legal framework and secondary legislation on anti-corruption are in place.

An assessment on Montenegro's compliance with international anti-corruption standards has been made by GRECO through its usual instruments. GRECO had addressed eleven recommendations to Montenegro in its Fourth Round Evaluation Report in 2015. In its second compliance report, published in February 2020, GRECO concluded that Montenegro had implemented satisfactorily eight out of the eleven recommendations. Of the remaining recommendations, one has been partly implemented and two (both related to the functioning of judiciary) have not been implemented.<sup>6</sup>

Since the adoption of the previous Strategy, the leading local body in the fight against corruption – the Anti-Corruption Agency (ACA) – has become fully operational. While there are questions related to its independence and selective approach, it has been gradually building up a track record in prevention and repression of corruption. There has been some progress in establishing a track record of cases of high-level corruption – a long-standing demand by successive EC progress reports on Montenegro. Following the landmark conviction of the former President of the State Union of Serbia and Montenegro, a number of new cases of high-level corruption have been opened (more than ten investigations in the last two years alone). Among the indicted officials was the former Mayor of Podgorica. ACA has been issuing dozens of decisions a year on incompatibility of functions and conflicts of interest, leading to a number of dismissals and resignations. There has been a noticeable increase in investigations in high-level corruption, conflict of interest and abuse of office since the establishment of the new government at the end of 2020.

However, the number of convictions in high-level corruption remains low. There is no convincing track record on the more complex types of organised crime, where local vested interests are at stake, and there is not enough of a pro-active approach in the protection of whistle-blowers, oversight of lobbying, and control over the financing of political parties. Above all, there is a need for maintaining consistency in fighting corruption and adhering to the standards of judicial independence in high level investigations.

5. Transparency International, Corruption Perceptions Index (CPI) 2020

6. Council of Europe, Group of States against Corruption (GRECO), Fourth Evaluation Round, Second **PUBLIC** Report on Montenegro, published on 6 February 2020.

## Civil and Political Rights

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

The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognized in international law, including the freedom of speech, information, religion and conscience, movement, association and assembly, and private property. Overall, both the legislative and institutional frameworks in the area of fundamental rights are in place. Relevant international agencies have assessed positively progress in the functioning of the Ombudsman and the Constitutional Court in the promotion and protection of human rights in Montenegro.

The latest assessment of the track record of Montenegro in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was conducted in 2018. The top three recommendations related to women's rights (25 per cent of the recommendations); rights of the child (20 per cent); and minority rights (17 per cent). Montenegro supported 95 per cent out of a total of 161 recommendations made through the review process (Cycle 3, 2017 – 2021).<sup>7</sup>

2019-2020 witnessed considerable controversy related to the new law on the freedom of religion. Designed to regulate the legal status of religious communities and their property rights, it triggered strong criticism from the influential Serbian Orthodox Church, which was the law's main target, opposition and civil society, culminating in massive protests, arrests of priests, and religiously motivated attacks. Heated debates regarding the law featured prominently in the electoral campaign and are widely believed to be among the factors that contributed to the defeat of the governing party. In January 2021, the newly elected parliament adopted amendments removing the most controversial parts of the bill.

Despite a solid legislative framework, there are challenges in the area of freedom of expression, highlighted by cases of intimidation against journalists and prosecution of on-line portals and citizens for content posted on-line.

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

The legislative framework for the protection of ethnic minorities is broadly in place, and the Law on Minority Rights is being implemented. In 2019, the authorities adopted the minority policy strategy for 2019-2023. The country has a complex ethnic composition. According to the 2011 census, only 45 per cent of the population identify themselves as Montenegrins. Ethnic Serbs represent 28.73 per cent of the population; Bosniaks 8.65 per cent; Albanians 4.91 per cent.

Roma, who according to the 2011 census represent one per cent of the population, remain the most vulnerable minority and discrimination against them persists. They are the only significant ethnic minority in the country without a minority political party and are not represented in the parliament. While the enrolment rate for children is increasing, the number of Roma registered with the employment bureau has decreased.

7. United Nations, Universal Periodic Review (UPR), Montenegro, and UPR Info Statistics

The key legislative elements for promoting and enforcing gender equality are in place. However, the legislative framework for preventing gender-based discrimination has had a limited impact due to weak implementation and lack of awareness and training among institutions. Women are under-represented in the labour market and politics alike. In everyday life, apart from the pay gap, the main issue of concern is domestic violence. Sexual harassment, although prescribed as a special form of discrimination, is still not defined as a criminal offence under the law.

Since the introduction of the gender quota in candidate lists, there has been an increase in the number of women among candidates contesting elections. However, the gender quota for candidate lists is not accompanied by the requirement for the placement of women in higher positions on these lists. The dynamics of women's representation in the parliament has been uneven. After years of increase (from the historic low of 11 per cent to 30 per cent in the previous parliament), the share of women in the current parliament, established in September 2020, saw a decrease to 22 per cent.

In 2019, the government adopted a national strategy for improving the quality of life of Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) persons for 2019-2023. After several unsuccessful attempts, the parliament adopted a law on same-sex partnerships, making Montenegro the first country in the region in this respect. However, LGBTI rights continue to be challenged, both in media and by some politicians.

### *Freedom from harassment, intimidation and torture*

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Montenegro in 2017. In the report, published in 2019, the CPT states that some overall improvement since the 2013 visit in the treatment of persons detained by the police has been achieved. However, it notes that when it comes to the implementation of its previous recommendations, several long-standing issues remain unaddressed, including the lack of implementation in practice of fundamental legal safeguards against ill-treatment for persons deprived of their liberty by the police.<sup>8</sup> A working group has been formed to prepare the amendments to the Criminal Code with regard to crimes of torture and other forms of ill-treatment, designed to address the recommendations by CPT and the UN's UPR to explicitly prohibit a statute of limitations for such crimes, increase sanctions, as well as exclude the possibility of granting amnesty and pardon to public officials accused or convicted of such crimes. In 2020, a number of allegations of police torture during detention and the excessive use of force by law enforcement, communal police and private security agencies were made that require investigation by the competent national authorities.

8. Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Report to the Government of Montenegro on the visit to Montenegro from 9 to 16 October 2017, published on 7 February 2019.