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The World Bank

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Report No. 137090-ME

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

PERFORMANCE AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP FRAMEWORK

FOR

MONTENEGRO FOR THE PERIOD FY16-FY20

August 20, 2019

Western Balkans Country Unit
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

The Multilateral Investment Guarantee Agency
Economics and Sustainability Group

The date of the last Country Partnership Framework is May 24, 2016 (Report No. 105039-ME)

FISCAL YEAR
January 1 – December 31 [government's fiscal year]

CURRENCY EQUIVALENTS
Exchange Rate Effective August 2019
EUR 1.00 = US$ 1.12

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
CBM	Central Bank of Montenegro
CMU	Country Management Unit
CPF	Country Partnership Framework
ECA	Europe and Central Asia
EC	European Commission
EU	European Union
EUR	Euro
ERP	Economic Reform Program
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
IPARD	Instrument for Pre-Accession in Rural Development
IPF	Investment Project Financing
LGBTI	Lesbian, Gay, Bisexual, Transgender, and Intersex
MDD	Montenegro's Development Directions
MoF	Ministry of Finance
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small, and Medium Enterprises
NPLs	Non-performing Loans
PBG	Policy Based Guarantee
PEFA	Public Expenditures and Financial Accountability
PLR	Performance and Learning Review
RAP	Resettlement Action Plan
SCD	Systematic Country Diagnostic
SORT	Standardized Operations Risk-rating Tool
TVET	Technical and Vocational Education and Training
TFs	Trust Funds
UN	United Nations
VAT	Value Added Tax
WBG	World Bank Group
WB6	Western Balkan countries

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PERFORMANCE AND LEARNING REVIEW

FY16–FY20 Country Partnership Framework

MONTENEGRO

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I. INTRODUCTION

1. The Performance and Learning Review (PLR) for Montenegro reviews the implementation progress to date of the Country Partnership Framework (CPF) discussed by the Executive Directors on June 16, 2016. The PLR was conducted jointly by the IBRD, IFC, and MIGA with the objective to: (i) update the Board on the evolving political and socio-economic situation in Montenegro, (ii) inform the Board on the progress toward achieving CPF objectives, and (iii) propose one-year extension and program IBRD and IFC resources for FY19 - FY21 that had not been determined at the time of Board presentation of the CPF. The Program remains well aligned with the Government's medium and long-term strategies and consistent with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity.

2. Progress toward the CPF outcomes has been mixed. Satisfactory advancements were made with fiscal consolidation efforts and there has been good progress in meeting the set objectives of the WBG's program in the areas of agriculture, education, research and innovation, as well as in energy efficiency. On the other hand, while the work is in progress, some of the anticipated results and mid-term targets with respect to the WBG's support to the country's environmental agenda have been missed. When it comes to the overall growth and jobs agenda, while some progress has been made in high priority sectors in terms of enabling financing and job creation, more needs to be done to enhance private sector growth.

3. While the CPF Program's focus areas remain highly relevant, the PLR takes the opportunity to introduce adjustments to selected objectives and firm up the lending program in the remainder of the CPF. The PLR reflects the changes in the Government's prioritization that had impacted the scope and timeline of the WBG's program for the initial years of the CPF. The WBG Program for FY19-FY21 is now clearly defined and the lending is expected to stay within the original CPF envelope, depending on the country demand and IBRD's financial capacity. The Results Matrix of the CPF is adjusted to reflect these changes i.e. refocus on objectives and planned outcomes that the WBG program can realistically achieve in the CPF period.

4. The PLR proposes a one-year extension of the CPF period until June 30, 2021. In view of the relatively young age of most of the projects as well as the adjustments introduced to the CPF program in response to the shift in client's priorities, a one-year extension would be beneficial to maximizing the chances for achieving most of the CPF objectives. Significant attention is put on improving portfolio performance which is expected to lead to higher disbursement ratio in coming years, and increased probabilities of meeting the development objectives. Such an extension would also mean that the preparation of the next CPF would begin in early 2021, following the next general elections currently anticipated to take place in the second half of 2020.

II. MAIN CHANGES IN THE COUNTRY CONTEXT

A. Political Update

5. Montenegro experienced a relatively stable political situation during the first years of the CPF period, yet there have recently been some signs of potential instability down the road. The current Government was formed in November 2016 following the parliamentary elections. While the Cabinet was reshuffled, there is overall consistency with the previous Government's program, and the strategic focus remains on the country's accession to the European Union (EU) and regional cooperation. Part of the period was marked by some of the opposition parties' not participating in the work of the Parliament and, more recently, court rulings against some opposition MPs. Also, there have been citizen protests spurred by allegations of misuse of power against some of the high-level officials and demanding that competent institutions duly respond to those. All of this complicates the political dialogue in the country. However, this has to date not significantly impacted the functioning of the institutions and the decision-making processes. The WBG's engagement with the Government continues, especially in the areas of fiscal consolidation and growth and jobs.

6. Montenegro's strategic development objective remains smart, sustainable, and inclusive economic growth that will contribute to reducing the country's development gap relative to the EU average and increasing the quality of life of all its citizens. These objectives have been consistently put forward in the key strategic documents, most notably Montenegro's Development Directions (MDD) and country's Economic Reform Programs (ERP). Both documents are periodically updated, and the most recent ones – MDD for 2018-2021 and ERP for 2019-2021– are consistently emphasizing these key objectives. The 2018-2021 MDD, consistent with the previous one, defines four priority sectors: tourism, energy, agriculture and rural development, and manufacturing, and corresponding measures taken and to be taken related to priority sectoral policies and infrastructure projects.

7. Montenegro remains a regional frontrunner in EU accession. To date, 32 chapters out of 33 chapters have been opened, with 3 of them provisionally closed. The EU Strategy for Western Balkans (February 2018) indicates that Montenegro could complete the accession process in a 2025 perspective. However, it also outlines that this timeline is an ambitious one and it will require the country's strong political will in achieving substantial and concrete reforms, most notably in the area of rule of law and the fight against corruption and organized crime, as indicated in the EU Montenegro 2019 Report.

B. Economic Update and Emerging Issues

8. Montenegro's economy grew 4.2[1] percent on average in the first years of the CPF. The growth was strongly driven by investments, including heavy Government spending on infrastructure such as the Bar-Boljare highway construction and private sector investments in energy and tourism activities. Economic growth was further boosted by domestic consumption and services exports thanks to record tourism seasons. Among the economic activities, growth was supported by a surge in energy production, which grew by 62.1 percent in 2018 thanks to new investments into generation capacities, and by manufacturing, construction, and retail trade growth.

9. Higher growth has stimulated job creation. Employment grew by 4.3 percent in 2018, mostly in the construction, tourism, services, and the public sector. The unemployment rate declined to a historic low of 15.2 percent in 2018[2]. At the same time, participation and employment rates[3] reached record highs of 56 percent and 47.5 percent in 2018, respectively. Strong economic activity has had a positive effect on youth unemployment which declined to 29.8 percent. However, a significant portion of the new jobs are temporary and/or seasonal employment, primarily in tourism and construction sectors.

10. Still, the labor market faces significant structural challenges. The labor participation rate of 56 percent for those aged 15 and above reveals that almost every second person of the working age is out of the labor market. The employment rate for the group 15 to 64 in Montenegro stands at 55 percent, compared to 65 percent in the EU and the Europe 2020 target of 75 percent. In order to reach the EU average, Montenegro would need to create additional 40,000 jobs, which is close to the current number of unemployed. The difference in the employment rate between women and men remains significant at 14 percentage points, although lower than in many other Western Balkan countries (WB6), and the share of youth not in employment, education, or training is still high. In addition, the Government plans to reduce the high public sector staffing in central and local Governments by 6 percent in 2019-20 which intensifies the labor market challenges. Job creation in the formal private sector needs to be a priority for economic policy to increase the number of well-paid jobs that Montenegrins aspire to. It requires implementing critical structural reforms that raise the skills of the workforce and strengthen public institutions that safeguard transparent and accountable policymaking and enforce fair market competition to ensure that entrepreneurs compete on the basis of innovations.

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[1] *2016: 2.9 percent, 2017: 4.7 percent and 2018: 4.9 percent (preliminary).*

[2] *Based on Survey data, which captures informal employment. According to administrative employment data the unemployment rate declined to 17.8 percent in December 2018 (compared to 22.4 percent in December 2017).*

[3] *Based on survey data*

11. The gradual fiscal consolidation program led to a reduction in the fiscal deficit but higher than initially planned public expenditures are delaying reaching the objective of a balanced budget. After reaching 5.6 percent in 2017, the overall fiscal deficit declined to 3.8 percent of Gross Domestic Product (GDP) in 2018. This reduction in the deficit was facilitated by fiscal consolidation. Revenue growth was supported by increases in Value Added Tax (VAT), corporate income tax, and non-tax revenues, while excises revenues dropped. On the expenditure side, spending on social benefits declined but spending on public sector wages and goods and services increased compared to 2017. Despite the declining fiscal deficit, public debt reached 71 percent of GDP in 2018 and public and publicly guaranteed debt at 75.7 percent.

12. On a systemic basis, key figures of the financial sector are largely stable after the liquidation of two ailing banks. Some of the indicators on the overall financial sector have improved over the past years[4], the banking sector as a whole is well capitalized and remains profitable although there are variations among banks. On the other hand, the financial sector has been facing vulnerabilities stemming from weakness in three second tier banks. While these vulnerabilities so far appear not to have spilled over to the rest of the financial sector, a lengthy resolution was creating the risk that this might undermine the overall sector's stability as well as confidence of public and investors. The decision to liquidate two of these banks was important since it was generating risk of instability in the banking system. Now the priority should be to ensure that no other vulnerability remains that can threaten financial sector stability.

13. Montenegro's credit rating in 2019 was set at B+/B with stable outlook (Standard & Poor's) and B1 with positive outlook (Moody's). Today, Montenegro enjoys fairly low borrowing spreads, suggesting that, if needed, the Government could raise funding from the capital markets. Current yields on outstanding bonds (namely the current 2025 Eurobond) figure around 2.6 percent, which reflects a reduction of near 100bp since the start of the year. While some of this reduction in yield may be due to strengthening of outlook locally, there are external factors[5] which also account for the improvement in yields. Nevertheless, Montenegro's decision to issue Eurobonds must be driven by careful consideration of the Government's debt management strategy, which would reflect a medium-term plan to access various market segments for funding in an organized and transparent manner.

14. The economic outlook is positive, but with significant downside risks. The economy is projected to grow at a slower pace in 2019-2020, at 2.7 percent on average, as private investment is expected to slow down after a strong increase in 2018 and the large public infrastructure investment projects will be gradually phasing out in 2020. Private consumption and employment growth are expected to decline in 2019 due to the impact of the fiscal consolidation, especially the implementation of the Government's ambitious public administration staff reduction plan. Moreover, the increasing political and overall uncertainty will likely weigh on private consumption and investments. Enhancing policy predictability and accelerating structural reforms is required to reduce downside risks and assure the continued improvement of growth and labor market prospects. In this regard the Government has announced reforms in public financing, public administration, the labor market, the business environment, and health sector as well as the continuation of the tax and procurement related reforms, while the pension reform has been postponed[6]. Successful

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[4] *The overall financial sector capital adequacy ratio of 16.6 percent as of April 2019 is well above the regulatory minimum threshold of 10 percent. CAR varies between 11.55 percent to 42 percent among banks. Overall credit grew by 6.9 percent y-o-y (annualized 12 months moving average) by April 2019, driven by household lending. The liquidity ratio (liquid assets/ total assets) is at around 22 percent, same compared to a year ago. Total liquid assets are around EUR 940 million. The loan to deposit ratio is at 88.6 percent, indicating available short-term liquidity in the system. Deposits grew by 3.6 percent y-o-y (annualized 12 months moving average). The share of NPLs stood at 4.75 percent by end of May 2019, . The banking sector is profitable, yet the profitability level remains relatively low and is unevenly distributed among banks, with net interest margins narrowing compared to a year ago.*

[5] *Spreads in the broader emerging market have improved in a climate of strong market liquidity amid scarcity of higher-yielding investment options and new issues and in the absence of major risks to global outlook on the horizon. Montenegro has enjoyed the benefit of some of these conditions, as its own bonds have been quoted lower in yield and slightly higher in price too (notwithstanding that due to its small issuance sizes and thus limited trading of its less liquid assets, price and spread data may be a bit less reliable than for larger issuers). A second driver in yield reduction is also the drop in the basis observed over the period (both benchmark Government bonds and in Euribor, over which the spread for Montenegro is observed), which accounts for at least half the improvement in overall yields.*

[6] *Due to political economy risks the Government has decided to postpone the pension reform. The Draft Penson Insurance Law contained measures that would worsen the fiscal and financial sustainability of the pension system,and disrupt previous pension reform achievements.*

implementation of these reforms is of utmost importance to achieving sustainable and inclusive growth.

C. Trends in Poverty, Shared Prosperity, and Gender

15. Poverty has been on decline since 2013, though with a temporary uptick in 2017-2018 due to the short-term impact of fiscal consolidation measures. On the one hand, with continuous economic growth, the labor market experienced improvements, with the increase of the employment rate from 43.5 percent in 2016 to 46.1 percent in 2018. On the other hand, the necessary reforms undertaken in 2017-2018 to restore fiscal sustainability included the withdrawal of the lifetime benefit for mothers of three or more children, real wage decline driven by public sector wages, and the rise in indirect taxes. While these measures were important for sustaining macroeconomic stability as a precondition for growth and further poverty reduction, they likely had short-term negative poverty impacts. Poverty[7] is estimated to have declined to 4.2 percent in 2016 but edged up to 4.4 percent in 2017 and 4.8 percent in 2018. This measure of poverty is expected to resume its decline in 2019 to an estimated 4.7 percent in 2019 and 4.6 in 2020, given the projected growth rate and subject to improvements in private sector employment and earnings. Yet many people are still considered at risk of poverty as, following the concept used in the European Union[8], 23.6 percent of the population in Montenegro were earning less than 60 percent of the median income in 2016. Income inequality, with the Gini coefficient of income at 36.7 percent in 2016, is relatively high compared to new EU Member States. Sustainable poverty reduction going forward will depend on strengthening fiscal and financial stability, investment, and access to more and better jobs for most people.

16. Labor market outcomes among women have slightly improved, but gender gaps have widened. Labor force participation and employment among women (15-64 years old) saw modest increases of 0.6 and 1.6 percentage points between 2016 and 2018. The improvement was more pronounced among women aged 50-64s. At the same time, the gaps between men and women in these outcomes widened over the same period. The gender gap in labor force participation increased by 1.5 percentage points and the employment gender gap increased by 2.1 percentage points. However, in 2018 unemployment rate among women at 15.1 percent was lower than unemployment rate among men (15.2 percent).

17. Women face persistent barriers and disincentives for economic participation. For example, women-owned properties represent about one-quarter of registered properties (26 percent), suggesting women have a more limited access to assets. Moreover, evidence from the region finds limited access to affordable services that support economic participation, such as child and elder care. Montenegro also has the largest labor tax wedge in the Western Balkans for a family with 2 children, and a relatively high tax wedge (40.3 percent) at the average wage level for a single earner. High labor tax wedges can present major disincentives to female formal economic activity. Through its portfolio, the World Bank is contributing to addressing and/or monitoring gender gaps in Montenegro (see Box 1), and continuous attention will be put in ensuring that the gender lens is mainstreamed in the engagement in Montenegro. A World Bank regional high-level workshop (May 2018), focused on promoting gender equality in access to economic opportunities, provided opportunities to give visibility to the agenda and engage with key Government stakeholders from the Western Balkans, including from Montenegro.

[7] *Measured as consumption below the standardized middle-income-country poverty line of $5.5/day 2011PPP.*

[8] *The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers. This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country.*

Box 1. Gender Portfolio Review

A Gender Portfolio Review of the active projects was carried out in 2018. The main findings reveal that the key gender gaps, aligned with the four strategic objectives[9] set up by the World Bank´s gender strategy 2016-2023, are overall being addressed throughout implementation. The Montenegro Institutional Development and Agriculture Strengthening (MIDAS) and MIDAS2 projects were considered as best practice examples since they included gender consistently in analysis, actions and gender-sensitive indicators. For instance, MIDAS2 follows the results chain proposed by the "gender-tag"[10] methodology in that it presents gender analysis in the agriculture sector, establishes a grants program by providing preferential ranking criteria for applications from women and measures the outcomes by presenting data in a gender-disaggregated manner in the M&E results framework. Moreover, the Project team has requested additional funding to increase the project resources to continue addressing the existing gender gaps in the agriculture sector, in which women are less represented than men. The Project also aligns with the strategic objective of "Removing constraints for more and better jobs" by analyzing constraints for women to play an equal role in the rural economy as farmers, forest and irrigation managers, and value chain partners. These efforts also relate to the objective of "enhancing women's voice and agency" by identifying gender gaps in their access, engagement and voice in forest management or producer associations. The earlier approved projects such as Industrial Waste Management and Cleanup Project and Revenue Administration Project took into account gender under the ESIA consultations and ensuring that the Resettlement Action Plan (RAP) framework responds to gender-related needs and livelihood compensation i.e. track women' participation in surveys and in training program organized for institutional development.

III. SUMMARY OF PROGRAM IMPLEMENTATION

A. Program Evolution and Performance

18. The CPF is highly selective in supporting Montenegro's key development objectives and its path towards EU membership. During the CPF the realism filter was continuously applied to new lending, recognizing that the WBG can contribute most effectively by focusing on areas where there is strong demand from the Client, country, but also where WBG has comparative advantages that can result in higher impact. This is reflected in reshaping the CPF Program, including a shift to stronger analytical work in areas where lending did not materialize (e.g. jobs, digital infrastructure). Another filter for more selective engagement was scalability. The WBG Program carefully considered opportunities to complement the ongoing efforts and build on the already existing Government programs and long terms strategies, such as in agriculture and energy efficiency. Working closely with other key international development partners active in the country, most notably EU and IFIs, ensured maximizing the financing and expertise mobilized to support the respective programs, and thus the overall development impact.

19. The current IBRD Program comprises five investment operations totaling US$138.4 million, one US$93 million Policy Based Guarantee (PBG), and advisory and analytical work in key areas. In terms of project age, the portfolio is mixed with two projects in final year(s) of implementation, and three projects in early implementation (all FY18 approvals). Two operations concluded during the CPF period as Satisfactory (Montenegro Energy Efficiency Project and Higher Education and Research for Innovation and Competitiveness). The projects under implementation focus on agriculture, environment, energy efficiency and public revenue administration. In addition to investment lending, the first Policy Based Guarantee (PBG1, US$93 million) was approved in 2017. Key advisory services and analytics (ASA) support the areas of jobs and growth, digital economy, efficiency of public finances, public administration reform, and justice sector reform. To complement and maximize the impact of the IBRD operations and analytical and advisory activities, trust fund resources of around US$13 million were mobilized mainly to support the agriculture program, the management of the transboundary Drina River Basin and justice sector reforms.

[9] *i) Improving Human Endowments (Health, Education, Social Protection); ii) Removing Constraints for More and Better Jobs; iii) Removing Barriers to Women´s Ownership and Control over Assets; iv) Enhancing Women´s Voice and Agency and Engaging Men and Boys.*

[10] *The new Bank´s methodology "gender tag" monitors and rates projects on their "depth" of gender integration by assessing whether the project design integrates (1) gender analysis and / or consultation on gender or gender-related issues; (2) specific actions to address the distinct needs of women and girls, or men and boys, or to positively affect gender gaps; and (3) mechanisms to facilitate the monitoring and / or evaluation of gender impacts through the results framework.*

20. Disbursements of Montenegro's investment operations were slow during the first years of the CPF. Annual disbursements have ranged between 5 and 10 percent during the CPF period. Disbursement rates have been affected by slow implementation in the largest project, the Industrial Waste Management and Cleanup Project (IWMCP), which formed more than half of the total portfolio size during the first years of CPF. The IWMCP had almost no disbursements during its first two years due to shortcomings in implementation. Following a recent project restructuring, implementation has improved, and disbursements are expected to increase in the coming months. For the rest of the portfolio, although the number of projects remained in line with the previous years, the more recent approvals are larger in size. As is typically the case, significant disbursements materialize once the implementation is well advanced, which in the case of these projects is expected in the coming year. The Government and the WBG teams have strengthened their efforts to accelerate the implementation of the entire portfolio, and disbursements are expected to improve considerably in the next year.

21. The most significant challenges that the WBG program faced at the start of the CPF period included ownership and capacity-related constraints, and limited inter-institutional coordination. This translated into longer than expected timeframes for project preparation and cancelation of plans for previously agreed projects. At implementation, deficiencies in coordination among stakeholders translated into delays, notably on the IWMCP. Over the past two years the strategic collaboration with authorities has strengthened**,** resulting in an improved clarity on the priorities for WBG program, enhanced leadership on implementation and renewed emphasis on collaboration on critical and complex areas such as growth and jobs.

22. In the first period of the CPF, IFC invested a total of US$21million, against an original target of US$40-60 million. A total of US$13.5 million was invested in long-term financing across two projects in the financial and municipals sectors. IFC's advisory program delivered significant impact in Montenegro, particularly in the energy sector and PPPs. Through its Balkans Renewable Energy Program (BREP), IFC played a catalytic role in policy development in the renewable energy market in Montenegro by improving the investment enabling environment for renewable energy. IFC also invested US$7.5 million in a regional real estate investment platform (UK-based company Hystead) for its retail sector project in Montenegro. Although the planned advisory work on insolvency and debt resolution did not materialize during the CPF period on account of a lack of donor funding available for Montenegro IFC has supported NPL resolution in the country through its Distressed Asset Resolution Program (DARP) program by financing the purchase of distressed debt portfolios which should reach financial closure by fall 2019.

23. IFC aims to continue its program in Montenegro to support private sector investments to foster tourism-based local economy, develop tourism-related infrastructure, support the development of microfinance, renewable energy, and municipal infrastructure through direct investments and advisory support as well as design and implementation of viable PPPs. The improvements of the PPP regulatory framework with the expected adoption of the new laws on PPPs and concessions with IFC's support will open up new PPP opportunities that could mobilize significant private sector investment.

24. MIGA will continue to seek opportunities in the country to foster foreign investments and mobilize private capital via its political risk insurance products and in close collaboration with IBRD and IFC.

25. This WBG program will continue to support Montenegro's trajectory toward graduation through the introduction of additional selectivity principles for IBRD financing. The WBG program builds on the existing government programs and strategies while ensuring that at least one of the following filters apply to all new IBRD financing: (i) support to sustainable market access; (ii) support institutional strengthening; (iii) focus on the poor, marginalized and vulnerable group, and (iv) contributes to regional and global public goods.

26. The ongoing program already supports WBG's key commitments with respect to institutional strengthening, as well as to the poor and marginalized groups. All IBRD financing approved during the CPF contains robust institutional building components. To name a few, the

ongoing projects support the Client to improve its capacity to plan and implement environmental clean-up investments and develop sustainable energy efficiency financing mechanism. Furthermore, the long-term and still ongoing engagement in agriculture supports the next stages of line institutions' modernization to prepare them for fully utilizing EU funds and meeting related requirements. At the same time, the WBG's long term engagement in this sector maintains a focus on rural areas where the majority of the poor live, expanding their economic opportunities. Important pieces of analytics on the vulnerable groups are done to inform the next steps in the decision making. The WBG assisted the Government with reintegration of Roma and other returnees from Western Europe by providing Management Information Systems designed for data access and exchanges for Roma and other returnees as well as asylum seekers. The results of the study on experiences of lesbian, gay, bisexual, transgender, and intersex (LGBTI) people in Southeastern Europe set a benchmark for understanding the lives of LGBTI people in the Western Balkans, including in Montenegro. As a follow up, the WBG is asked to help with an analysis and systematic overview of the application of the anti-discrimination legislation protecting LGBTI community.

27. IFC 3.0 will be focused in the near term on attracting private sector investments into infrastructure. IFC has been appointed by the Government as the lead advisor for a possible airport concession (details further in the PLR) The engagement aims to support a strategic project for the tourism-driven Montenegrin economy, representing the best potential for an IFC 3.0 intervention. Should the tender process advance successfully and reach commercial close, IFC could also consider a potential engagement on the investment side, providing financial support to the winning bidder. In addition, IFC will also consider potential engagement on a 250 MW solar project, the first in Montenegro to be awarded through a competitive tender and the first market based renewable energy project in the Western Balkans. The project would add renewable capacity, reduce reliance on electricity imports, and support the connection and integration with neighboring markets while aligning interest for creation of Montenegrin electricity exchange.

28. The WBG's program supports the country in mitigating the impact of climate change. The IWMCP supports remediation of the industrial waste dumps and ponds that present a risk to public health but also a risk of contamination of surrounding environment. These sites are particularly sensitive to natural hazards, and a flood or an earthquake could result in severe devastation of some of the country's most valuable natural resources. In agriculture, Montenegro Institutional Development and Agriculture Strengthening (MIDAS) and (MIDAS2) projects are helping introduce and promote modern technologies and climate smart agricultural practices to cope with the effects of climate change, especially increased weather-related natural disasters such as droughts and floods. The Western Balkans Drina River Basin Management Project supports regional cooperation so as to improve integrated planning mechanisms and capacity to manage this river basin via incorporating climate change adaptation measures. The refurbishment of public buildings under Montenegro Energy Efficiency Project (MEEP) showcased benefits of energy efficiency measures, not only in results achieved with energy cost savings and reduction in GHG emissions, but also in increased level of comfort in volatile weather conditions (periods of extreme cold and warm days). The teams continue to diligently explore all potential to further support this agenda. Second Policy Based Guarantee (PBG2) supports adoption of the new Law on Climate Change. This reform aims to raise energy efficiency, improve environmental standards to reduce the risk of future environmental expenses, increase the collection of environmental taxes, and capture climate co-benefits. The new Sava Drina River Corridor Regional Program will broaden the support to enhanced transboundary water management, expected to contribute to additional climate mitigation or adaptation co-benefits.

29. During this CPF period, dialogue with civil society has been ongoing with a number of public awareness events related to project activities, and meetings with representatives of NGOs, academia and business associations. Since 2014 when the citizen engagement corporate requirements were introduced, efforts have been stepped up to embed citizen engagement in all investment project financing (IPFs) in the Montenegrin portfolio. With regards to compliance with the CE requirements, by FY16, 100 percent of Montenegro projects approved by the Board were fully compliant with both requirements (having a citizen-oriented design and a beneficiary feedback

indicator). However, the quality of citizen engagement in the portfolio is relatively weak compared with other Europe and Central Asia (ECA) countries due to the use of weak tools, that do not provide an opportunity for direct interaction or active engagement. Going forward, to further strengthen the quality of citizen engagement, several activities are proposed for the remainder of the CPF implementation, presented in detail in the *Annex 4. Citizen Engagement Update*.

30. The FY19 Montenegro Country Survey findings indicate that the WBG continues to have strong relationships on the ground in the country, and the institution is regarded as well positioned to support the country in development areas that the respondents consider most challenging. Jobs are first and foremost on the minds of stakeholders. A third of respondents identified jobs as the top development priority, and nearly two thirds said it was the key contributor to poverty reduction. The stakeholders who have experience with, and exposure to the WBG in Montenegro are extremely positive about how the institution operates on the ground, especially about disbursement speed, monitoring and evaluation and, more attitudinally, the WBG as a long-term partner, its effectiveness at collaboration with the Government, and its position as a respectful institution. On the other hand, among the areas to improve the survey shows that more than a third of respondents think that the WBG should engage more with private sector and local government beyond the national government. In addition, the survey findings suggest that many respondents would like to see the WBG offer more financial products/services as part of its offerings. However, the survey findings show inadequate familiarity with the instruments currently available (e.g. IPF, development policy lending, IFC services, MIGA guarantees), even amongst the stakeholders who collaborate with the WBG.

B. Evolution of Partnerships and Leveraging

31. The Bank has maintained close collaboration with development partners. The CPF is aligned with and supports Montenegro's EU Accession Program 2014-18 and integration process. During the first years of the CPF period, two operations were financed through EU funded Result Oriented Review of the Delivery of Justice in Montenegro Technical Assistance, with the objective to enhance the rule of law, a long-lasting EU priority for the country, and Agriculture and Rural Development Institution Building to support development of the agriculture sector. The recently approved MIDAS2 Project focuses on supporting the Government further in meeting requirements for closure of three EU negotiations chapters. Efficient coordination continues in preparation of PBG2 with the EU Delegation to Montenegro on public administration, financial sector and PFM reforms and the Directorate General of the EC on fiscal and macro aspects. The WBG continued cooperation with the United Nations Development Program on health and social benefits, and with the WHO on health. To address the increasing Government needs for technical and financial support in areas of public finance and environment, coordination with EU Delegation and other developmental agencies should be further strengthened.

32. IFC and MIGA will continue to collaborate with other IFIs and the EU to support private sector development in Montenegro, particularly IFC through its regional advisory service. Depending on availability of funding from donor countries/institution, IFC will support improvements in the insolvency and debt recovery regulatory framework based on its recent experience in Serbia, Bosnia and Herzegovina, and Albania and provide advice on trade facilitation through the ECA Trade Facilitation Program to leverage potential partnerships, both bilaterally with neighboring countries and through regional platforms such as CEFTA.

C. Overview of Progress toward Achieving CPF Objectives

33. During the first three years of the CPF program, lending delivery has been largely in line with the planned volume, although changes of Government priorities led to program adjustments. In FY16 – FY18, a total of six IBRD operations were scheduled. Three of those, as well as two that have been advanced from later FYs have been approved by the end FY18, in the total amount of US$154.3 million. Out of this, US$ 93 million was provided in budget support (PBG1). Following the formation of the new Government, the WBG held a round of consultations in February 2017 to reconfirm the Government priorities, and this process led to a number of

adjustments to the CPF program. It was agreed to stop the preparation of two operations, in health and sustainable tourism. Instead, a request was made to prioritize the preparation of the second agriculture operation (MIDAS 2, moved forward from FY20 and delivered in FY18), as well as the second energy efficiency operation (also delivered in FY18, earlier than originally planned). These adjustments remain well in line with the original objectives and focus areas of the CPF.

34. The IBRD lending program was only indicative for years four and five of the CPF and was envisaged to be firmly defined at the PLR stage. It anticipated building on successful experience of ongoing operations (some of which materialized ahead of planned, as noted above) or new areas of engagement in support of private sector growth, skills and jobs. Even though not all operations tentatively planned for FY19 and FY20 proceeded in the originally anticipated scope, the main focus remains on the PBG2 operation, and on supporting the broader growth and jobs agenda. On the latter, technical assistance is being provided to inform the Government about policy options, institutional reforms, and supporting programs that may be needed to respond to the challenges of the jobs agenda in a holistic manner. The Montenegro Growth and Jobs ASA finalized in June 2019, feeds into the preparation of the Growth and Jobs Project to be delivered in FY21. While the results of this operation will not be measurable within this CPF cycle, it is expected to support a more strategic approach to tackling such a complex set of issues. This is a long-term agenda, going beyond the CPF cycle, and this approach enables the WBG to engage in a well informed and scalable manner.

Table 1: Original vs. Actual Lending Program

Original CPF Lending Program (FY16-FY18)	(US$ million)	Actual Lending Program (FY16-FY18)	(US$ million)
FY16			**8.7**
WB Drina River Basin Management (GEF/SCCF)	9	**Western Balkans Drina River Basin Management**	**8.7**
FY17	**73**		**3.3**
MIDAS Additional Financing	3	MIDAS Additional Financing	**3.3**
Revenue Administration Project	10	Slipped to FY18	
Fiscal and Financial Sector Resilience DPO I	50	Slipped to FY18	
Health System Efficiency and Quality Improvement	10	Dropped	
FY18	**90**		**151**
Fiscal and Financial Sector Resilience DPO II	40	Slipped to FY19/20	
Tourism-based Local Development	50	Dropped	
		Revenue Administration Project	**15.7**
		Fiscal and Financial Sector Resilience PBG 1	**93**
		MIDAS 2	**34.9**
		Second Energy Efficiency Project	**7.4**
Original CPF Lending Program (FY19-FY20)	**(US$ million)**	**Revised Lending Program (FY19-FY21)**	**(US$ million)**
FY19			**0**
Training and Education for Improved Skills	TBC	Dropped	
Jobs and Competitiveness	TBC	(Growth and Jobs, FY21)	
Energy Efficiency 2	TBC	Brought forward to FY18	
FY20			**95**
MIDAS 2	TBC	Brought forward to FY18	
Digital Economy Project	TBC	Dropped	
		Revenue Administration Project AF	**5**
		Fiscal and Financial Sector Resilience PBG 2	**90**
FY21			**37**
		Growth and Jobs	**20**
		***Sava/Drina River Corridor Regional Program**	**17**
TOTAL	**200-300**	**TOTAL**	**295**

*Total project amount is $94m, of which $17m for Montenegro

35. Overall progress toward the CPS objectives has been mixed. Namely, of the original 11 CPF objectives one has been achieved, three are on track to be achieved and two are off track. The remaining five objectives were supposed to be supported by operations that have not materialized and, therefore, progress cannot be assessed and/or attributed to the WBG's Program. The detailed progress per objective is presented in *Annex 3*, highlighting indicators that are not on track.

Focus area 1: Enhance Macroeconomic and Financial Resilience

36. Two objectives of the Focus Area 1 aimed at supporting the Government to (i) improve the sustainability and efficiency of public finances, with an emphasis on restoring fiscal sustainability and (ii) increase the stability and efficiency of the financial sector, by addressing weaknesses in the banking sector and the high level of non-performing loans (NPLs).

37. The progress in meeting the objectives related to supporting the fiscal and financial reform agenda is notable, yet vulnerabilities remain. The World Bank has been a key strategic partner to the Government in this effort. In 2017, the World Bank approved the first in a series of two Fiscal and Financial Sector Resilience Policy-Based Guarantee (PBG) of EURO (EUR) 80 million that aim to assist the Government in stabilizing public finances, including putting public debt on a firm declining trajectory, and supporting reforms to strengthen of the financial sector. It supported the Government's comprehensive fiscal consolidation package aimed at restoring and safeguarding fiscal sustainability while mitigating the impacts of fiscal consolidation on the most vulnerable ones. These reforms[11] were an important positive signal to investors and have allowed the Government to mobilize EUR 250 million in commercial financing, increasing tenures and reducing overall financing costs and refinancing risks, to better support 2018 budget financing needs and liability management for 2019-2021. Out of this amount EUR 80 million was covered by the World Bank guarantee. The reforms helped reduce the fiscal deficit in 2018, but better Government control over expenditures would have reduced it further.

38. At the same time the first PBG operation also supported financial sector reforms. This includes strengthening the supervisory capacity of the Central Bank of Montenegro (CBM) through expanding the supervisory framework to non-bank financial sector[12], strengthening Central Bank Law, enhancing Non-performing Loan (NPL) resolution framework and supporting supervisory action plans addressing vulnerabilities in the financial sector. Overall key financial sector indicators have improved and the supervisory capacity of the CBM has been increased. Further strengthening of the legal framework and the CBM capacity are needed and will continue to be supported under the PBG program. However, vulnerabilities stemming from ailing second-tier banks remain. Although some of these vulnerabilities have been addressed through liquidation decision of two of these banks, now the priority should be to ensure that no other vulnerability remains that can threaten financial sector stability.

39. In FY18, IFC provided assistance to the Ministry of Finance in the reform undertaken to improve the Public Private Partnership (PPP) framework. Addressing weaknesses in Montenegro's PPP legislation aims to help create a well-functioning PPP system that attracts more private sector participation into investments in infrastructure and public services, particularly given the country's increasing public debt. IFC's advice focused on improving the regulatory structure, particularly in harmonizing the Law on PPPs and the Concession Law with international standards and EU directives. Through IFC's advice, these two laws have been improved, pending enforcement by the Government, which would help leverage private resources for critical infrastructure projects, further supporting Montenegro's fiscal consolidation efforts.

40. IFC is acting as the lead transaction advisor to the Ministry of Transport and Maritime Affairs (MoTMA) since February 2018 and has been advising the Government on how to introduce the private sector to design, finance, rehabilitate, and expand as well as operate and maintain Tivat and Podgorica airports under a long-term concession agreement. There is an urgent need for substantial investment in infrastructure to expand capacity and improve safety. The improvement of services to passengers and airlines at the airports is a strategic priority of the Government to support long-term tourism growth. IFC is providing comprehensive transaction preparation support and is

[11] *The PBG-supported set of reforms include: increase of the VAT rate from 19 percent to 21 percent, increase in the excise tax rates on the alcohol, tobacco and sugary drinks and introduction of excise on coal, abolishment of fiscally and socially unsustainable social transfers, ("mothers' benefits), officials wage reduction by 6 percent and reduction of the wage bill coefficient for 1 percent, rationalization of the costs of pharmaceuticals.*

[12] *Leasing, factoring and micro finance sectors.*

also working on increasing the capacity of Montenegrin institutions to implement robust PPP structures, particularly given that this will be the first PPP transaction of this scale in the country.

41. IFC supports financing of some of the key transport infrastructure. A EUR15 million financing package provided to the City of Podgorica is comprised of an IFC senior loan and a parallel loan mobilized from a local commercial bank on a 50/50 basis to finance the construction of Podgorica Southwest Bypass section of the Podgorica ring road. This is a priority project aiming to remove a critical bottleneck for regional transport, especially during summer months when traffic on the urban network peaks due to tourism related traffic. IFC-supported infrastructure projects including the above-mentioned airport PPPs and Podgorica Bypass project should improve the transport and tourism infrastructure in the country, achieving private sector efficiencies in a constrained fiscal environment.

Focus Area 2: Expand Access to Economic Opportunities and Jobs

42. Four objectives of the Focus Area 2 are aimed at supporting the Government to (i) increase alignment between skills and labor market demand, (ii) facilitate and strengthen incentives for work, (ii) enhance private investments and job creation in high-potential sectors, and (iv) enhance environmental sustainability.

43. The **progress in respect to the CPF objectives under this Focus Area is mixed**. Legacy projects from the previous CPS in areas of education and research, agriculture and energy efficiency achieved strong results. These results merit a more prominent place in the CPF Result Matrix and several new indicators are introduced to that end, as discussed in *Annex 2*. Most of the expected outcomes (and five out of the total nine indicators) were based on projects that have either not moved forward or were delayed and will not yield results within this CPF cycle (see below).

44. The WBG's support to the agriculture and rural development sector yielded good results to date and the targets are well on track to be achieved. A strong support to institutional strengthening continued and the Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS) and the associated EU trust funds have significantly contributed to the upgrade of the food processing industry and paved the way towards meeting EU standards in the food safety area. One of the important milestones that Montenegro achieved, the EU's "Entrustment of budget implementation tasks for EU IPARD funds", was also supported by the MIDAS project. This Entrustment certifies that the country has established structures, systems and procedures in compliance with EU requirements, granting the country access to IPARD funds.

45. Montenegro's higher education and research and innovation sectors benefited from the WBG's support. The Higher Education, Research and Innovation Project supported creating value for country's innovation potential by helping establish connections between research and development and private sector, stronger basis for research development, and strengthening the pool of young researches – elements important for the competitiveness, economic growth, and creation of jobs in Montenegro. The Project also supported reforms to improve higher education monitoring and service delivery, creating better conditions for students and improved access to international agreements and programs to further strengthen their skills.

46. A number of operations intended to support the CPF objectives regarding enhancing skills, job creation and private investments in high priority areas did not materialize. These include Tourism-based Local Development, Training and Education for Improved Skills and Jobs and Competitiveness Project. These operations were rightly considered a priority by authorities at the time the CPF was prepared and, in hindsight, reflected a highly optimistic pipeline. However, the increased focus on fiscal consolidation, on one side, and the lack of consensus on the scope and objectives of the above referenced operations, on the other side, resulted in delays or cancelations of authorities' requests for these operations. It is worth noting that while the Jobs and Competitiveness project did not materialize in this CPF cycle, the Growth and Jobs Project is already under preparation (FY21 delivery) to tackle this agenda, and the results will be reflected in the next CPF period.

47. Reaching the CPF objective related to the increase of the private investments and job creation in high potential sectors is somewhat off track. This is mostly due to the fact that the foreseen objectives and indicators were mostly linked to a planned IBRD operation in tourism that did not materialize. On the other hand, IFC's advisory and investments in above referenced infrastructure projects (airports, bypass road) will significantly improve the transport and tourism infrastructure in the country. To boost access to economic opportunities, IFC committed US$4.5 million in microfinance loan to a leading microfinance institution (MFI) in Montenegro that provides micro, small, tourism and adaptable lending. The investment helped bridge the financing gap that affects lower income population, create job opportunities for underserved entrepreneurs and individuals; and strengthen important GDP segments, including tourism.

48. Under the objective on improving environmental sustainability, progress to date has been mixed. MEEP project yielded good results in 25 public facilities retrofitted, in which energy consumption cost was reduced by an average of 45 percent. As a result, improvements in these facilities alone are estimated to reduce public energy expenditures by up to EUR 600,000 per year, or about EUR 8-10 million over the 15-20 years lifetime of the investments. The Government requested a follow up operation (MEEP 2) to build on the achievements of the MEEP and to introduce a sustainable energy efficiency (EE) financing model to use achieved energy cost savings to recover part of the EE investment costs to enable sustainable financing of additional EE investments in public buildings. On the other hand, the progress with remediation of the industrial waste legacy sites has been very slow, due to substantial delays in producing technical documentation and procuring the needed services and works, due mostly to capacity issues as well as the previously referenced inter-agency coordination issues. The originally foreseen project targets cannot be achieved i.e. have been revised in the respective project to targets that remain achievable (revision to related CPF objective indicator is explained in *Annex 2*).

49. The WBG's Program supports country's regional integration agenda. The digital agenda is supported through the country specific (e.g. Policy Note of Broadband) and regional ASAs that informs lending programs of other IFIs considering financing rural broadband in Montenegro. The pre-feasibility work is delivered through regional ASA on strengthening the broadband connectivity at the regional (Western Balkans countries) level. This work feeds into regional Balkans Digital Highway initiative (with an IPF potentially to be approved by next CFP cycle) aiming to contribute to improved access to digital infrastructure in rural and geographically remote areas of Western Balkans. With the Climate Proofing through Resilient Infrastructure programmatic technical assistance (TA), the environment for climate resilience preparedness, response and recovery of road transport infrastructure is being enhanced. The innovative Boosting Intermodal Connectivity TA studies the regional intermodal freight in the Western Balkans by analyzing how the market is structured, which terminals have potentials, venues for digitalization of logistics, which financing and funding models to use and how to align with EU's intermodal policy. Finally, discussion is ongoing on Montenegro's participation in the Phase 2 of the Western Balkans Trade and Transport project, that could include measures such as digitalization of the customs, the addition of border inspection points, and the facilitation of exports intra-WB6.

IV. EMERGING LESSONS

50. Strategic and proactive approach to reengaging with the new Government proved key to strengthening the partnership and enhancing the program delivery. Following the formation of the new Government in early 2017, the WBG prepared a set of policy notes and initiated a discussion on firming up the short-term lending program. The teams on both the Government and the WBG side expedited preparation of the operations that were given priority in the short term (PBG, agriculture, energy efficiency and tax administration). This helped reshape the program and deliver some of the key operations even ahead of the original schedule, thus maximizing the chances of achieving good results by the end of the CPF. As for implementation, this approach helped put in place action plans that lead to resolution on key implementation hurdles. This was most notably demonstrated in the case of the Industrial Waste Management and Clean-up Project, where reassessment of the likelihood of implementing the planned activities by project closing resulted in

a complex restructuring with substantial cancellation that is expected to unlock the implementation of the revised components. Going forward, the teams will be proactively encouraged to consider adjusting the projects' scope to the changed circumstances so that everyone's efforts remain focused on results that can realistically be achieved.

51. The two Focus Areas defined in the CPF were appropriate; yet, in retrospective, the size of the planned investment lending program was overly ambitious. While it was clear in the CPF that the program for the outer years was indicative, the number of new operations and especially the indicative size of some of the new operations, was substantially above the previous years' delivery trend. More importantly, given the implementation and disbursements track record, some of the large operations would represent a significant challenge for Montenegro's absorption capacity, both in terms of borrowing and implementation, which should have been considered more closely in defining the CPF program. Furthermore, the CPF Results Matrix was substantially relying on results expected from operations the scope of which had not been defined at the time of the CPF preparation. A more balanced Results Matrix and/or better phased approach at the CPF preparation stage would have been more prudent in the case of Montenegro. While this is a lesson to take on board for the next CPFs, in the context of this PLR it is reflected in smaller but strongly owned program for the remainder of the CPF, as well as redefining the results expected till the end of the CPF in the more streamlined Results Matrix.

52. Building on the existing successes and maintaining engagement with local champions for follow-up to and scaling-up of ongoing operations makes sense in Montenegro's context. As lending in Montenegro is constrained by the country's borrowing capacity, it was a good decision to take opportunities to build on the well performing projects and sectors. The MEEP proved to generate benefits that went beyond the planned energy savings project targets in many aspects. More importantly, it opened the door to expand the engagement and raise the bar higher by aiming to put in place a sustainable financing mechanism through MEEP 2. Similarly, MIDAS was particularly successful in supporting the building of institutional capacities and processes in the agencies that are key in Montenegro's dialogue and compliance with EU requirements in agriculture, which is one of the priority sectors. The project has benefited from strong ownership on the key counterparts' side, from top to bottom, and resulted in preparing the follow-on project – in record time - with a substantially more ambitious agenda that fully fits into the country's EU accession dynamics.

53. Implementation capacity in Montenegro remains a constraining factor. As mentioned above regarding the absorption capacity, it is important to note the limitations in capacity to implement projects, in particularly larger and more complex ones. Starting up projects requires major efforts, as particularly witnessed in the cases of projects with new implementing agencies and teams (for instance IMWCP). Reaching an agreement with the Client on the need to bring on board additional capacities was also a challenge and has taken over a year of intensive dialogue in case of the Industrial Waste Management and Clean-up Project. Even in cases where capacity has been created successfully through the ongoing project, such as the case of MIDAS, it proved challenging for the same team to keep up the fast pace on MIDAS and adjoining AFs, and at the same time prepare a sizable and complex follow on MIDAS 2. These lessons highlight the need to carefully consider the implementing capacity in the country and have a more balanced approach in future CPF programming. To that end, the WBG will ensure that more support is provided to counterparts in strengthening implementation capacity in the early stages, starting in preparation phase, including ensuring that the core implementation teams are fully in place by the time the project is approved. Going forward, additional efforts will be put in analyzing the gaps in capacities on the Client's side in the given areas and better integrating institutional building efforts into project activities.

54. IFC's advisory work as well as financing were successful in mobilizing finance for development. The engagement with the Podgorica municipality is a concrete example where IFC effectively brought in a local commercial bank into a transaction (for Podgorica Bypass) in which it would not engage on its own, considering the perceived risks involved. The arrangement allowed IFC to reduce its exposure towards the municipality while the commercial bank was encouraged to co-finance a municipal project, taking into account IFC's project financing expertise and established relationship with the client. Under the Cities Platform initiative, IFC is trying to replicate the

experience from Montenegro in the rest of the Balkans region by joining forces with regional banking groups to co-finance projects in the municipal sector.

V. ADJUSTMENTS TO COUNTRY PARTNERSHIP FRAMEWORK

55. The overall program scope and the two Focus Areas remain relevant in the current country context and reflect well the Government priorities. Demand from the Government for WBG's support remains strong. Improved public expenditure management was noted as a crucial goal for Montenegro's fiscal sustainability and economic development and remains a key theme for the remainder of the CPF, under Focus Area 1. As for Focus Area 2, the Government counts on the WBG to continue supporting its efforts on expanding access for economic opportunities and jobs. Supporting private-sector driven growth, increasing investments, and promoting inclusion remain the critical dimensions of the overall growth and jobs agenda, which is a high priority for the WBG as well.

56. One of the immediate Government priorities is implementation of the electronic fiscalization system, with the objective to increase the revenue collection and to tackle the informal economy. The WBG is supportive of this initiative and this it is very much in line with the objectives of the ongoing Revenue Administration Reform Project. It was thus agreed with the Government that the ongoing project would include this as a new component, with additional financing provided for it in early FY20. The project supports Montenegro's long-term vision of a revenue administration that operates with streamlined risk-based business processes that contribute to the efficient collection of taxes. This includes improvements in revenue administration capacity, and in particular training in implementing the *electronic fiscalization invoicing* system.

57. There is an ongoing dialogue and a planned scaling-up of Montenegro's engagement in regional water management projects. Over the past years, the WBG has engaged in several activities to support the Western Balkans countries to advance the goal of integration within the region and within the European Union. In that context, Montenegro has an ongoing engagement with the neighboring countries on cross-boundary water management. This is currently supported through the ongoing regional Drina River Basin Project (GEF-funded) and the regional Sava-Drina River Corridor Integrated Development Program (ASA). These efforts will be scaled up with the Sava Drina River Corridor Regional Program (under preparation for FY20/21) This operation can facilitate a transition from fragmented, country-specific actions to joint decisions and concrete investments that will foster regional economic integration and growth by unlocking productive investments in the areas of navigation, flood protection, renewable energy management, and river basin management. This will be achieved through a combination of infrastructure investments and strengthening institutional capacity in the countries. The design of waterway infrastructure interventions (dredging, river training, etc.) can be adapted to simultaneously revitalize and protect floodplains, wetlands, and the development of new infrastructure maximizing the sustainable utilization of public goods for regional benefits. Together, these measures can boost sustainable tourism (including eco-tourism), a sector with a large potential for job creation, and enable investments in other sectors such as irrigated agriculture, focusing on rural areas where most of the poor live.

58. The Results Matrix is considerably streamlined to reflect the revised CPF program, and to bring into focus the objectives that the WBG program can realistically achieve in the remaining period. The review of the overall Results Matrix and the proposed revisions aim to strengthen the linkages between CPF objectives, indicators, and supplemental indicators to ensure greater alignment between them. A significant adaptation of objectives, indicators and supplemental indicators is suggested for Focus Area 2, with the key ones being:

a. Objective 2A: New lending that was envisaged to support increased alignment between skills and labor market (Training and Education for Improved Skills project) did not materialize. The HERIC project that closed in June 2019, focused on enhancing the quality of the higher education and research and the Objective 2A is thus refined to *Enhanced quality and relevance of higher education and research,* with the indicators revised accordingly.

b. Objective 2B: New lending that was envisaged to support facilitation and strengthened incentives for work did not materialize at the originally foreseen pace (Jobs and Competitiveness Project was expected to be approved in FY19). While the broader and deeper analytical work on the jobs and growth agenda is done and the Growth and Jobs operation is expected to be approved in the last year of this CPF, the results will only be measurable in the next CPF cycle. For this reason, this objective is dropped.
c. Objective 2C: A number of operations intended to support the CPF objectives regarding private investments and job creation in high potential sectors did not materialize. In addition to the above referenced operations, this objective was to be supported by an operation targeting tourism sector in particular (Tourism-based Local Development) that was cancelled. This significantly limited the WBG program's impact on the job creation and mobilization of direct private investments in tourism, one of the two priority areas. On the other side, notable progress has been made with respect to private investments, mobilized through IBRD lending program and IFC's microfinance and SME program. This objective is thus reshaped to reflect the expected results and revised to: *Agriculture and rural development sector strengthened in line with EU pre-accession requirements*.
d. Focus Area 2: While the results expected to be achieved under this Focus Area do expand the economic opportunities, their contribution to jobs creation is difficult to measure and attribute to the ongoing and planned WBG program in this CPF period. Consequently, and reflecting the above noted changes in objectives and indicators, Focus Area 2 is renamed to *Expand Access to Economic Opportunities*.
e. Other changes in the Results Matrix include: (i) adjustments to baseline and target values for a number of indicators, to align them to the revised program, revised values or estimates (e.g. revised GDP figures and estimates) and extended CPF period and (ii) reformulation of some of the indicators for clarity of what is being measured and reported on.

The revised Results Matrix builds mostly on the ongoing portfolio and all the changes are explained in detail in the *Annex 2*.

VI. RISKS TO CPF PROGRAM

59. The overall risk to the achievement of the CPF objectives was assessed as High at the beginning of the CPF mostly due to concerns over the Government's ability to implement a robust set of reforms. These concerns were twofold: on one side, related to progress toward the macroeconomic and financial resilience (Focus Area 1) and, on the other, stemming from lack of clarity on the commitment and capacity to implement the ambitious CPF Program. As for the risks to achieving the results under Focus Area 1, the above discussed achievements to date, mainly supported by the PBG, are notable, and further implementation of the fiscal reform program remains as one of the main Government priorities in the coming period. However, significant risks remain as the remaining period of the CPF will require sensitive political decisions, including substantial optimization of public administration and reforms in the labor, pension and health sector. Similarly, any remaining vulnerabilities in the financial sector stemming from ailing banks may create the risk of undermining financial sector stability. The political pressures associated with the implementation of the reforms in a current minority coalition Government will be high. There was a delayed implementation of a policy measure supported under the PBG only two months after declaring the effectiveness of the operation[13]. Any slippages from the adopted reforms would likely put into question the Second PBG operation, in which case the objectives under the Focus Area 1 will not be achieved.

[13] *Shortly after the effectiveness of the PBG1 operation on July 6, 2018 the Government amended the Law on Excises, to address the short-term adverse fiscal revenue impact for excises for tobacco and tobacco products after excise revenues dropped by 27 percent in the first 6 months of 2018 compared to the same period in 2017. The Government corrected the excise level back to the first increase and made a calendar more gradual stretching the necessary increase in excises for tobacco and tobacco products to comply with EU regulation.*

60. The overall risk to the achievement of the CPF objectives is revised from High to Substantial. In order to mitigate the above discussed risks related to ongoing reforms toward the macroeconomic and financial resilience, the WBG strengthened the coordination with the Government and maintains regular collaboration with the IMF, the EU Delegation and UNDP to align programs that support the Government with this important agenda. In the event that the Second PBG operation does not proceed as planned, the program under the Focus Area 1 would be adjusted and focused on technical assistance in the area of pensions, labor, PEFA and eventually to the health sector. On the other hand, the initial concerns regarding the Government's commitment and capacity to implement the CPF investment program are no longer as strong i.e. do not impact the overall risk to the same extent as they did originally at CPF approval. The selectivity filter was reapplied to the original CPF Program, and the hereby revised Program includes only the operations and analytical and advisory activities that were indicated as priority by the Government and have its commitment to implement. The expected CPF results have also been adjusted accordingly. As a result, while significant risks remain, with the overall progress recorded and the adjustments to the Program agreed, the overall risk is considered substantial rather than high.

61. Political and governance risks, remain substantial, albeit for reasons different than the ones anticipated in the CPF. Initially, these risks were noted to be due to frequent changes of the Government priorities at the time. The WBG remained engaged with the key counterparts and flexible in responding to the changes of the Government priorities for cooperation. As a result of such an approach, the original CPF program was adjusted to reflect the (new) Government's priorities with changes also including increasing the size of the PBG operation from EUR 50 to EUR 80 million and approving two projects in advance to the original CPF lending plan. The Program for the remaining years is now fully planned and well under preparation, and further changes of the Government's priorities are at this point considered rather improbable. However, there is a risk of some political instability potentially arising from the increased tensions with the opposition parties and civil society. Worsening of the political dialogue in the country and increased political activities in preparation for 2020 parliamentary elections, while not substantially impacting the choices made within the revised CPF Program, could cause or contribute to delays in the overall pace of the needed decision-making and in preparation of the new lending. To mitigate the impact of this risk on the WBG program, the WBG will continue to work closely with key counterparts to ensure smooth preparation of what is now a well-defined program for the remainder of the CPF, as well as implementation of the ongoing portfolio.

62. Macroeconomic risk remains high, stemming from both external and domestic environments. Among external factors that could affect Montenegro are weaker growth in the EU**,** renewed financial market turmoil in emerging and developing economies, as well as further escalation of trade tensions between major global economies. Realization of any of these risks would weigh down on Montenegro's growth prospects, further straining its public finances and negatively affecting the fiscal and debt consolidation agenda. Montenegro is vulnerable to a slowdown in capital inflows, weak export demand, lower remittances, and thus growth, that may increase debt service requirements over the medium in a volatile financing environment. Among emerging domestic risks are delays in implementation of structural reforms, further motorway cost overruns, the vulnerability of some smaller banks, and possible pressures on public spending in the run-up to the 2020 elections. So far, implementation of optimization of public sector employment has been delayed, while pension reform was postponed. Any further delays in the implementation of these key reforms would negatively impact overall macro and fiscal sustainability. Additionally, accumulation of new arrears/contingent liabilities that had happened in the past, would also worsen the credit rating outlook and thus hamper the refinancing options at the time of the redemption of over 40 percent of public debt in 2019-21. Mitigating all of the above-mentioned risks will require Government's firm commitment to fiscal consolidation and the implementation of critical structural reforms in the labor market, social sector and public administration. The PBG2, which is under preparation with the Government, would support these reforms and help mitigate these risks and ease Government financing pressures in the short term.

63. Institutional capacity risk remains substantial, and some of the recently approved operations will require a pro-active approach in client's capacity strengthening. Week implementation capacity and fragile inter-Governmental coordination have been identified as the most crucial factors in poor implementation of the largest project in the investment portfolio, the IWMCP. In addition, week capacity of the public administration to implement sensitive sectorial reforms identified may significantly impact achievement of CPF development results. The WBG will continue providing hands-on preparation and implementation support, as well as technical assistance in order to mitigate this risk. In particular, the WBG teams will maintain strong focus on accelerated implementation, including diligent monitoring of the action plans in place and adjusting the course of actions timely to maximize the results. To that end, various options that are available to address the implementation bottlenecks, such as substantial restructurings (including changes of components and, if deemed reasonable, partial cancellations) will be explored jointly with the counterparts in earlier rather than in later stages of implementation. Finally, organizing more of the targeted trainings to support the Client in complying with the specific aspects of the WBG-financed projects (procurement, safeguards etc.) will be considered.

64. Environmental and social risks remain substantial. As highlighted by the CPF and considering the increased levels of vulnerability of Montenegro to natural disasters, especially floods and earthquakes, it is evident that disaster risk reduction becomes an important factor for the sustainable economic and social development of the country. The Bank has already taken concrete steps to support the Government's hazard risk reduction agenda through the IWMCP and Drina River Basin Management Project and will scale this up through inclusion of Montenegro in the regional Sava Drina River Corridor Regional Program. Concerning the environmental risks, the existing main industrial waste hotspots scheduled for the remediation under the ongoing WB IWMCP project pose substantial environmental risk due to their impact on the groundwater contamination and its exposure to the seismic risks and flooding. The IWMCP team mitigates this risk through supervision of the environmental and social safeguards as well as through the grievance mechanism.

Table 2: Systematic Operations Risk-rating Tool (SORT)

Risk Categories	Original	Revised
Political and governance	S	S
Macroeconomic	H	H
Sector strategies and policies	M	M
Technical design of project or program	M	M
Institutional capacity for implementation and sustainability	S	S
Fiduciary	M	M
Environment and social	S	S
Stakeholders	M	M
Overall	H	S

ANNEX 1. UPDATED CPF RESULTS MATRIX (2016 – 2021)

FOCUS AREA 1: ENHANCE MACROECONOMIC AND FINANCIAL RESILIENCE		
CPF OBJECTIVE 1A: Improved sustainability and efficiency of public finances		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 1: Reduction of public debt **Baseline**: Public debt at 66.2 percent of GDP (2015) **Target**: After reaching its projected peak in 2018 (estimated at 70.8 percent of GDP) public debt is reduced to 64.3% in 2020	***SPI1:*** Wage bill to decline by one percentage point of GDP. **Baseline**: 13.1 percent (2015) **Target**: 11.2 percent (2019) ***SPI2:*** Arrears of general government to GDP ratio declined **Baseline**: 7.3% (2014), **Target**: Below 5% (2019) ***SPI3:*** Tax gap for VAT (VAT to GDP ratio is being used as proxy) **Baseline**: 12.3 (2010-14 average) **Target**: 13.4 (2020) ***SPI14*** Additional savings due to energy efficiency improvements in public buildings Baseline: 0.0 (2015) Target: EUR950,000 (2020) ***SPI15:*** VAT payment compliance rate increase **Baseline**: 62% (2016) **Target:** 75% (2021) ***SPI16:*** Corporate Income Tax payment compliance rate increase **Baseline**: 81% (2016) **Target:** 86% (2021)	**Completed:** Energy Efficiency in Public Buildings (FY18) Western Balkans Pensions TA (FY16 and FY18**)** Justice Functional Review TA (FY17) **Ongoing:** Fiscal and Financial Sector Resilience PBG1 (FY18) Revenue Administration Project (FY18) Second Energy Efficiency in Public Buildings Project (FY18) Restoring sustainability and strengthening efficiency of public finance (FY19) Western Balkans Poverty Program (FY18-19) Montenegro: Sustainable Energy Efficiency Financing for Public Buildings ASA (FY19) **Planned:** Fiscal and Financial Sector Resilience PBG2 (FY20) Western Balkans Pensions TA (FY19**)** Western Balkans Poverty Program (FY20) IFC Support for PPPs in infrastructure

	SPI7: Development of a sustainable energy efficiency financing model **Baseline:** No sustainable financing model (2018) **Target:** Sustainable financing model developed (2020)	
CPF OBJECTIVE 1B: Increased stability and efficiency of financial sector		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 2: Reduction in the incidence of NPLs in total loan portfolio **Baseline**: NPL value of 13.8 % (September 2015) **Target**: NPL value of 10% (2021) ***Indicator 3:*** Strengthened prudential norms for identification, classification, and re-classification of nonperforming assets. **Baseline**: No amendment to CBM Decision on the minimum standards for management of credit risk (2015) **Target**: Amendments adopted (2021)	***SPI8:*** Adoption of a methodology for risk-based contributions from member banks for the Deposit Protection Fund (DPF) and shortening of pay out period to seven working days. **Baseline**: Methodology not adopted and pay out period of 15 working days (2015) **Target**: Methodology adopted and pay out period of seven working days (2019) ***SPI9:*** Number of out-of-court restructurings completed under the recently enacted Law on Voluntary Restructuring of Debts **Baseline**: 0 (2015) **Target**: 10 (2020) ***SPI10:*** Strengthened bank resolution framework via transposition of the EU Bank Recovery and Resolution Directive (BRRD). **Baseline**: No amendment to CBM and Banking Laws (2015) **Target**: Amendments adopted (2019)	**Completed:** 2015 WB/IMF FSAP **Ongoing:** Fiscal and Financial Sector Resilience PBG1 (FY18) TA on strengthening of the financial safety net (FinSAC) (FY17) **Planned:** Fiscal and Financial Sector Resilience PBG2 (FY20) TA Resolution and Recovery Plans in accordance with the requirements of the BRRD (FINSAC) (FY19) TA Instruments Applied to Distressed Banks (FINSAC) (FY19) Debt Resolution Program advisory work

FOCUS AREA 2: EXPAND ACCESS TO ECONOMIC OPPORTUNITIES		
CPF OBJECTIVE 2A: Enhanced quality and relevance of higher education and research		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 4: Increase of employers' perception of the relevance of skills of the higher education graduates recruited in the last five years. **Baseline:** 25% (2015) **Target:** 30% (2021) ***Indicator 5***: Higher education institutions introduced key reforms based on recommendations that resulted from independent external evaluation of Montenegro universities (number) **Baseline**: 0 (2016) **Target:** 4 (2021) ***Indicator 6:*** Establish 10 public/private or international R&D partnerships and/or businesses start-ups with research institutes or university **Baseline:** 0 (2014) **Target:** 10 (2021)	***SPI11****:* Number of students receiving scholarships for master's, doctoral and postdoctoral studies abroad **Baseline:** 0 (2015) **Target:** 60 (2019)	**Completed**: Higher Education Research for Innovation and Competitiveness Project -HERIC (FY12) **Ongoing:** Western Balkans Growth and Jobs ASA (FY21) Demand and Supply-side Barriers to Employment TA (FY17) **Planned:** Growth and Jobs Project (FY21) Western Balkans Education TA (FY19)
CPF OBJECTIVE 2B: Agriculture and rural development sector strengthened in line with EU pre-accession requirements		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 7: Total amount invested through the MIDAS grants program to boost agriculture and agro processing sector **Baseline:** 0 (2015) **Target: US$**10 million (2021) ***Indicator 8:*** Increased investments in agricultural and rural development in line with IPARD measures	***SPI12:*** Incremental number of individual entrepreneurs/microenterprises receiving financial support from IFC portfolio banks and microfinance clients as well as real sector clients **Baseline***:* 0 (2015) **Target***:* 8,000 (2019) ***SPI13*****:** Food establishments modernized **Baseline**: 0 (2015)	**Completed:** Policy Note on Broadband TA (FY16) **Ongoing:** Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS) MIDAS Additional Financing (FY17) MIDAS 2 (FY18)

Baseline: 327 commercially oriented agro-holdings (2014) **Target:** 658 commercially-oriented agro-holdings (2021) ***Indicator 9:*** Accreditation for access to IPARD funds (*"Entrustment for budget implementation task*"[14]) for Measures 1 and 3 ***Baseline****:* Accreditation not received (2015) ***Target:*** Accreditation received (2018) ***Indicator 10***: Number of agro-processors[15] compliant with EU regulations **Baseline**: 18 (2015) **Target**: 120 (2021)	**Target**: 65 (2019) ***SPI14****:* Integrated farm register operational and registration of farms ongoing **Baseline**: no farm register in place (2015) **Target**: farm register operational (2019) ***SPI15*****:** Female farmers reached with agricultural assets or services **Baseline:** 0 (2018) **Target:** 10% of all farmers reached (2021)	**Planned:** IFC investments and advisory in tourism and tourism related sectors, including in transport infrastructure PPPs IFC Trade Facilitation Support Project IFC investments in local financial intermediaries (banks and microfinance institutions) aimed at enhancing access to finance for MSMEs
CPF OBJECTIVE 2C: Enhanced environmental sustainability		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 11: Number of contaminated sites remediated **Baseline: 0 (2013)** **Target: 3 (2021)** ***Indicator 12:*** Energy savings in targeted public buildings **Baseline**: 0% (2015) **Target**: 25% (2021)	***SPI16:*** Develop project designs for investments and activities to address climate changes impact on water resources in Lim and Grncar River Basin **Baseline:** 0 (2015) **Target**: Project designs prepared (2019)	**Completed:** Montenegro Energy Efficiency Project **Ongoing** Industrial Waste Management and Cleanup Project (FY14) Western Balkans Drina River Basin Management GEF (FY18) Second Energy Efficiency Project (FY18) Montenegro: Sustainable Energy Efficiency Financing for Public Buildings ASA (FY19)

[14] *The EU provides access to IPARD funds through the "Entrustment of budget implementation tasks for EU IPARD funds" which certifies that the country has established structures, systems and procedures in compliance with EU requirements. Measure 1 regards Investments in physical assets of agricultural holdings and Measure 3 regards Investments in physical assets concerning processing and marketing of agricultural and fishery products.*

[15] *Agro-holdings benefiting from market-driven support measures (i.e. IPARD-like) rather than national measures that are continuously provided but often not market driven. The support provided through WBG targets agro-holdings that have the potential to be commercially oriented (instead of subsistence farmers) and supporting them in reaching the commercial area, and (ii) availing of market driven measures.*

ANNEX 2. CHANGES TO THE ORIGINAL CPF RESULTS MATRIX (2016 – 2020)

FOCUS AREA 1: ENHANCE MACROECONOMIC AND FINANCIAL RESILIENCE	
CPF OBJECTIVE 1A: Improved sustainability and efficiency of public finances	
CPF Objective Indicators	**Action**
Indicator 1: Stabilization of public debt	**Revised.** Indicator is revised to "Reduction" (instead of "Stabilization") to be more explicit i.e. align it better with the overall Focus Area 1 objective. Baseline and target values are adjusted as follows: for baseline from 68 to 66.2 percent, for target i.e. reference to 2018 from 76 percent to revised estimate of 70.8 percent, in line with the revised data on GDP. The end target of 64.3% for 2020 is also added, and the target year adjusted to revised end CPF period i.e. to capture the relevant reporting year (calendar year 2020).
Supplementary Project Indicators	
SPI1: Wage bill to decline by one percentage point of GDP.	**Revised**. Baseline for 2015 adjusted from 12.2 percent to 13.1 percent, in line with the revised data on GDP.
SPI2: Arrears of general government to GDP ratio declined.	**Revised**. Baseline for 2014 adjusted from 10.9 percent to 7.3 percent, in line with the revised data on GDP.
SPI3: Tax gap for VAT (VAT to consumption ratio is being used as proxy)	**Revised.** The indicator is reworded to reflect that instead VAT to consumption it is VAT to GDP ratio that is to be used as proxy.
SPI4: Percentage decrease in total cost of 50 most frequently dispensed prescription outpatient medicines	**Dropped.** Results in this area were to be supported by Health System Efficiency and Quality Improvement Project that did and will not materialize during the CPF cycle.
SPI5: Additional savings in heating costs due to energy efficiency improvements in public buildings	**Revised** (now SPI4)**.** The target is adjusted from 950,000 to 750,000 and to clarify that the target is for annual rather than cumulative savings, as well as that it is to measure all savings, and not just those in heating costs. The revised target also takes into account results expected from recently approved Second Montenegro Energy Efficiency Project.
VAT payment compliance rate increase	**New (**SPI5 in updated Results Matrix)
Corporate Income Tax payment compliance rate increase	**New (**SPI6 in updated Results Matrix)
Development of a sustainable energy efficiency financing model	**New (**SPI7 in updated Results Matrix)
CPF OBJECTIVE 1B: Increased stability and efficiency of financial sector	
CPF Objective Indicators	**Action**
Indicator 2: Reduction in the incidence of NPLs in total loan portfolio	**Revised:** Baseline for Q3 i.e. September 2015 is adjusted from 14.7 to 13.8 percent, in line with the revised banking sector data. The target year is also adjusted to the revised end CPF period.
Indicator 3: Strengthened prudential norms for identification, classification, and re-classification of nonperforming assets	**Revised.** The timeline to reach this target is extended from 2018 to 2020 given the additional time needed for adoption of respective regulations.

Supplementary Project Indicators	Action
SPI6: Adoption of a methodology for risk-based contributions from member banks for the Deposit Protection Fund (DPF) and shortening of pay out period to seven working days.	**Revised** (SP18 in updated Results Matrix)**.** The timeline to reach this target is extended from 2018 to 2019, given the additional time needed for plans to be finalized and implementation.
SPI7: Number of out-of-court restructurings completed under the recently enacted Law on Voluntary Restructuring of Debts	**No change** (SP19 in updated Results Matrix)**.**
SPI8: Strengthened bank resolution framework via transposition of the EU Bank Recovery and Resolution Directive (BRRD)	**No change** (SP110 in updated Results Matrix)**.**
FOCUS AREA 2: EXPAND ACCESS TO ECONOMIC OPPORTUNITIES AND JOBS The Focus Area 2 is revised to read **EXPAND ACCESS TO ECONOMIC OPPORTUNITIES,** given that the operations that were intended to support creation of jobs in a more direct and measurable manner have not materialized, and thus the progress with respect to access to jobs cannot be contributed to WBG's engagement.	
CPF OBJECTIVE 2A: Increased alignment between skills and labor market demand	**Action** **The objective is revised to *Enhanced quality and relevance of higher education and research*.** Given that the operation that was envisaged to provide additional support to increasing alignment between skills and labor market demand was dropped, the objective is revised to refocus on the realistically expected results to come from the ongoing WBG program in the higher education area.
CPF Objective Indicators	**Action**
Indicator 4: Share of updated TVET curricula in line with occupational standards	**Dropped.** Results in this area were to be supported by Training and Education for Improved Skills Project that did not materialize. While Growth and Jobs Project is in the pipeline for FY21, no results are expected during the current CPF cycle.
Indicator 5: Increase in the perception of relevance of higher education programs and degrees (gender disaggregated)	**Revised** (Indicator 4 in updated Results Matrix)**.** The indicator is revised to reflect employers' perception of the relevance of skills of higher education graduates recruited in the last five years, which provides a more relevant indicator in support of the revised Objective 2A. The baseline is accordingly revised from 95 to 25 percent, to readjust to the initial study responses i.e. those fully satisfied with the relevance of higher education programs and degrees, excluding those partly satisfied (which contributed to unrealistically high baseline). The target is revised to 30 percent, and the target year moved to take into account the timing of the next study and the revised CPF period.
Higher education institutions introduced key reforms based on recommendations that resulted from independent external evaluation of Montenegro universities (number)	**New** (Indicator 5 in updated Results Matrix).
Establish 10 public/private or international R&D partnerships and/or businesses start-ups with research institutes or university	**New** (Indicator 6 in updated Results Matrix).

Supplementary Project Indicators	Action
SPI9: % of secondary TVET students benefitting from practical training in MSMEs and large sized firms (geographically and gender disaggregated)	**Dropped.** Results in this area were to be supported by Training and Education for Improved Skills Project that did not materialize. While Growth and Jobs Project is in the pipeline for FY21, no results are expected during the current CPF cycle.
Number of students receiving scholarships for master's, doctoral and postdoctoral studies abroad	**New** (SPI11 in updated Results Matrix).
CPF OBJECTIVE 2B: Facilitation and strengthened incentives for work	**Action**
	CPF Objective 2B and all indicators (Indicators 6 and 7, as well as SPI10) are dropped. The results in this area were to be supported by Jobs and Competitiveness Project that did not proceed as planned. A stronger WBG engagement in support of the job creation and growth agenda in coming years is being discussed. While Growth and Jobs Project is planned to be approved in FY21, the corresponding results are to be expected only in the next CPF cycle.
CPF OBJECTIVE 2C Enhanced private investments and job creation in high-potential sectors	**Action**
	The objective is revised to *E Agriculture and rural development sector strengthened in line with EU pre-accession requirements (OBJECTIVE 2B in the updated Results Matrix)*. The originally planned operations supporting tourism development and job creation were dropped. The objective is thus revised around the ongoing and new (approved during CPF) WBG program in the agriculture area, and refocused on broader support to the agriculture sector, including also the very important institutional and client capacity building aspects and the links to the EU accession requirements.
CPF Objective Indicators	**Action**
***Indicator 8*:** Private sector investments generated through IFC interventions and WB investments in tourism	**Revised** (Indicator 7 in updated Results Matrix). The indicator is revised to specify that the achievements are expected as a result of investments provided thorough WBG's program supporting agriculture. The target year is also adjusted to the revised end CPF period.
Indicator 9: Increased share of jobs in Travel & Tourism (T&T) sector in non-coastal urban centers.	**Dropped**. The results in this area were to be supported by Tourism-based Local Development Project that did and will not materialize during the CPF.
Indicator 10: Increased investments in agricultural and rural development in line with IPARD measures	**No change** (Indicator 8 in updated Results Matrix)**.** The target year is also adjusted to the revised end CPF period.
Accreditation for access to IPARD funds ("Entrustment for budget implementation task"1) for Measures 1 and 3	**New** (Indicator 9 in updated Results Matrix).
Number of agro-processors compliant with EU regulations	**New** (Indicator 10 in updated Results Matrix). The target year is also adjusted to the revised end CPF period.
Supplementary Project Indicators	**Action**
SPI11: Increased percentage of tourism overnight stays in non-coastal cities	**Dropped.** The results in this area were to be supported by Tourism-based Local Development Project that did and will not materialize during the CPF.

SPI12: Incremental number of microfinance and SME loans	**Revised.** The indicator is revised to specify that these loans are provided to individual entrepreneurs/microenterprises receiving financial support from IFC portfolio banks and microfinance clients as well as real sector clients.
Food establishments modernized	**New** (SPI13 in updated Results Matrix).
Integrated farm register operational and registration of farms ongoing	**New** (SPI14 in updated Results Matrix).
Female farmers reached with agricultural assets or services	**New** (SPI15 in updated Results Matrix).
CPF OBJECTIVE 2D (2C in updated Results matrix): Enhanced Environmental Sustainability	
CPF Objective Indicators	**Action**
Indicator 11: Contaminated land managed or dump sites closed	**Revised.** The indicator is revised to clarify the target i.e. number of sites vs the number of hectares, and to adjust the target to reflect results to be expected from the Industrial Waste Management and Clean-up Project by end CPF period.
Indicator 12: Energy savings in targeted public buildings	**Revised.** i.e. The baseline year as well as the target year are adjusted. While some of the buildings had been renovated through then ongoing MEEP and achieved initial energy savings prior to the CPF start, we keep the target at zero (0). Namely, the intent of the indicator is to measure the savings annually with a view to achieve an average of 25% savings on all buildings renovated through MEEP (closed in FY18) as well as ongoing MEEP2 Program.
Supplementary Project Indicators	**Action**
SPI13: Number of buildings retrofitted with energy efficiency improvement schemes	**Dropped**. The baseline for the indicator taken at CPF stage was the beginning of the project (0), and not the CPF start date (25 buildings). With that into consideration, the indicator loses much of its relevance as only 5-10 additional buildings are expected to be completed by end of CPF.
SPI14: Additional Renewable Energy capacity facilitated	**Dropped**. This indicator is dropped due to attribution concerns. While IFC's support resulted in significant achievements in the area of RE, these were focused on improvements of the regulatory environment, in which other development partners including EBRD were also involved.
SPI15: Percentage of Drina River Basin Strategic Action Plan activities addressing climate change issues related to droughts and floods.	**Dropped.** The preparatory activities for development of the SAP have been initiated, yet with delay, so its finalization is expected in 2020.
Develop project designs for investments and activities to address climate changes impact on water resources in Lim and Grncar River Basin	**New** (SPI16 in updated Results Matrix).

ANNEX 3. ORIGINAL CPF RESULTS MATRIX (2016 – 2020), PROGRESS TO DATE

FOCUS AREA 1: ENHANCE MACROECONOMIC AND FINANCIAL RESILIENCE				
CPF OBJECTIVE 1A: Improved sustainability and efficiency of public finances				
CPF Objective Indicators	**Progress to date**	**Supplementary Progress Indicators**	**Progress to date**	**WBG Program**
Indicator 1: Stabilization of public debt **Baseline**: Public debt at 68 percent of GDP (2015) **Target**: After reaching its projected peak in 2018 (at 76 percent of GDP) public debt is reduced in 2019	**On track** Public debt in 2017 stood at 64.2 % of GDP, while it is estimated to have increased to 70.8% of GDP in 2018. PBG1 supports a package of reforms such as social benefits and pension reforms, pharmaceutical reform as well as public administration optimization that aimed to stabilize and reduce public debt levels to 64.3% by 2021. The most recent forecast suggests that the public debt will decline to 67.2% of GDP in 2019 and then further decline to 64.3% of GDP in 2020.	***SPI1:*** Wage bill to decline by one percentage point of GDP. **Baseline**: 12.2 percent (2015) **Target**: 11.2 percent (2019) ***SPI2:*** Arrears of general Government to GDP ratio declined. **Baseline**: 10.9 (2014), **Target**: Below 5% (2019) ***SPI3:*** Tax gap for VAT (VAT to consumption ratio is being used as proxy) **Baseline**: 12.3 (2010-14 average) **Target**: 13.4 (2020)	**On track** Under the PBG1, Wage Bill coefficient reduced by 1%, and senior officials' wages by 6%. Wage bill declined from 13.1% in 2015 (revised GDP data) to 12.2% in 2017 (MOF, National Statistical Office, MONSTAT). i.e. as per latest estimate, it declined further to 11.7 % in 2018. **On Track** Arrears declined to 3.6% (2016) and 3.7% (2017), and further to an estimated 3.6% in 2018. PBG1 supports a package of reforms that aims to stabilize and reduce arrears of the general Government such as public finance management reforms and spending reforms. **On track** Status**:** 2016: 12.7% 2017: 12.8% 2018: 13.4% (preliminary) (2018 National Budget) Ongoing Revenue Administration Reform Project (effective as of March 2018) supports measures that are expected to reduce the tax gap by, among other, strengthening modernization of the revenue	**Completed:** Energy Efficiency in Public Buildings (FY18) Justice Functional Review TA (FY17) Western Balkans Pensions TA (FY16**)** Public Finance Review TA (FY17) **Ongoing:** Fiscal and Financial Sector Resilience PBG1. (FY18) Revenue Administration Project (FY18) Second Energy Efficiency in Public Buildings (FY18) Western Balkans Poverty Program (FY18-19) **Planned:** Fiscal and Financial Sector Resilience PBG2 **(**FY20**)** Western Balkans Poverty Program (FY20) **IFC**: Support for PPPs in infrastructure

			management information system. In addition, It will also support e-fiscalisation which aims to increase compliance and reporting in service sectors.	**Dropped:** Health System Efficiency and Quality Improvement Project
		SPI4: Percentage decrease in total cost of 50 most frequently dispensed prescription outpatient medicines **Baseline**: EUR7.8 million (2014) **Target**: 10 percent reduction in real terms (2019)	**Off track** The results were expected to come from the Health System Efficiency and Quality Improvement Project that did not materialize as planned. Nevertheless, efficiency reforms in the area of public spending on pharmaceuticals are supported under the PBGs, including the development of guidelines/protocols to rationalize prescriptions, prevent the unnecessary use of expensive drugs, and use savings for more efficient goods/services.	
		SPI15: Additional savings in heating costs due to energy efficiency improvements in public buildings Baseline: 0 (2015) Target: EUR950,000 (2020)	**On track** As a result of energy efficiency, improvements in the 25 public buildings retrofitted under the Montenegro Energy Efficiency Project, annual savings are estimated at €600,000. These annual savings are expected to increase as a result of retrofitting of the additional health sector buildings under the Second Energy Efficiency Project.	
CPF OBJECTIVE 1B: Increased stability and efficiency of financial sector				
CPF Objective Indicators	**Progress to date**	**Supplementary Progress Indicators**	**Progress to date**	**WBG Program**
Indicator 2: Reduction in the incidence of NPLs in total loan portfolio **Baseline**: NPL value of 14.7 (Q3, 2015) – **Target**: NPL value of 10% (2019)	**On Track** Status (May 2018): 4.75% PBG1 operation supported the enactment of the amendments to the Law on Voluntary Restructuring (adopted in July	***SPI6:*** Adoption of a methodology for risk-based contributions from member banks for the Deposit Protection Fund (DPF) and shortening of	**Off track** (not met in 2018) The WBG team works with Deposit Protection Fund on the new Deposit Protection Law which stipulates that the payout period of seven working days will be effective as of January 1, 2021.	**Completed:** 2015 WB/IMF FSAP **Ongoing:** Fiscal and Financial Sector Resilience PBG1 (FY18)

Indicator 3: Strengthened prudential norms for identification, classification, and re-classification of nonperforming assets. **Baseline**: No amendment to CBM Decision on the minimum standards for management of credit risk (2015) **Target**: Amendments adopted (2018)	2017 and July 2018) targeting restructured loan amounts of at least EUR 10 million. **On track** The Decision on minimum standards for credit risk management in banks was amended in December 2018, with the application started in July 2019. These amendments were made in accordance with the relevant EU regulations, and existing solutions were improved in the part relating to valuation of collaterals in the process of classification of assets and allocation of provisions for potential credit losses in banks, harmonization of the definition of NPL with the EU regulations, the treatment of restructured loans in the classification, etc. Further improvements of the Decision and new amendments according to which further alignment with the EU regulations is achieved, especially in the part of the treatment of forborne exposures for the purpose of reporting, were adopted in July 2019 with the application to start from January 2020.	pay out period to seven working days. **Baseline**: Methodology not adopted and pay out period of 15 working days (2015) **Target**: Methodology adopted and pay out period of seven working days (2018) ***SPI7:*** Number of out-of-court restructurings completed under the recently enacted Law on Voluntary Restructuring of Debts **Baseline**: 0 (2015) **Target**: 10 (2020) ***SPI8:*** Strengthened bank resolution framework via transposition of the EU Bank Recovery and Resolution Directive (BRRD). **Baseline**: No amendment to CBM and Banking Laws (2015) **Target**: Amendments adopted (2019)	The Methodology will be adopted as a secondary legislation after adoption of the new Deposit Protection Law expected in first half of 2019. **Achieved** Status: (April 2019): 54 loans restructured. Loans restructured by the end of April 2019 amounted to EUR 36.8 million. In addition, Initiated and signed agreements on restructuring (pending) at the end of April amounted to EUR 20.8 thousand. **On Track** The Bank Resolution Law is one of the indicative triggers for the PBG2. The team has provided comments to the CBM on the Bank Resolution Law and has secured Funds for TA to support the CBM in implementation of the Law. The law will enhance the bank resolution framework in Montenegro and is expected to be adopted by mid-2019.	TA on strengthening of the financial safety net (FinSAC) (FY17) **Planned:** Fiscal and Financial Sector Resilience PBG2 (FY20) TA Resolution and Recovery Plans in accordance with the requirements of the BRRD (FINSAC) (FY19) TA Instruments Applied to Distressed Banks (FINSAC) (FY19) Debt Resolution Program advisory work

FOCUS AREA 2: EXPAND ACCESS TO ECONOMIC OPPORTUNITIES AND JOBS				
CPF OBJECTIVE 2A: Increased alignment between skills and labor market demand				
CPF Objective Indicators	**Progress to date**	**Supplementary Progress Indicators**	**Progress to date**	**WBG Program**
Indicator 4: Share of updated TVET curricula in line with occupational standards. **Baseline:** 0 (2015) **Target:** All TVET curricula updated (2020) ***Indicator 5:*** Increase in the perception of relevance of higher education programs and degrees (gender disaggregated) **Baseline:** 86% (2015) **Target:** 95% (2019)	**Not verified** The results were expected to come from the Training and Education for Improved Skills that did not materialize as planned. **Not verified** No assessment has been made in the course of the CPF period. A survey to assess perception of relevance of higher education programs, supported through HERIC Project, is planned to be completed in 2019.	***SPI9:*** % of secondary TVET students benefitting from practical training in MSMEs and large sized firms (geographically and gender disaggregated) **Baseline:** 54% (2015) **Target:** 20% increase on baseline (2020)	**Not verified** The results were expected to come from the Training and Education for Improved Skills Project that did not materialize as planned.	**Completed:** Higher Education Research for Innovation and Competitiveness Project -HERIC (FY12) Montenegro Growth and Jobs ASA (FY19) **Ongoing:** Western Balkans Growth and Jobs ASA (FY21) **Planned:** Growth and Jobs Project, FY21 (originally planned Jobs and Competitiveness Project, FY19 Western Balkans Education TA (FY19) **Dropped:** Training and Education for Improved Skills (FY19) Demand and supply-side barriers to employment TA (FY17)
CPF OBJECTIVE 2B: Facilitation and strengthened incentives for work				
Indicator 6: Decrease in the average effective tax rate (AETR) of a low-income one earner couple (equivalent to half-time job	**Not verified** **(both indicators)** The results were expected to come from the Jobs and	***SPI10:*** Public employment services implement strengthened methodology for job	**Not verified** The results were expected to come from the Jobs and Competitiveness Project that did not materialize as planned.	**Completed:** Western Balkans Pension TA (FY16) Montenegro Growth and Jobs ASA (FY19)

at minimum wage) with two children on social assistance that moves from unemployment into a formal job. **Baseline:** 93.3% (2011) **Target:** 80% (2019) ***Indicator 7:*** Percentage of unemployed registered with Public Employment Services finding formal employment. **Baseline**: 12.2% (2015) **Target**: 20% (2019)	Competitiveness Project that did not materialize as planned. While Growth and Job Creation Project is planned to be approved in FY20, the corresponding results are to be expected only in the next CPF cycle.	profiling of the unemployed **Baseline:** Methodology not implemented (2015) **Target:** Methodology implemented (2018)		**Ongoing**: Western Balkans Poverty Program (FY18-19) Western Balkans Pension TA (FY20) Western Balkans Growth and Jobs ASAASA (FY21) **Planned:** Growth and Jobs Project, FY21 (originally planned Jobs and Competitiveness Project, FY19) **Dropped:** Demand and Supply Side Barriers to Employment TA (FY17)
CPF OBJECTIVE 2C: Enhanced private investments and job creation in high-potential sectors				
CPF Objective Indicators	**Progress to date**	**Supplementary Progress Indicators**	**Progress to date**	**WBG Program**
Indicator 8: Private sector investments generated through IFC interventions and WB investments in tourism. **Baseline**: 0 (2015) **Target**: US$30 million (2019)	**Off track** Status (investments in agriculture): US$7.5 million (EUR 6.5 million) Out of total investment of EUR 13.04 million provided through MIDAS–supported IPARD-like grant scheme, a total of EUR6.5 million (or roughly 49 percent) of private investments has been leveraged. The Program has leveraged private sector investments either through the local banks	***SPI11:*** Increased percentage of tourism overnight stays in non-coastal cities **Baseline**: 3% (2014) **Target**: 5% (2019) ***SPI12:*** Incremental number of microfinance and SME loans **Baseline***:* 0 (2015) **Target***:* 8,000 loans to microfinance companies, of which 3,000 owned by	**Not verified** The results were expected to come from the Tourism-based Local Development Project that did not materialize as planned. **On track** Status (2018): 3,300 individual entrepreneurs/microenterprises have received financial support from IFC portfolio banks and microfinance clients as well as real sector clients. (It is unfortunately nor possible to report how many of them were owned by	**Completed** Policy Note on Broadband TA (FY16) **Ongoing** Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS) MIDAS Additional Financing (FY17) MIDAS 2 (FY18) **Planned**

Indicator 9**:* Increased share of jobs in Travel & Tourism (T&T) sector in non-coastal urban centers. **Baseline:* 9.7% (2014) **Target***:* 12% (2019) ***Indicator 10:*** Increased investments in agricultural and rural development in line with IPARD measures **Baseline:** 0 (2009) **Target:** 400 commercially-oriented agro-holdings (2016)	and financial institutions that provided loans to the grant beneficiaries to ensure a 100% of pre-financing as well as beneficiaries' contribution of 40-50%of total investment. The investments were aimed at farms modernization, improvement of the food safety, and processing standards. **Not verified** The results were expected to come from the Tourism-based Local Development Project that did not materialize as planned. **Achieved** Status (2019): 658 commercially oriented agro-holdings	women (owners/stakeholders) (2020); 500 loans to SMEs (2020)	women, as women customers are not tracked by microfinance client)	Investments in tourism and tourism related sectors, including in infrastructure Trade Facilitation Support Project Possible PPP advisory support to support private sector investments in infrastructure Investments in local financial intermediaries (banks and microfinance institutions) aimed at enhancing access to finance for MSMEs **Dropped** Tourism-based Local Development project (FY18) Digital Economy Project (FY20) Jobs and Competitiveness Project (FY19) Demand and Supply Side Barriers to Employment
CPF OBJECTIVE 2D: Enhanced Environmental Sustainability				
CPF Objective Indicators	**Progress to date**	**Supplementary Progress Indicators**	**Progress to date**	**WBG Program**
Indicator 11: Contaminated land managed or dump sites closed **Baseline:** 0 (2013) **Target:** 110 (2019)	**Off track** (will not be met in 2019) The progress with preparatory activities and start of work has suffered substantial delays. Of the three sites included in the project for remediation, works	***SPI13**:* Number of buildings retrofitted with energy efficiency improvement schemes **Baseline**: 0 buildings (2009)	**On track** Under the EE Project 25 public sector buildings have been retrofitted since the start of the project in 2009. Under the recently approved Second Energy Efficiency Project, retrofitting of another 18 public (health) sector buildings is	**Completed:** Montenegro Energy Efficiency Project Energy Efficiency in Public Buildings **Ongoing**

Indicator 12: Energy savings in targeted public buildings **Baseline**: 0% (2009) **Target**: 25% (2019)	have started on one: Bijela Shipyard, Site investigations for the Gradac remediation design and investigations supervision was completed and activities are on track for preparation of works tender completion by May 2019. Design has been completed for the remediation works at the Maljevac ash disposal site in Pljevlja. Regarding EPCG, activities are on track for bidding to result in works starting in the spring of 2019. **On track** **Current (2018):** 46.70% (savings measured in the 25 public buildings that have been retrofitted)	**Target** 27 buildings (2017) ***SPI14****:* Additional Renewable Energy capacity facilitated **Baseline:** 0 (2015) **Target**: 20 MW (2020) ***SPI15:*** Percentage of Drina River Basin Strategic Action Plan activities addressing climate change issues related to droughts and floods. **Baseline:** 0 (2015) **Target**: 30 percent (2019)	planned, with 5 of them expected to be completed by end CPF. **Not verified** While IFC's support resulted in significant achievements in the area of RE, these were focused on improvements in regulatory environment, and this area was also supported by other development partners including the EBRD, causing attribution concerns. **Off track** (will not be met in 2019) Due to delays in effectiveness of the Regional GEF SCCF Drina Project, it is likely that target would be reached at later stage. Namely, ToR for preparation of the Drina River Basin Strategic Action Plan is under development, but its finalization is not expected before 2020. Project activities in Montenegro have started. Climate changes would be addressed through preparation of the Conceptual design for the Flood protection, rehabilitation and irrigation of Lim river basin (with Grnčar river) with the aim of mitigating the impact of climate change and sustainable use of natural resources, as well through Assessment of climate change impacts on groundwater in Drina River Basin in Montenegro.	Industrial Waste Management and Cleanup Project (FY14) Western Balkans Drina River Basin Management GEF (FY18) Second Energy Efficiency Project (FY18) **Dropped:** Tourism-based Local Development Project (FY18)

ANNEX 4. CITIZEN ENGAGEMENT UPDATE

1. During this CPF period, dialogue with civil society has been ongoing with a number of public awareness campaigns and presentations of project activities, meetings with representatives of NGOs, academia, business associations. Since 2014 when the citizen engagement corporate requirements were introduced, efforts have been stepped up to embed citizen engagement in all IPFs in the Montenegrin portfolio. During FY14-FY19, five projects in Montenegro were subject to corporate requirements. With regards to **compliance** with the CE requirements, by FY16, 100 percent of Montenegro projects approved by the Board were fully compliant with both requirements (having a citizen-oriented design and a beneficiary feedback indicator). ISR reporting requirements will take effect in FY20.

2. Like other projects in the Western Balkans, **quality** of the citizen engagement in all IPFs in Montenegro is reviewed continuously. Quality is assessed for four key attributes of citizen engagement. Of those projects approved since FY14, 75 percent of projects enable all citizens to provide feedback and to engage on any project issue (openness) and all projects enable citizens to provide feedback at least annually (frequency). However, the depth of engagement can be improved - the portfolio largely relies on two mechanisms (GRMs and satisfaction surveys) which do not provide an opportunity for direct interaction or active engagement. Apart from GRMs, citizens are able to provide feedback through satisfaction surveys in three projects, providing multiple feedback channels). Quality of citizen engagement in the portfolio is relatively weak compared with other ECA countries due to the use of weak tools (see planned actions below).

3. Two initiatives in the country provide evidence of the opportunity and enabling environment for citizen engagement:
   - Of those projects most recently approved, for instance, the **Second Institutional Development and Agriculture Strengthening Project (MIDAS 2)** approved in FY18, will maintain the well-functioning complaints handling mechanism and beneficiary feedback surveys established under the existing MIDAS project. The project's public awareness campaign aimed to specifically reach out to and consult all local communities and to include their feedback to the grants application process. During preparation, the Fisheries Directorate held consultations with fishermen and fishermen associations and conducted a beneficiary survey to identify fishermen's needs and to influence project design
   - Montenegro has strengthened its **public consultative process**, in which the Government collects citizens' comments on the draft laws/strategies and incorporates accepted comments from the public in the final documents. In February 2017, the Ministry of Labor and Social Policy established a working group comprised of representatives of state Government ministries and agencies, local Governments, trade unions and civil society organizations, to work on the amendments of the Law on Social and Child Protection, and consultations were held through a roundtable. This process led to revisions and the consultations were well documented.

4. Going forward, to further strengthen quality of citizen engagement, several activities are proposed for the remainder of the CPF implementation, in addition to ongoing actions set out in the CPF CE country roadmap:
   (i) Capacity building of PMUs and other Governmental stakeholders in Citizen Engagement principles and best practice; coaching to support PMUs expand the weak CE tools to optimize CE opportunity

(ii) Efforts to enhance the quality of the beneficiary feedback, through more structured tools that encourage dialogue and active engagement
(iii) Include citizen engagement discussion in the annual portfolio review with Government for the remaining period of the CPF implementation
(iv) Encourage the use of civic technology options to obtain feedback for the upcoming consultations on the SCD and the new CPF.

5. These have been added to the implementation plan which tracks the progress of the CPF Citizen Engagement Country Roadmap.

Table 1. Update of the Montenegro Citizen Engagement Country Road Map
(for the remainder of the CPF)

Citizen Engagement Roadmap CPF 2016	Actions finalized	Actions for the remainder of the CPF
GOAL 1 (CPF/ DPO): **Regular CPF roundtables:** Identify and liaise with a group of key stakeholders to provide feedback and input into CPF implementation. **DPO consultations:** Consultations on DPO-supported reforms will be carried out based on the reform sectors identified. If the DPO is dropped, communication with civil society will continue as part of outreach and awareness efforts on macro and fiscal challenges the country is facing.	The dialog with civil society has been continued through a number of public awareness campaigns and meetings with representatives of the NGO, academia, business associations. Public hearings were organized to assess environmental and social impact the WB financed project activities.	Continue good practice and organize genuine consultations on the SCD and the new CPF.
GOAL 2 (Pipeline): **Include CE Mechanisms in Project Design** Health. Employment and Skills. Sustainable Tourism.	All planned projects of these sectors have been dropped.	-
GOAL 3: (Implementation) **Stakeholder Feedback is Incorporated in Project Implementation** **Agriculture**. Continue effective dialogue with and inclusion of beneficiaries, including vulnerable groups. **Environment**. Ensure that interventions are designed with input from local stakeholders and direct beneficiaries.	**Agriculture**. MIDAS is still supporting GRM and disclosure requirements (closure March 2019), two social surveys have been conducted and applicants' concerns have been addressed. MIDAS 2 has not yet issued a call for grant applications (no GRM set up yet). Industrial Waste Management (IWMP) has held resettlement related consultations. Energy Efficiency 2 (MEEP 2) holds regular consultations (including on accessibility considerations).	Set up GRM for MIDAS 2 (as soon as call for grant applications has been issued). The MEEP 2 PIU will have to be sensitized to make the selected buildings barrier-free. Until the remainder of the CPF, a new goal is to support capacity building activities of PMUs on effective implementation of CE activities in projects under implementation.

GOAL 4: Replicate success of past beneficiary feedback practices. By FY20 Montenegro will meet the 100% target for Beneficiary Feedback Indicator and BF-informed in all projects with direct beneficiaries, and where possible: (i) disaggregate feedback by vulnerable group; (ii) feedback sought also during implementation in order to inform subsequent activities; (iii) results communicated and discussed in an open forum; (iv) perception of beneficiaries with regard to the CE process included in feedback questionnaire.	Target is met since FY16 (100%). **(i) BFIs** MIDAS; MIDAS 2; RARP (Revenue Administration Reform) – gender (and/ or vulnerable group) disaggregated beneficiary data; **(ii) Feedback sought during implementation** MIDAS – surveys already completed (MIDAS 2 just at the beginning); MEEP 2 – regular feedback sought before and after renovations (social monitoring surveys) **(iii) results discussed in open forum** MEEP 2 – social monitoring surveys results are regularly discussed (second round after renovation). **(iv) perception questions in feedback questionnaires** MEEP 2 – in social monitoring surveys a question on "Do you feel that the retrofits were centered on citizens' needs?"	**(i) BFIs** HERIC (Higher Education and Research for Innovation Project) will still have to disaggregate data by gender. **(ii) Feedback sought during implementation** RARP – planned tax user surveys **(iii) results discussed in open forum** RARP – tax user survey results needs to be discussed **(iv) perception questions in feedback questionnaires** RARP – tax user survey needs to measure perception and have question in questionnaire
GOAL 5: GRMs are included in all relevant projects beyond safeguards. By the end of FY20 GRMs should follow good practices, including: (i) ensuring that standard practices are developed when dealing with complaints; (ii) training all parties on the GRM process; (iii) building capacity to ensure sustainability of the GRMs after the life of the project.	Social Risks Management Initiative finalized in June 2017 (MIDAS and IWMP meet all targets - followed up in each mission).	MEEP 2 does foresee a GRM in the PAD (still at the beginning).
GOAL 6: Measuring and Monitoring Progress and Impact. By the end of FY20, the team will review the extent of CE achieved, and will identify good practices and areas of improvement. All projects will include an indicator that will reflect the level of CE in the project.	CE aspects are monitored in every ISR that is being submitted, with the goal to ensure that it reports on the GRM as well as on the progress related to all CE indicators. Particular attention is paid to the CE aspects as part of the review process of all projects under development. In April 2018 a portfolio review workshop was held as a part of the PLR preparation process. It included a broad group of counterparts, and discussions on the ongoing program as well as of the preliminary findings of the progress made to date on the CPF objectives and CE.	For the remaining period of the CPF, the goal is to: • work with Bank teams and PMU's to enhance the quality of the beneficiary feedback and their efficient monitoring throughout project implementation; and • develop a plan to include CE in the portfolio reviews with the Government.