

<b>1. CAS/CPS Data</b>		
<b>Country: Montenegro</b>		
<b>CAS/CPS Year:</b> FY11	<b>CAS/CPS Period:</b> FY11- FY15	
<b>CLR Period:</b> FY11 – FY15	<b>Date of this review:</b> June 8, 2016	
<b>2. Ratings</b>		
	<b>CLR Rating</b>	<b>IEG Rating</b>
<b>Development Outcome:</b>	<i>Moderately Satisfactory</i>	<i>Moderately Satisfactory</i>
<b>WBG Performance:</b>	<i>Good</i>	<i>Good</i>

<b>3. Executive Summary</b>
<p>i. Montenegro is a small upper middle-income country, which has been an EU candidate since December 2010. Economic growth has been volatile for the entire period after the global financial crisis of 2008-09. The small size of the Montenegrin economy and close market integration with the EU made the country susceptible to external shocks, in particular to adverse economic developments in the Euro zone. Growth has resumed in 2013 led by tourism-related investments and implementation of the infrastructure projects. After peaking at 11.3 percent in 2012, the poverty rate has been declining. Income inequality has remained fairly constant recently, with the Gini coefficient fluctuating between 0.24 and 0.26. The overarching Government policy priorities relate to its goal of EU membership. The Country Partnership Strategy (CPS) supported the government’s priorities, by helping Montenegro recover from the 2009 recession and accelerate its institutional development in line with the EU requirements.</p> <p>ii. The CPS helped to strengthen a number of Montenegrin institutions in line with EU standards (including in higher education, agriculture, energy and banking regulation) and thus provided effective support to the country’s progress towards EU accession. The most significant progress against the CPS objectives was registered in the areas of sustainable land management, reforming the government system to deliver assistance to farmers, strengthening local research capacity, and improving the reliability of power supply, as well as strengthening solid waste management. A difficult external environment, driven by weak EU growth, created additional challenges for Montenegro in the conduct of macroeconomic and fiscal policies and reduced opportunities for achieving a number of program objectives, including strengthening resilience of the banking sector and improving financial sustainability in health. Government ownership has not been consistent across the portfolio, which further complicated implementation in several areas, such as fiscal consolidation and environmental management. Three specific objectives -- to improve financial sustainability of the health sector; enhance sustainability of Lake Skadar resources; and reduce the environmental and public health risks at polluted industrial disposal sites -- were not achieved.</p> <p>iii. The CPS had two focus areas (Support for EU accession and Environmental management) directly related to core priorities in the government program. Given Montenegro’s EU-candidate status,</p>

<b>CLR Reviewed by:</b>	<b>Peer Reviewed by:</b>	<b>CLR Review Coordinator</b>
<b>Lev Freinkman</b> Consultant, IEGEC  <b>Igor Artemiev</b> Consultant, IEGEC	<b>Luis Alvaro Sanchez,</b> Consultant, IEGEC	<b>Mark Sundberg</b> Manager, IEGEC  <b>Lourdes Pagaran</b> CLRR Coordinator, IEGEC



the Bank collaborated effectively with European institutions. Broadly, the CPS identified the program risks properly but insufficient attention was paid to the mitigation of risk of slow governance reforms. In addition, the risk of weakening government ownership was missed. The CPS was designed to explicitly reflect several important country-specific characteristics, such as small volume of WBG support and the client's limited implementation capacity. However, IEG identified three shortcomings in the program design. First, the CPS was not a joint WB-IFC document and potential synergies between IBRD and IFC left underutilized. Two main IFC investments made during the CPS period remained unrelated to the CPS objectives. Second, the original CPS results framework showed significant weaknesses affecting program implementation. Third, Bank's flexibility in program implementation arguably weakened the relevance of the program, as was in the case with dropping public expenditure management (PEM) objective at the time of the CPS Progress Report (CPSPR). Moreover, the approval of the policy-based guarantee without ensuring adequate fiscal policy framework may have increased the exposure risk of the Bank's portfolio. During the implementation, the Bank managed to improve the quality of its portfolio, while making significant adjustments to the original program to reflect the changes in the government's priorities. The quality of the current portfolio remains broadly satisfactory. The results framework was significantly modified in the CPSPR, which generally increased the evaluability of the program, but some original weaknesses remained unaddressed.

iv. IEG largely agrees with the lessons presented in the CLR, in particular on the importance of selectivity for a small portfolio, Bank's complementary role in supporting country's EU accession, and the detrimental effects of shortcomings in the results framework. In addition, IEG notes that the WBG has effectively used regional projects to generate both economies of scale and additional policy insights. At the same time, while IEG agrees that good coordination within the WBG is essential for effective engagement, there is room for increasing IBRD and IFC integration in the next CPF. To enhance complementarities between the World Bank and IFC, there is need to incorporate explicitly the contributions of IFC in the results matrix in the next CPF. Finally, IEG provides two additional lessons: First, a clear justification is needed when dropping a crucial policy objective from the program. For instance, dropping the PEM objective at the time of the CPSPR simply because the Public Expenditure DPL did not materialize seems insufficient reason, given the gravity of the fiscal situation and the enhanced IBRD engagement through the FSPBG. Second, the experience in Montenegro shows the importance of calibrating program design to factor in Government ownership in order to achieve a robust program that is less vulnerable to sudden changes in the government's sentiments. Preparation of several projects under the CPS was delayed, including in the financial sector and environmental management, due to insufficient ownership.

#### 4. Strategic Focus

##### Relevance of the WBG Strategy:

1. **Congruence with Country Context and Country Program.** Montenegro is a small upper middle-income country, which has been an EU candidate since December 2010. The small size of the economy, euroization (adoption of Euro as national currency) and close market integration with the EU made the country susceptible to external shocks, in particular to adverse economic developments in the Euro zone. Economic growth has been volatile for the period after the global financial crisis of 2008-09. After modest recovery in 2010-11, the economy contracted again (by 2.5 percent) in 2012. Average growth rate amounted to 3 percent over the last 3 years, driven by investments in tourism-related activities and infrastructure projects. Poverty rate after the global crisis rose from a low 4.9 percent in 2008 to 11.3 percent in 2012, but it has been on a declining trend since then. Income inequality has remained fairly constant in recent years, with the Gini coefficient fluctuating between 0.24 and 0.26. Despite an attempt of fiscal adjustment since 2010, Montenegro's public debt has grown rapidly in recent years, in part driven by the government's borrowing decisions that are seen as sub-optimal by the Bank. Sustainability of the country's debt profile remains a major concern. The



economy also depends heavily on external financing. The overarching policy priorities in Montenegro relate to its goal of EU membership. The National Program for Integration (NPI), approved in 2007 and valid during the CPS period, outlines the reform agenda required for eventual EU membership, emphasizing harmonization of domestic legislation and practices with those of the EU. Another Government program, the 2009-12 Economic and Fiscal Program (EFP), spelled out a set of priorities to strengthen macroeconomic and fiscal policies, advance broad structural reforms, raise efficiency of public administration, improve investment climate, and encourage long-term competitiveness. The CPS supported the government's priorities focusing its interventions on helping Montenegro to recover from the 2009 recession and accelerate its institutional development in line with the EU requirements.

2. **Relevance of Design.** The interventions were relevant to achieving the CPS objectives, in particular in the financial sector, in support of institutional harmonization with the EU, as well as its original focus on strengthening public expenditure management. The Bank's engagement was centered around two financial sector development policy loans (PFSDPLs) amounting to half of the lending program. The programmatic series sought to promote policies critical for macroeconomic stabilization, recovery in banking sector lending and private sector growth. The effectiveness of the program was undermined by two unexpected developments: the depth and length of Eurozone crisis and weakening fiscal policies that elevated the country's risks and disrupted the preparation of the Public Expenditure DPL. Given Montenegro's EU-candidate status, the CPS program was well aligned with the EU accession agenda. The advisory services and analytics (ASA), however, were not well integrated into the program objectives. Still some of the recent work on social protection, labor markets, and transport sector was relevant to Montenegro's development goals.

3. Relevance of the IFC program for the CPS objectives was low. IFC contributed to attaining the CPS objectives with advisory services in the investment climate and energy sector and with a relatively small credit line in the financial sector. However, major IFC investments during the review period were made in road infrastructure, which was not part of the CPS objectives. IFC's other contributions and achievements, as presented in the CLR, are mostly unrelated to specific CPS objectives. Potential synergies between IBRD and IFC remained underutilized in the original program design and its subsequent modification.

#### Selectivity

4. The CPS concentrated on two focus areas (Support for EU accession and Environmental management) reflecting both the government's priorities and the relatively small size of the Bank's resource envelope. The selection of the areas of engagement was informed by past Bank experience in Montenegro and the solutions that proved to be effective in the neighboring countries. The Bank used strategically the instruments of regional projects and regional studies to achieve the economies of scale and generate additional relevant insights. Selection of CPS objectives was based on adequate country diagnostics, such as FSAP (2008) and the regional study of high education. To ensure long-term impact, the strategy also aimed at fostering institutional development of Montenegro, by emphasizing institutional harmonization with the EU. However, the first CPS focus area had an excessively broad coverage, including 13 objectives covering seven major sectors. This was probably unavoidable in the context of the EU accession, as the EU agenda is very broad and does not provide solid criteria for selectivity. Still, this left the Bank with supporting too many objectives while using a limited number of available interventions. Weak government ownership in several selected sectors aggravated insufficient selectivity in the CPS design. At the same time, two critical development areas were not covered in the CPS objectives without due explanation. First, while the CPS suggested that the dramatic economic downturn in 2009 had a significant detrimental impact on the most vulnerable Montenegrin households (nearly fifth of population was considered to be at-risk of poverty), the CPS did not contain any objectives in the areas of social assistance and protection. Second, while the CPS admitted that, from the EU perspective, key current priorities for Montenegro's accession process include public administration and judicial sector reforms to enhance professionalism and foster de-politicization, these two policy areas were practically absent in the WBG strategy.



5. The IFC program was broad in coverage and fragmented to achieve meaningful results in any covered area, including in the investment climate where it was more focused than in others.

Alignment

6. Although, the CPS was prepared before the adoption of the WBG twin goals, the program supported ending extreme poverty and boosting shared prosperity, mostly indirectly. The Bank's interventions in agriculture and the health system helped to support agricultural employment and access to health services for particular vulnerable groups, such as Roma. The new legislation and other policies, introduced in the framework of PFSDPL, helped the authorities to upgrade the country's deposit protection system. The Bank's ASA program provided the Government with a number of recommendations on strengthening the system of social benefits, addressing chronic unemployment, and improving monitoring of gender equity. However, all these advisory services, while directly related to the twin goals, were provided outside of the CPS results framework.

## 5. Development Outcome

Overview of Achievement by Objective:

### **Focus Area I: Support EU Accession through Strengthening Institutions and Competitiveness**

7. **Objective 1: Strengthen the Central Bank's capacity to provide liquidity as a Lender of Last Resort (LOLR).** The Bank supported this objective and other financial sector reform efforts under the Programmatic Financial Sector Development Policy Loan (PFSDPL) and Financial Sector Policy-based Guarantee (FSPBG). This policy reform package included adoption by the Central Bank (CBCG) of several new regulations to enhance its ability to provide the banks with emergency liquidity assistance. In addition, the new Law on Financial Collateral was adopted to enhance liquidity management in financial institutions. However, according to the recent Financial Sector Assessment Program (FSAP, 2015) report, emergency liquidity assistance capacity of CBCG remains limited, and this weakness represents the key vulnerability risk for the entire financial sector. The specific target under this CPS objective was for the liquidity ratio in the banking sector to increase from the baseline of 21% in 2008 and remain in compliance with the prudential norms of CBCG. This was achieved as overall banking liquidity has increased recently to 35.7% at the end-2014 and 44.3% in September 2015, well above the Central Bank's prudential norms. However, this increase does not represent evidence of strengthened Central Bank's capacity to provide liquidity as a LOLR. The CPS did not contain an adequate outcome indicator for this objective. The IFC contributed to banking liquidity by providing in 2010 an SME credit line to NLB Montenegro amounting to Euro 10 million and also indirectly through the European Fund for South East Europe (EFSE), in which IFC invested \$37 million. *(Partially Achieved)*

8. **Objective 2: Enhance public confidence in the health of the banking sector.** The Bank supported this objective through PFSDPL and FSPBG. The specific targets under the objective, which were stabilization of the decline in bank deposits and resumption of growth in credit, were achieved. Bank private deposits have been growing each year since 2011. Deposits and credits increased, respectively, by 13.7% and 0.8% in 2015. The Government enacted a Law on Protection of Deposits and introduced other confidence-building measures. But further growth in public confidence in the banking sector is hindered by insufficiently effective supervision and recent loosening of regulatory standards. *(Mostly Achieved)*

9. **Objective 3: Improve capitalization of Montenegrin banks and their resilience to shocks.** The Bank provided technical assistance through the Financial Sector Advisory Center (FinSAC), in addition to the policy support under PFSDPL and FSPBG. The average capital adequacy ratio (CAR) of the banking system was 16% in September 2015 and remained well above the prudential norm of 10%.



established by CBCG. However, according to FSAP, some banks (mainly small domestic banks) are still weakly capitalized and vulnerable to shocks. The Bank's operations also contributed to improving resilience of the banking sector, in particular by strengthening the framework for resolution of non-performing loans (NPLs). NPLs declined from 21.0% at the end of 2010 to 14.7% in September 2015, which is still a very high level. This elevated level of NPLs, aggravated by low provisioning, represents another key source of sector's vulnerability, according to FSAP. (*Partially Achieved*)

10. **Objective 4: Strengthen Montenegro's capacity to resolve problem banks and financial institutions.** While this CPS objective lacked a monitoring indicator, supplemental evidence (provided by CLR and FSAP report) suggests that CBCG has increased its capacity to assess and address banking sector vulnerabilities. Policy support under PFSDPL has contributed to this reform. Specifically amendments to the Law on Banks were enacted to enhance the CBCGs enforcement powers and strengthen the interim administration process for problem banks. Supervisory Action Plans (SAPs) were prepared for all systematically important banks and their implementation has been satisfactory. Implementation of the SAP for Prva Banka helped to achieve its successful downsizing, after which the bank stopped being a systematically important institution. This is a direct indication of strengthened resolution capacity of CBCG. According to FSAP, the legal, regulatory, and supervisory frameworks for banking are robust in many respects, but further strengthening of supervision is recommended. (*Mostly Achieved*)

11. **Objective 5: Streamline property registration and business permitting.** The Bank supported this objective through the Land Administration and Management Project (LAMP) and also through the Country Economic Memorandum (CEM). IFC implemented six advisory projects aimed at ameliorating investment climate in Montenegro, albeit only one of them (Regional Doing Business Subnational Project) was directly related to the specific CPS objectives on property registration and construction permits. The Government introduced steps that significantly reduced time needed to obtain both property registration and construction permits. The targets established in the CPSPR were met: average time for property registration declined from 25 days to 8 days, while average time to receive a construction permit dropped from 6 months to below 2 months. These achievements were confirmed through utilization of the new Government's management information system, established under the LAMP, which tracks all relevant real estate transactions and generates real time data for actual time spent by applicants. (*Achieved*)

12. **Objective 6: Strengthen the transparency of corporate financial reporting in line with EU standards.** Bank support was provided through the IDF Grant for oversight capacity building as well as under two regional REPARIS grant-funded programs. Montenegro made some progress in strengthening the transparency of corporate financial reporting in line with EU standards. The CBCG successfully implemented International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in the banking sector in the course of 2013. However, the CLR does not report on any material progress with implementation of new reporting standards in the corporate sector. Moreover, attaining the specific CPS target in this area, which was the establishment of the oversight authority for corporate financial reporting, was delayed. The CLR reports that, while important preparatory steps have been already taken, the formal establishment of this authority is expected in the 2<sup>nd</sup> part of 2016 after the adoption of new Law on Auditing by Parliament (*Partially Achieved*)

13. **Objective 7: Strengthen government capacity to deliver agricultural assistance and upgrade agricultural practices to EU standards.** The Bank program supported the Government's efforts to upgrade agricultural practices and accelerate their harmonization with EU standards through the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project. The primary focus of the Bank assistance in this area was on reforming the system of state support to farmers (to make the country eligible for future EU funding under the Instrument for Pre-Accession Assistance for Rural Development, IPARD) and upgrading food safety and veterinary laboratories. The CPS targets were met or exceeded. MIDAS supported the establishment and capacity building of government units required to implement the IPARD program. As of April 2015, EUR7.7 million in IPARD-like grant funding has been awarded and EUR5.7 million disbursed, exceeding the target of EUR5 million in grant awards.

In recognition of progress with this reform, the EU has established a separate Trust Fund administered by the Bank to provide further IPARD-like grants to Montenegro. 16 analysis methods of the Veterinary Diagnostic Laboratory in Podgorica received ISO17025 accreditation, meeting the target. IFC International Standards and Technical Regulation (ISTR) project contributed to this objective by providing assistance to private agribusinesses and relevant government authorities with adoption of technical standards in line with the EU standards and WTO requirements. (*Achieved*)

14. **Objective 8: Strengthen land and natural resource management focusing on Montenegro's northern regions.** The MIDAS project has also provided support to Montenegro's Ministry of Agriculture (MAFWM) to mainstream sustainable land use and natural resource management practices in its policies and programs. These efforts are particularly critical for the north of the country, where there are sensitive mountain ecosystems of global importance, and where rural residents are largely dependent on the natural resource base. The CPS target in this area was achieved: as of April 2015, sustainable land management practices have been adopted on 2142 ha of land (against the target of 2,000 ha). (*Achieved*)

15. **Objective 9: Assess the quality and strengthen financing mechanisms of higher education in Montenegro in line with EU developments and Bologna agreements.** The higher education sector was strengthened and made more cost-effective. An external evaluation and reaccreditation of all higher education institutions utilizing tools that are consistent with Bologna-defined EU norms and practices was completed in May 2014, and a sectoral review of the entire tertiary education system was conducted by international experts. However, the CLR does not indicate whether the research segment of the sector (independent research units) was also covered by this quality assessment. Regarding strengthening financing mechanisms in higher education, the new financing model, based on the formula that incorporates per-student and performance-based components, was developed and adopted by the Ministry of Education in 2014. However, its implementation has been delayed as it took some time to negotiate the new model with the State University. It is expected that the formula's implementation will start by September 2016. Bank support was provided through the Higher Education Research for Innovation and Competitiveness (HERIC) Project, and Regional Research & Development and Innovation Strategy TA. (*Mostly Achieved*)

16. **Objective 10: Improve the research capacity of the Montenegrin higher education and research communities.** Through the HERIC, the Bank also supported enhancement in Montenegro's innovation capacity by strengthening the links between local R&D and private sectors. The BIO-ICT Center for Research Excellence was established in 2014 and made operational in a few niche areas relevant for Montenegro's growth (such as ICT and traditional agriculture). A number of grants were awarded to international research consortia that included partners from research organizations and private businesses, and these partnerships have already produced some initial research publications. (*Achieved*)

17. **Objective 11: Improve the quality and coverage of PHC services in and outside Podgorica.** The Bank supported the health sector objectives under the Health Systems Improvement project and Additional Financing. The targets for utilization of primary health care services and patient satisfaction were met. 44 percent of the overall population used the service of their chosen doctor in 2012 against the target of 40 percent. 70 percent of the total population reported satisfaction with the services provided in 2012 (in line with the target and an improvement against the 2008 baseline). However, more recent data are not available to illustrate the situation at the time of completion of CPS implementation (June 2015). This is because regular monitoring of sector performance has stopped after the Bank project closure in 2013. Thus, sustainability of these improvements could not be confirmed. (*Mostly Achieved*)

18. **Objective 12: Improve the financial sustainability of the health sector.** The Bank supported key reforms in health financing and health management, including strengthening capacity of the Health Insurance Fund (HIF) to undertake budget planning, under the Health Systems Improvement project. The target under the program, which was an elimination in HIF's budget deficit, technically was met, in 2012; decreasing the deficit to zero (from an annual deficit of Euro 2.2 million). However, since 2010



HIF expenditures had been delinked from its revenues as the HIF was fully integrated with the state budget. Since then, the health system has been reporting permanent arrears in recent years. The total debt of the HIF and health care institutions amounted to €46 million at end-2014. This is due to a number of remaining institutional weaknesses, including relatively weak public expenditure prioritization and management. Thus, the available evidence does not show improvements in the financial sustainability of the health sector. *(Not Achieved)*

19. **Objective 13: Improve the security and reliability of Montenegro's energy sector.** Bank support was provided through the Energy Community of Southeast Europe Project APL 3 and through several regional advisory and TA activities. The program was successful in meeting its objective of improving the security and reliability of Montenegro's power system through better supply security and closer integration into the regional market. The development of a modern telecommunication network, connecting the national dispatching centers and integrating operations of regional power utilities, was completed. Montenegro's National Dispatching Center has been linked with those of three neighboring countries. Investments in the Andrijevisa and Mojkovac substations and transmission networks helped to reduce power interruptions by more than 70 percent for both substations, exceeding the target of 50 percent reduction. IFC has been implementing two advisory projects in the energy sector, both dealing with renewable energy (RE). Specifically, through the extension of the regional Balkan Renewable Energy Program (BREP), IFC helped to strengthen the legal and regulatory environment, including amendments to the Energy Law, needed to harmonize sector regulations with the respective EU Directive and facilitate private investments in RE. IFC also assisted in tendering two watercourses for construction of small hydropower plants resulting in granting a concession. *(Achieved)*

20. IEG rates the outcome of WBG support under Focus Area I as Moderately Satisfactory. The program performance varied across sectors. The most significant progress against the CPS objectives was registered in the power sector, higher education and agriculture. In contrast, the reform pace was much weaker in the areas of corporate reporting and financial sustainability of the health sector. The financial sector, which was at the center of Bank's efforts to provide both policy reform and budget support, recorded mixed progress.

#### **Focus Area II: Improving environmental management and reducing the costs of environmental problems**

21. **Objective 14: Strengthen solid waste management services in Bar and Ulcinj.** The Bank supported the improvements in solid waste collection in coastal municipalities through the Environmentally Sensitive Tourist Areas Project (MESTAP) and Additional Financing. Bank financed activities included the construction of the modern landfill in Mozura that helped to close the existing uncontrolled local disposal sites. In 2015 almost all solid waste in towns of Bar (98 percent) and Ulcinj (70 percent) was collected and disposed in Mazura landfill (against the target of 90 percent). In addition, regular waste collection was successfully organized in three other coastal municipalities (Budva, Kotor, and Tivat). The high waste collection rates were maintained, and duly monitored, after the completion of Bank project in 2013. *(Achieved)*

22. **Objective 15: Enhancing sustainable benefits of Lake Skadar natural resources.** The Bank provided support to strengthen water management and reduce environmental risks to Skadar Lake through the Albania/Montenegro Lake Skadar Integrated Ecosystem Management Project (LSIEMP). GEF-funded LSIEMP helped establish and strengthen institutional mechanisms for trans-boundary cooperation and enhance lake monitoring capacity. Specifically, the Skadar Lake Commission (SLC) was setup and met regularly during the project implementation, and a number of monitoring instruments were introduced and made effective, such as a Joint Lake Monitoring Plan, in line with the program targets. However, sustainability of these achievements was significantly undermined by the inadequate government funding of the SLC, which had not been operational in 2014-2015. In terms of immediate environmental threats to Skadar Lake, the program intended to reach an agreement on a preferred solution for dealing with the improperly stored hazardous waste at the Kombinat Aluminijuma

Podgotica (KAP) site. This was not achieved. While a feasibility study for hazardous waste management at the KAP site has been completed and an environmental impact assessment (EIA) carried out, an agreed solution that would allow for the reduction of immediate risks has not been finalized. *(Not Achieved)*

23. **Objective 16: Reduce the environmental and public health risks of polluted industrial disposal sites.** Bank support to this objective was provided under the Industrial Waste Management and Cleanup Project. However, the project's preparation was considerably delayed and by the end of the CPS period, no material progress was made towards the completion of environmental remediation for four selected industrial disposal sites. Overall, much more time than originally anticipated was needed for getting agreements with all local stakeholders for the proposed remediation arrangements related to the main selected sites, such as KAP and Bijela Shipyard. *(Not Achieved)*

24. **Objective 17: Enhance the efficiency of energy use in targeted public schools and hospitals.** Bank support to this objective was provided through the Montenegro Energy Efficiency Project and Additional Financing. The specific CPS targets in this area were established for 2017 (i.e. beyond the end of the current CPS period) and included (i) completion of energy efficiency retrofits in 27 public buildings (schools and hospitals), and (ii) achieving energy savings in targeted buildings of 40 percent on average. Despite the implementation delays, the Bank project is considered to be on course of achieving its developing objective. By June 2015 (end of the current CPS period) energy retrofits were completed in 18 selected public buildings with average energy savings of 46.7 percent, above the program target of 40 percent. *(Mostly Achieved)*

25. IEG rates the outcome of WBG support under Focus Area II as Moderately Unsatisfactory. Program achievements across four objectives were highly uneven. Developments towards two objectives (sustainability of Skadar Lake and environmental remediation of main industrial sites) have been disappointing, while good progress has been made in the areas of solid waste management and energy efficiency.

#### Overall Assessment and Rating

26. IEG rates the overall development outcome of this CPS as Moderately Satisfactory: 11 out of 17 objectives were Achieved or Mostly Achieved. The CPS helped to strengthen a number of Montenegrin institutions in line with EU standards (including in higher education, agriculture, and banking regulation) and thus provided effective support to the country's progress towards EU accession. On one hand, a difficult external environment, driven by weak EU growth, created additional challenges on macroeconomic and fiscal policies and reduced opportunities for achieving a number of CPS objectives, including strengthening resilience of the banking sector and improving financial sustainability in health. On the other hand, the CPS objectives were achieved in the areas of sustainable land management, reforming the government system to deliver assistance to farmers, strengthening local research capacity, and improving the reliability of power supply, as well as strengthening solid waste management.

Objectives	CLR Rating	IEG Rating
<b>Focus Area I: Support EU Accession through Strengthening Institutions and Competitiveness</b>	<b>Mostly Achieved</b>	<b>Moderately Satisfactory</b>
Objective 1	Mostly Achieved	Partially Achieved
Objective 2	Mostly Achieved	Mostly Achieved
Objective 3	Mostly Achieved	Partially Achieved
Objective 4	Mostly Achieved	Mostly Achieved
Objective 5	Achieved	Achieved



Objective 6	Mostly Achieved	Partially Achieved
Objective 7	Achieved	Achieved
Objective 8	Achieved	Achieved
Objective 9	Mostly Achieved	Mostly Achieved
Objective 10	Mostly Achieved	Achieved
Objective 11	Mostly Achieved	Mostly Achieved
Objective 12	Mostly Achieved	Not Achieved
<i>Objective 13</i>	<i>Achieved</i>	<i>Achieved</i>
<b>Focus Area II: Improving Environmental Management and Reducing the Costs of Environmental Problems</b>	<b>Mostly Achieved</b>	<b>Moderately Unsatisfactory</b>
Objective 14	Achieved	Achieved
Objective 15	Partially Achieved	Not Achieved
Objective 16	Not Achieved	Not Achieved
Objective 17	Mostly Achieved	Mostly Achieved

## 6. WBG Performance

### Lending and Investments

27. At the start of the CPS period, the Bank had six ongoing operations totaling \$81 million. The ongoing portfolio was a mix of IDA and IBRD lending and included investment operations in agriculture, health, and energy sectors, as well as in land and solid waste management. Two trust fund activities, amounted to \$6.5 million, provided complementary financing for interventions in agriculture and natural resource management.

28. During the CPS period, the Bank made commitments totaling US\$261 million for six operations, including PFSDPL (US\$85 million) and policy-based guarantee (FSPBG, US\$79 million) in the financial sector. Other projects included interventions in higher education/R&D and industrial waste management, as well as additional financing for energy efficiency and MESTAP. All new commitments were IBRD-only, reflecting Montenegro's graduation from IDA in FY2008. Three trust funds provided complementary financing of US\$10 million. IBRD's commitments during the CPS period were higher than those planned in the original CPS (US\$216 million). This was primarily because of the conversion of FSDPL-2 to the significantly larger FSPBG. At the same time, total actual new commitments were below the level planned at the time of CPSPR in 2014 (US\$311 million) because of the delays in new project preparation.

29. During the CPS period FY11-15, IBRD committed resources were disbursed at a faster rate than the ECA region and the Bank as whole. The average disbursement ratio for the Montenegro portfolio during the period was 26 percent, compared to 23 percent and 21 percent for the ECA region and Bank-wide, respectively. The disbursement ratio improved from 14 percent in FY2011 to 29 percent on average in FY14-FY15. The number of projects in the portfolio was reduced from six in FY11 to four in FY14 and to five in FY15 to accommodate limited implementation capacity and in line with the CPS commitments.

30. During FY11-15, the share of projects at risk in the Montenegro portfolio was 19 percent (as measured by both the number of projects and on commitment basis), compared to the Bank (20 and 18

percent, respectively) and ECA region (16 and 12 percent). IEG reviewed five ICRs including the GEF-funded project and rated one satisfactory, three moderately satisfactory, and one moderately unsatisfactory. With respect to the active projects, the latest management assessments suggest that all have been making either satisfactory or moderately satisfactory progress towards achieving their development objectives.

31. The originally planned PFSDPL-2 was replaced by a policy-based guarantee (FSPBG). This shift was triggered by a significantly weakened macroeconomic situation of the country and widening financing gap. In this situation, the Bank agreed to use the guarantee instrument to provide the Government with access to even larger than originally planned volume of deficit financing. The CLR does not discuss the risks associated with such a decision, neither presents evidence of the agreed risk-mitigation measures. In IEG's assessment, in an environment of deteriorating macro framework, the approval of FSPBG, which did not include sufficient steps to ensure a robust fiscal framework, may have increased the exposure risk of the Bank's portfolio. Another large planned credit - Public Expenditure DPL – did not materialize because of the Government's borrowing decision that heightened the risks to fiscal sustainability.

32. IFC investment portfolio in Montenegro, consisting of four projects, totaled US\$56 million in 2015. Although a small country, Montenegro had the third largest share of IFC investments among the countries with population of less than 1.5 million. However, this relatively large program had weak links to the CPS objectives, as discussed above. IFC investments are concentrated in three sectors – road infrastructure, banking, and retail.

33. The CPS provided for IFC to make investments in private companies as opportunities arise. In the event, both new IFC investments made during the CPS period were loans to the municipality of Podgorica for road construction - First phase of the South-Western road bypass and Completion of Eastern road bypass. These loans totaled US\$27 million, which is below the target provided in the CPS for IFC's new investments (US\$40 – 50 million). Both new projects have Successful Development Outcomes based on the Development Outcomes Tracking System (DOTS) and they are self-rated satisfactory on financial, economic and PSD targets. However, in light of systemic weaknesses in Montenegro's municipal finance identified in the recent Bank's Municipal Finance Review, such large non-guaranteed lending to the single municipality could be rather risky. Two other IFC projects in the portfolio, which were launched before the CPS period and active during the CPS period, were self-rated as unsuccessful (Shopping Mall in Podgorica, US\$14 million) and mostly unsuccessful (credit line to NLB Montenegro Bank, US\$15 million). IFC also invested US\$37 million in the regional collective investment vehicle, EFSE, through which some US\$20 million were sub-lent (microfinance) to Montenegrin micro and small enterprises.

34. IEG did not review any of the IFC investment projects in Montenegro.

35. MIGA had no exposure in Montenegro.

#### Analytic and Advisory Activities and Services

36. During the CPS period, the delivered program of advisory services and (ASA) included nine products, one more than the original CPS planned to deliver (eight). Only four (4) of the originally planned eight (8) were delivered, the other five (5) responded to additional requests from the authorities. The ASA included main pieces of the country diagnostics, such as Country Economic Memorandum (CEM) and Public Expenditure and Institutional review (PEIR). The sectoral focus of the ASA program was on financial sector development, public finance management (PFM), labor markets, and transport sector. This sectoral composition of ASA suggests that its links to the CPS, as it was summarized in the results matrix, were quite weak. Labor markets and transport were not among the CPS objectives, while the objective on PFM/PEM was dropped from the program at the CPSPR stage. In addition, the Bank provided advisory support to the Montenegrin authorities through regional studies and TA projects. The CLR lists 20 regional ASA products, being relevant to the Montenegro program.



The focus of the regional ASA was on the energy sector, social assistance, and PFM. Thus, the work on poverty alleviation and inclusion was primarily covered by regional studies. The CLR states that policy recommendations provided by the Bank's ASA products have been regularly shared with the development partners, such as the EU and IMF.

37. During the CPS period, IFC did not initiate any new country-specific advisory projects in Montenegro. All advisory work was carried out either under the projects started before FY11 or under regional projects. IFC closed eight country-specific projects and one was terminated. The total value of this country-specific advisory stood at US\$7 million. Four projects were self-rated Successful, three – Mostly Unsuccessful, and one -- Unsuccessful. Among the regional projects, two were closed in FY11-15 and self-rated Successful. Two regional projects are on-going and progressing well, and one was closed without a rating since it was not required according to the IFC exclusion criteria. The actual share of the IFC effort spent on Montenegro by these five regional projects is unknown. Only three advisory projects were directly related to the CPS Objectives (investment climate, reliability of the energy sector). IEG evaluated two country-specific advisory projects in Montenegro (Berane Solid Waste and International Standards and Technical Regulations) and rated both of them as Mostly Unsuccessful.

#### Results Framework

38. The original CPS results framework had some shortcomings, including missing indicators and non-quantified targets, and more generally being insufficiently outcome-focused. In addition, most objectives, targets, and indicators came out of specific projects in the portfolio, which is not considered a good practice. The casual chains were not explicitly discussed in the CPS, but the structure of the results matrix provided some information on the assumed casual links between the program interventions, milestones, and outcomes. The results framework was significantly modified in the CPSPR, which generally increased the evaluability of the CPS program. The CPSPR replaced or modified the result indicators for 10 objectives out of 17 and also dropped two specific objectives. Still, even after this major modification, some CPS targets were specified for a shorter, and some for longer, time interval than the CPS period. IFC engagements in the CPS areas were not captured by any of the result indicators, making it difficult to evaluate the IFC's contribution to the program outcomes. No indicators were included in the results matrix to track developments towards poverty/shared prosperity goals. In addition, it is worth noting that the decision to drop the objective on PEM strengthening was not well justified. As the main reason for this decision, the CPSPR provided that this objective was no longer achievable in light of the earlier Government's fiscal decisions (excessive borrowing for the low-return road project). Still, the CLR states that improving PEM remains a priority for both Montenegro and Bank's future engagement with the Government. In IEG assessment, this implies that the Bank decision to drop the PEM objective has weakened the relevance of the program. Instead of dropping this at the CPSPR stage, it would have been more appropriate to keep this objective in the program, while adjusting the set of specific indicators and targets to reflect the adverse policy developments.

#### Partnerships and Development Partner Coordination

39. Given Montenegro's EU-candidate status, the EU is a key international player in the country, and the Bank cooperated broadly and effectively with the EU. The policy dialogue with the EU has been intensive as the support to the EU integration process was made one of the two CPS pillars. The collaboration was particularly close in the preparation of specific investment operations that aimed at advancing Montenegro's institutional development in line with the EU rules and practices, including in agriculture, higher education, and energy. Partnerships contributed to strong program delivery in these sectors. Moreover, many Bank's interventions were complementary to those of the EU, as they helped to strengthen capacity of Montenegrin institutions to absorb a substantial increase in EU pre-accession funds. In addition, in specific sectors the Bank cooperated with other development partners such as EBRD (energy and transport), EIB (solid waste), UNDP (health and environment), etc. The CLR is silent about IFC's development partnerships, particularly with the EU. IFC also collaborated closely with the EU. For example, financing of IFC's Eastern bypass project was directly supported by EU funding.

While implementing its Trade Logistics Project, IFC cooperated with the EU-funded SEED (Systematic Electronic Exchange of Data) project. The Bank also cooperated closely with the IMF, especially in the financial sector (PFSDPL, FSAP).

#### Safeguards and Fiduciary Issues

40. For World Bank financed-projects evaluated by IEG during the review period, compliance with the Bank's safeguard policies was generally satisfactory, especially for projects in the Health and Energy and Extractives Practices. For the MESTAP in the Water practice, the Environmental Assessment (OP/BP 4.01) was triggered and Environmental Impact Assessments (EIAs) were prepared to address environmental and safety issues at the project-supported landfill site. Although adequate measures were proposed and implemented along with careful monitoring by the Bank during project implementation, the ICR noted that the Bank clearly underestimated the potential complications and pitfalls with siting the regional landfills. Substantial public resistance to some of the proposed sites calls into question the adequacy of the consultative process undertaken during the EIAs. In addition, two IFC road investment projects treated safeguards issues were in compliance with existing IFC standards and rules. For example, the Eastern Bypass project triggered economic displacement and physical displacement (relocation), which has been successfully completed and were conducted according to national legal requirements and IFC rules.

#### Ownership and Flexibility

41. Although in principle the client has been committed to the implementation of the CPS, government ownership was not consistent across the program. The program implementation has been affected by unexpected shifts in government fiscal policies, changes in the client's policy priorities in other CPS areas, and delays in project preparation due to a slow process of consensus building across national stakeholders. In several instances, insufficient political will to advance difficult policy reforms and deal with vested interests delayed project effectiveness, as with the industrial waste management project. The Bank responded flexibly to these developments. The CPS Progress Report was postponed by one year until May 2014 in order to gain clarity on priorities for the remainder of the CPS period, especially under Focus Area II. The CPS was extended by one year as well to allow delivery of the project (industrial waste management) affected by the earlier delays. The original CPS lending and ASA programs were significantly modified. Most importantly, the Bank delivered the policy-based guarantee (FSPBG) in an environment of deteriorating macroeconomic situation, but did not include steps to sufficiently ensure adequate fiscal framework. The cancelation of the Public Expenditure DPL led the team to drop the PEM reform objective at the time of the CPSPR, which seems surprising given the high relevance of fiscal issues that the CLR rightly highlights. Arguably, dropping the PEM objective weakened the relevance of the program. With respect to changes introduced to the ASA program, the newly added advisory products, while relevant to the country's development goals, had rather weak links to the CPS results framework. And the CPS extension did not bring substantive gains in terms of attaining program objectives, especially in the Focus Area II. In hindsight, the Bank's flexibility, although commendable, as appears, weakened the relevance of the program.

#### WBG Internal Cooperation

42. The CPS was not a joint WB and IFC document. The CPS does not explain reasons for preparing this strategy without IFC co-sponsorship when the predecessor Montenegro CPS for FY08 – FY11 was a joint document. The CPS results matrix lacked outcome indicators to capture contributions from IFC interventions, despite a relatively large IFC investment portfolio, indicating weak internal WBG cooperation. Some synergy between IFC and IBRD projects was achieved in the financial and energy sectors and on business environment reforms. Project activities in the power sector represent an example of good internal cooperation and complementarity within the WBG. In addition, to complement respective Bank projects, IFC was looking for investment opportunities in renewable energy and solid waste management, but those were not materialized.

#### Risk Identification and Mitigation

43. The CPS properly identified five main risks (slower growth in the EU, increased instability of the financial sector, slow improvements in governance, weak capacity to implement the program, and vulnerability to natural disasters) and the mitigation measures, undertaken primarily within the framework of the WBG lending and advisory services, were largely adequate. During the CPS period, three out of these risks (related to the lengthy Euro zone crisis, financial sector instability, and governance reforms) had materialized. With respect to the first two of them, the WBG made some additional adjustments to the program (such as delivery of additional technical assistance by the FinSAC) to provide extra mitigation. This mitigation, however, was only partially successful, given the scale of external shocks, the small size of the WBG program, and also the adverse effect of particular government decisions that had aggravated macro and fiscal risks. Meanwhile, the original Bank program did not address well the risk of slow governance reforms, as the CPS did not include much action in the areas of rule of law and public administration, which are the top governance concerns. In addition, the risk of insufficient government ownership was clearly missed in the original CPS risk diagnostic. The CPS design could have reflected one of the lessons from the previous CPS, which indicated that diverging interests across government could complicate program implementation. This shortcoming had an adverse effect on CPS implementation, specifically in the areas of PEM, environmental and public health management.

#### Overall Assessment and Rating

44. IEG rates WBG performance as Good. The CPS was designed to reflect several important country-specific characteristics. It focused on two policy areas directly related to the core priorities of the government program. At the same time, some important development areas (such as social protection) were not covered in the CPS objectives, and both the CPS and CLR did not provide explanation of why those were omitted. Given Montenegro's EU-candidate status, the Bank collaborated effectively with European institutions. The risk identification undertaken in the CPS was largely correct, but still insufficient attention was paid to mitigation of the risk of slow governance reforms. In addition, the risk of weakening government ownership was missed. Moreover, there were some shortcomings in the CPS design. First, the potential synergies between IBRD and IFC remained underutilized, and two main IFC investments made during the CPS period remained unrelated to the CPS objectives. Surprisingly, this was not a joint WBG CPS, when the previous one had been. Second, the original CPS results framework had weaknesses affecting program implementation. Third, the Bank's exercise of flexibility to accommodate drastic shifts in the implementation environment arguably affected the relevance of the program, specifically by reducing attention to fiscal issues as the macroeconomic situation worsened. In this context, the Bank's decision to drop the policy objective related to PEM improvements appears insufficiently justified. Moreover, the approval of the policy-based guarantee in an environment of deteriorating macro-fiscal framework, without adding sufficient corrective fiscal measures, may have increased the exposure risk of the Bank portfolio. During implementation, the results framework was significantly modified in the CPSPR, which generally increased the evaluability of the program. In the course of implementation, the Bank managed to improve the quality of its portfolio, while making significant adjustments to the original program to reflect the changes in the government's priorities. Of the five closed projects reviewed by IEG, one was rated satisfactory, three moderately satisfactory and one moderately unsatisfactory. The quality of the current IBRD portfolio remains broadly satisfactory.

### **7. Assessment of CLR Completion Report**

45. The CLR framework of analysis is fully consistent with the results framework presented in the CPSPR. It is frank in discussing some program's weaknesses, including shortcomings in the results framework and program delays associated with insufficient client ownership. The CLR is mostly candid in presenting and discussing the evidence on program indicators, but in several instances overestimates progress against the program objectives, such as in the areas of financial reporting and

sustainability of health financing. In addition, the CLR is insufficiently critical in its assessment of internal WBG cooperation as well as weak links between the ASA program and CPS objectives. The CLR contains no analysis of the IFC portfolio, including IFC's development partnerships, and it has missed mentioning several significant unsuccessful IFC projects, such as \$2 million advisory project to structure a PPP for the motorway from Adriatic coast to Serbia and \$16 million investment in the prime retail space in Podgorica. The CLR could have explained why this was not a joint WBG strategy, especially when the previous one had been. Also, the CLR could have discussed the shift from PFSDPL-2 to PBG in a difficult macroeconomic environment and the mitigation measures undertaken, especially when the PEM objective was dropped at the time of the PR. In addition, the CLR does not provide any information on how the WBG dealt with safeguards and fiduciary issues.

## 8. Findings and Lessons

46. IEG largely agrees with the lessons presented in CLR, in particular on importance of selectivity for the small portfolio, Bank's complementary role to the EC in supporting country's EU accession, and the need for close alignment of program level objectives with WBG interventions. In addition, IEG notes that WBG has effectively used regional projects to generate both economies of scale and additional policy insight and regional interventions would need to be better integrated in the future CPF results framework. At the same time, while IEG agrees that good coordination within the WBG is essential for effective engagement, there is room for increasing IBRD and IFC integration in the next CPF. To enhance complementarities between the World Bank and IFC, there is the need to explicitly integrate the contributions of IFC in the results matrix in the next CPF, with quantitative verifiable indicators related to IFC investments and advisory services. Finally, IEG provides two additional lessons. First, a clear justification is needed when dropping a crucial policy objective from the program. For instance, dropping the PEM policy objective at the time of the CPSPR simply because the Public Expenditure DPL did not materialize seems an insufficient reason, given the gravity of fiscal situation and the enhanced IBRD engagement through the FSPBG. An effort could have been made to stepping-up the fiscal dialogue or introducing other mitigation measures through alternative instruments, while keeping the original CPS objective. Second, the experience in Montenegro shows the importance of calibrating program design to factor in Government ownership in order to achieve a robust program that is less vulnerable to sudden changes in the government's sentiments. This implies paying greater attention to both selectivity and relevance. Preparation of several projects under the CPS was delayed, including in the financial sector and environmental management, due to insufficient ownership.

**Annex Table 1: Summary Achievements of CAS/CPS Objectives**

**Annex Table 2: Montenegro Planned and Actual Lending, FY11-FY15**

**Annex Table 3: Montenegro Grants and Trust Funds Active in FY11-15**

**Annex Table 4: Analytical and Advisory Work for Montenegro, FY11-FY15**

**Annex Table 5: IEG Project Ratings for Montenegro, FY11-15**

**Annex Table 6: IEG Project Ratings for Montenegro, FY11-15**

**Annex Table 7: Portfolio Status for Montenegro and Comparators, FY11-14**

**Annex Table 8: Disbursement Ratio for Montenegro, FY11-15**

**Annex Table 9: Net Disbursement and Charges for Montenegro, FY11-15**

**Annex Table 10: List of IFC Investments in Montenegro**

**Annex Table 11: List of IFC Advisory Services for Montenegro**

**Annex Table 12: IFC net commitment activity in FY11 - FY15, Montenegro**

**Annex Table 13: Total Net Disbursements of Official Development Assistance and Official Aid for Montenegro**

**Annex Table 14: Economic and Social Indicators for Montenegro, 2011 - 2015**



Annex Table 1: Summary of Achievements of CPS Objectives

	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
<u>Major Outcome Measures</u>	<p><b>1. CPS Objective: Strengthen the Central Bank's capacity to provide liquidity as a Lender of Last Resort (LOLR)</b></p> <p><b>Indicator:</b> Liquidity ratio in the banking sector rises from 21% in 2008 to remain compliant with CBCG's prudential norms.</p> <p><b>Baseline:</b> 21% (2008)</p> <p><b>Target:</b> &gt;21%</p>	<p>The CLR reports that Banks' overall liquidity ratio rose to 35.7%, well above the Central Bank's prudential norms at the end of 2014. As of September 2015, the liquidity ratio stood at 32.9%. The Montenegro Team notes that this data comes from the <a href="#">Central Bank of Montenegro</a> (CBCG).</p> <p>The ICRR P116787 reports that liquidity ratio rose to 40% by the end of 2012.</p> <p>According to the recent Financial Sector Assessment Program (FSAP, 2015) report, emergency liquidity assistance capacity of CBCG remains limited, and this weakness represents the key vulnerability risk for the entire financial sector.</p>	<p>Source: CPS, CPSPR, CLR and ICRR P116787</p> <p>Baseline and target were reformulated at the CPSPR stage.</p> <p>Bank support was provided through: Financial &amp; Private Sector Development Policy Loan (P116787)</p> <p>South Eastern Europe and Balkans, Technical Assistance (P127525)</p> <p>IFC support was provided through: NLB Montenegro Banka SME credit line (P27115)</p>
	<p><b>2. CPS Objective: Enhance public confidence in the health of the banking sector</b></p> <p><b>Indicator:</b> (i) Stabilization of the decline in bank deposits; (ii) Resumption of growth in credit</p> <p><b>Baseline:</b> (i) 1.8 billion Euro (end of 2009); (ii) 15% y-y contraction in credit (end of 2009)</p> <p><b>Target:</b> (i) decline halted; (ii) &gt; 0</p>	<p>(i) The CLR reports that the decline in bank deposits was halted and a positive annual growth exceeding the pre-crisis level (€2.4 billion by June 2015) was achieved.</p> <p>The <a href="#">ICR P130157</a> reports that, as of June 2013, Bank deposits had reached €2.075 billion. The <a href="#">ICRR P116787</a> reports that the project supported measures to improve confidence in the banking system leading to positive annual growth in the private sector's bank deposits each year in 2011-2013. The IMF estimates this growth was within the 7% range in 2013, similar to the one in 2012.</p>	<p>Source: CPS, CPSPR, CLR, ICR P130157 and ICRR P116787, FSAP</p> <p>(i) Baseline was reformulated at the CPSPR stage.</p> <p>Bank support was provided through: Financial Sector Policy Based Guarantee (P130157) Financial &amp; Private Sector Development Policy Loan (P116787)</p> <p>Financial Sector Advisory Centre (FinSAC) Technical Cooperation - Non-Performing Loan Technical Assistance Advisory Project</p>



	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
		(ii) The <a href="#">ICRR P116787</a> reports that, as of 2013, the decline in new lending has slowed, however, it has not attained the targeted positive growth. As of 2014, credit growth became positive reaching to 9.9% y-y by June 2015 (Source: CBCG).	IFC support was provided through: NLB Montenegro Banka SME credit line (P27115)
	<p><b>3. CPS Objective: Improve the capitalization of Montenegrin banks and their resilience to shocks</b></p> <p><b>Indicator:</b> Overall banks' Capital Adequacy Ratio (CAR)</p> <p><b>Baseline:</b> 15%</p> <p><b>Target:</b> &gt; 10% (prudential norm mandated by CBCG)</p>	<p>The CLR reports that Banks' overall CAR in June 2015 was reported to be 15.8%, well in excess of the prudential norm of 10%. The Montenegro Team notes that this data comes from the <a href="#">Central Bank of Montenegro</a> (CBCG).</p> <p>The <a href="#">ICR P116787</a> reports the banking system's overall capital adequacy ratio (measured as a ratio of capital to assets) improved from the low of 11.9% in mid-2009 to 14.7% at the end-2012 and further to 15.5% in mid-2013.</p> <p>Overall, banks' resilience to shocks has improved, as indicated in a reduction in the share of non-performing loans (NPLs) from a high of 20.97% by the end of 2010 to a low of 12.5% by the end of 2015 (Source: CBCG). Still, the share of NPLs remains elevated and those loans have been under-provisioned, according to the FSAP.</p>	<p>Source: CPS, CPSPR, CLR, FSAP, and ICR P116787</p> <p>Baseline and target were reformulated at the CPSPR stage.</p> <p>Bank support was provided through: Financial &amp; Private Sector Development Policy Loan (P116787)</p>
	<p><b>4. CPS Objective: Strengthen Montenegro's capacity to resolve problem banks and financial institutions</b></p> <p><b>Indicator:</b> No indicator proposed</p> <p><b>Baseline:</b> n/a</p> <p><b>Target:</b> n/a</p>	<p>The CLR reports that the <a href="#">Central Bank of Montenegro</a> (CBCG) has increased its capacity to assess and address banking sector vulnerabilities. Since 2009, CBCG has undertaken a series of full-scope onsite inspections in all medium- and large-sized banks. Based on these assessments</p>	<p>Source: CPS, CPSPR, CLR, FSAP, and ICRR P116787</p> <p>The objective lacked an indicator.</p> <p>Bank support was provided through:</p>

	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
		Supervisory Action Plans (SAPs) were prepared for all systemically important banks. SAPs identified weaknesses and risks, and established targets and deadlines for addressing any non-compliance with regulations with a focus on capital needs.	Financial Sector Policy Based Guarantee (P130157) Financial & Private Sector Development Policy Loan (P116787). NPL Resolution TA (P143745)
	<p><b>5. CPS Objective: Streamline property registration and business permitting</b></p> <p><b>Indicator:</b> (i) Average transaction registration time reduced; (ii) Time to receive a construction permit registration time reduced</p> <p><b>Baseline 2011:</b> (i) 25 days (2008); (ii) 6 months (2008)</p> <p><b>Target 2014:</b> (i) 9 days (2014); (ii) 2 months (2014)</p>	<p>(i) The CLR reports that average property transaction registration time reduced to 8 days.</p> <p>(ii) The CLR reports that the average time to issue a construction permit is 33 (municipal level) – 49 (central level) days.</p> <p><a href="#">ISR P106906</a></p> <ul style="list-style-type: none"> <li>• Avg no. of days to complete recording of purchase/sale of property in land administration system (Number, Core) <ul style="list-style-type: none"> <li>- Baseline: 25 (December 2008)</li> <li>- Actual: 8 (September 2015)</li> <li>- Target: 8 (December 2015)</li> </ul> </li> <li>• Avg no. of days to complete recording of purchase/sale of property–Urban <ul style="list-style-type: none"> <li>- Baseline: 25 (December 2008)</li> <li>- Actual: 8 (September 2015)</li> <li>- Target: 8 (December 2015)</li> </ul> </li> <li>• Avg no. of days to complete recording of purchase/sale of property–Rural <ul style="list-style-type: none"> <li>- Baseline: 25 (December 2008)</li> <li>- Actual: 3.3 (September 2015)</li> <li>- Target: 8 (December 2015)</li> </ul> </li> </ul>	<p>Source: CPS, CPSPR, CLR and ISR P106906</p> <p>(i) The indicator was revised at the CPSPR stage.</p> <p>Bank support was provided through: Land Administration Project (P106906) Country Economic Memorandum Growth and Competitiveness (P127778)</p>
	<b>6. CPS Objective: Strengthen the transparency of corporate financial reporting in line with EU standards</b>		



	<b>CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
	<p><b>Indicator:</b> Establishment of the oversight authority</p> <p><b>Baseline:</b> No oversight authority</p> <p><b>Target:</b> Oversight authority established</p>	<p>The oversight authority is in the process of being established. The Ministry of Finance has informally designated staff that will be part of the oversight authority. However, formal establishment can only be completed with the adoption of a new Law on Auditing. This law, together with the new Law on Accounting, will replace the current Law on Accounting and Auditing. Both laws have been adopted by the Government on March 31, 2016 and the next step is adoption in the Parliament, which is expected to happen within the next several months.</p>	<p>Source: CPS, CPSPR and CLR</p> <p>The indicator was revised at the CPSPR stage. The indicator lacked dates for the target.</p> <p>Bank support was provided through: Capacity Building for Effective Audit Oversight IDF Grant Project (P133290)</p> <p>(P113105) Regional Multi-Donor Trust Fund for Accounting Reform and Institutional Strengthening (REPARIS)</p> <p>(P113105) EU-REPARIS (Road to Europe - Program of Accounting Reform and Institutional Strengthening)</p>
<p><b>7. CPS Objective: Strengthen government capacity to deliver agricultural assistance and upgrade agricultural practices to EU standards</b></p>			
	<p><b>Indicator:</b> (i) The number of analysis methods of the Veterinary Diagnostic Laboratory in Podgorica ISO17025 accredited; (ii) Amount of IPARD – like grant funding awarded</p> <p><b>Baseline:</b> (i) 0; (ii) 0 EUR</p> <p><b>Target:</b> (i) 16; (ii) 5 EUR</p>	<p>(i) The CLR reports that 16 analysis methods of the Veterinary Diagnostic Laboratory in Podgorica ISO17025 were accredited (<a href="#">ISR P107473</a>)</p> <p>(ii) The CLR reports that EUR 7.7m in IPARD-like grant funding has been awarded and EUR 5.7m disbursed as of April 2015.</p> <p><a href="#">ISR P107473</a></p> <p>Amount of IPARD-like grant funding awarded (Euros)</p> <ul style="list-style-type: none"> <li>- Baseline: 0 (March 2009)</li> <li>- Actual: 7,700,000 (October 2015)</li> <li>- Target: 7,700,000 (March 2016)</li> </ul> <p>Amount of grant funding disbursed (Euros)</p> <ul style="list-style-type: none"> <li>- Baseline: 0 (March 2009)</li> </ul>	<p>Source: CPS, CPSPR, CLR and ISR P107473</p> <p>Both indicators were revised at the CPSPR stage. Baseline and targets lacked dates.</p> <p>Bank support was provided through the following trust funded activities: Montenegro Institutional Development and Strengthening Project (MIDAS) (P107473) Montenegro Institutional Development and Agriculture Strengthening (MIDAS) (P110602)</p>



	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
		<ul style="list-style-type: none"> <li>- Actual: 6,040,000 (April 2015)</li> <li>- Target: 5,925,925 (March 2016)</li> </ul>	
	<p><b>8. CPS Objective: Strengthen land and natural resource management focusing on Montenegro's northern regions</b></p> <p><b>Indicator:</b> Land area where sustainable land management practices have been adopted</p> <p><b>Baseline:</b> 0 Ha</p> <p><b>Target:</b> 2,000 Ha</p>	<p>The CLR reports that sustainable land management practices have been adopted on 2142 Ha of land (as of April 2015).</p> <p><a href="#">ISR P107473</a></p> <p>Land area where sustainable land management practices were adopted as a result of project (Hectares)</p> <ul style="list-style-type: none"> <li>- Baseline: 0 (March 2009)</li> <li>- Actual: 2142 (October 2015)</li> <li>- Target: 2000 (March 2016)</li> </ul>	<p>Source: CPS, CPSPR and CLR.</p> <p>The indicator was revised at the CPSPR stage.</p> <p>The indicator lacked a date for the target.</p> <p>Bank support was provided through the following trust funded activities: Montenegro Institutional Development and Strengthening Project (MIDAS) (P107473) Montenegro Institutional Development and Agriculture Strengthening (MIDAS) (P110602)</p>
	<p><b>9. CPS Objective: Assess the quality and strengthen financing mechanisms of higher education in Montenegro in line with EU developments and Bologna agreements</b></p> <p><b>Indicator:</b> (i) Completion of systems assessment of the entire higher education sector (including 2 private and 1 public universities and independent research faculties) by external, international expert panel; (ii) New model for finance reform including modernized funding formulas incorporation per-student and performance-based funding components designed and instituted</p> <p><b>Baseline:</b> (i) No assessment; (ii) Old finance model</p> <p><b>Target:</b> (i) Assessment completed (December 2014); (ii) New finance</p>	<p>(i) As of April 2015, all higher education institutions had been externally evaluated utilizing new quality assurance and accreditation measures developed in accordance with Bologna-defined EU norms and practices (<a href="#">ISR P122785</a>). The CLR reports also that the sector wide evaluation was completed by an external evaluator (the European University Association) and their report delivered in November 2014.</p> <p>(ii) The CLR reports that the finance reform model options were adopted by the Government in December 2014. The finance reform is being targeted to the single public university. New law on higher education was adopted in October 2014 and includes finance reforms, focused on utilizing</p>	<p>Source: CPS, CPSPR, CLR and ISR P122785</p> <p>The objective was reformulated at the CPSPR stage.</p> <p>Bank support was provided through: Higher Education Research for Innovation and Competitiveness Project (P122785).</p> <p>Regional Research &amp; Development and Innovation Strategy TA (P123211).</p>

	<b>CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
	model instituted through new or amended legislation, with documented and inclusive process of development (December 2014)	performance-based funding for the single public university—the University of Montenegro. Financing agreements have not been finalized between the UoM and the Government but the new model is meant to be implemented in stages, beginning with Autumn 2016 and fully by Autumn 2017. So, though adopted by the Government, the actual realization of the reform will not be completed until the new model is in effect.	
<b>10. CPS Objective: Improve the research capacity of the Montenegrin higher education and research communities</b>			
	<p><b>Indicator:</b> Center of Excellence identified and active in expanding the research and innovation capacity of a targeted and nationally relevant researched area</p> <p><b>Baseline:</b> No Center of Excellence operational</p> <p><b>Target:</b> Center of Excellence selected utilizing international and local experts and operational (June 2014)</p>	The CLR reports that negotiations and signing of Center of Excellence contract were completed and funds disbursed to the recipient research group in June 2014. As of June 2015, the BIO-ICT Center of Excellence ( <a href="http://www.bio-ict.ac.me">http://www.bio-ict.ac.me</a> ) - was fully operational and showing results ( <a href="#">ISR P122785</a> ).	<p>Source: CPS, CPSPR, CLR and ISR P122785</p> <p>The objective was introduced at the CPSPR stage.</p> <p>Bank support was provided through: Higher Education Research for Innovation and Competitiveness Project (P122785)</p>
<b>11. CPS Objective: Improve the quality and coverage of PHC services in and outside Podgorica</b>			
	<p><b>Indicator:</b> PHC utilization rates</p> <p><b>Baseline:</b> 37% of general population report visiting general practitioner (2009)</p> <p><b>Target:</b> 40% (2012)</p>	The CLR reports that 44% of the general population and 82% of Roma use the services of a chosen doctor. Surveys on PHC utilization rates and patient satisfaction have been carried out under the Health Systems Improvement Additional Financing Project as a part of regular monitoring and evaluation. The Bank was not present in the health system of Montenegro after the project closing, as of 2013. The Montenegro team reports that more recent data for the health related indicators is not available.	<p>Source: CPS, CPSPR, CLR, ICRR P114275</p> <p>Bank support was provided through: Health System Improvement (P082223) and Additional Financing (P114275).</p>



	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
	<p><b>Indicator:</b> Increase in client satisfaction with PHC services</p> <p><b>Baseline:</b> 66% of population in Podgorica totally satisfied (2008) and 61% of population outside Podgorica satisfied (2008)</p> <p><b>Target:</b> 70% of population in and outside Podgorica totally satisfied (2012)</p>	<p><a href="#">ICRR 082223</a></p> <ul style="list-style-type: none"> <li>The percentage of the population in Podgorica reporting use of primary health care increased from 11.4% in 2004 to 44% in 2012, with the 2012 respondents using the services of a chosen doctor.</li> <li>The percentage of the Roma population reporting use of primary health care increased from 21% in 2004 to 82% in 2012.</li> </ul> <p>The CLR reports that in Podgorica 77% of population satisfied and 19% partially satisfied. Nationally, 70% satisfied and 24% partially satisfied. Roma satisfaction was 82.1%.</p> <p><a href="#">ICRR 082223</a></p> <ul style="list-style-type: none"> <li>In 2004, 62% of the Podgorica population was totally satisfied with primary health care and 20% partially satisfied. In 2012, this percentage had increased to 77% totally satisfied and 24% partially satisfied.</li> <li>In 2012, 70% of the population was totally satisfied and 24% partially satisfied with primary health care.</li> <li>Roma satisfaction in 2012 was 82.1% (no baseline provided).</li> </ul>	<p>Source: CPS, CPSPR, CLR and project paper P114275</p> <p>Bank support was provided through: Health System Improvement (P082223) and Additional Financing (P114275).</p>
	<p><b>12. CPS Objective: Improve the financial sustainability of the health sector</b></p>		<p>Source: CPS, CPSPR, CLR and ICRR 082223</p> <p>Bank support was provided through: Health System Improvement (P082223) and Additional Financing (P114275).</p>
	<p><b>Indicator:</b> Health Insurance Fund (HIF) maintains a zero deficit</p> <p><b>Baseline:</b> small projected deficit (2009)</p> <p><b>Target:</b> zero deficit (2012)</p>	<p>The CLR reports that the Health Insurance Fund (HIF) annual deficit decreased from €2.2 million in 2004 to zero in 2012, technically meeting the target stated in the CPSPR. However, since 2010, the HIF budget has been delinked from HIF revenues as it became part of the state budget (<a href="#">ICRR 082223</a>). The</p>	<p>Source: CPS, CPSPR, CLR and ICRR 082223</p> <p>Bank support was provided through: Health System Improvement (P082223) and Additional Financing (P114275).</p>

	CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness	Actual Results (as of current month/year)	IEG Comments
		health system has since been recording arrears. The total debt of the Health Insurance Fund (HIF) and health care institutions amounted to €34 million at end-2013 and €46 million at end 2014 (out of which €13 million in health institution's debt and €18.5 million for drugs) (Source: HIF).	
	<p><b>13. CPS Objective: Improve the security and reliability of Montenegro's energy sector</b></p> <p><b>Indicator:</b> (i) Electric Power Company of Montenegro (EPCG) integrated into the UCTE (ENTSO-E) telecom highway; (ii) Reduction in power interruptions in Andrijevica and Mojkovac regions</p> <p><b>Baseline:</b> (i) partial integration (2010); (ii) 381 MWh in Andrijevica and 369 MWh in and Mojkovac (2006)</p> <p><b>Target:</b> (i) full integration (2011); (ii) Reduce interruptions by 50%</p>	<p>(i) The CLR reports that the telecommunication system is completed and is fully integrated into the regional transmission systems and ENTSO-E highway. Links to Bosnia-Herzegovina, Serbia and Kosovo have been completed.</p> <p><a href="#">ICRR P106899</a> The new telecommunication system fulfilled the European Transmission Network (UCTE) requirement that each member have at least two “point to point” independent telecommunication connections with two other transmission system operators in the region.</p> <p>(ii) The CLR reports that in 2015, power interruptions in the Andrijevica substation were reduced by 70% (there was a total of 114 MWh of unserved energy), while in the Mojkovac substation power interruptions were reduced by 97% (there was a total of 10 MWh of unserved energy). (Source: Crnogorski elektroprenosni sistem - CGES [Montenegrin Electric Transmission System])</p> <p><a href="#">ICRR P106899</a> In the Andrijevica network outages declined from an average of 29 per year from 2007 through 2011 (for</p>	<p>Source: CPS, CPSPR, CLR and ICRR P106899</p> <p>The second indicator lacked dates for baseline and target.</p> <p>Bank support was provided through: Energy Community of Southeast Europe APL 3 (P106899)</p> <p>IFC provided support through: BREP Expansion Advisory Service (P595728). These advisory services contributed to legislation reform to facilitate private investment in small hydro power plants and other renewable energies.</p>



	<b>CPS FY11-FY14 – Focus Area 1: Support EU accession through strengthening institutions and competitiveness</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
		<p>an average of 3408 hours per year) to five (for 96 hours) in 2013, with none since the second quarter of 2013. This represents an 82% reduction.</p> <p>For the Mojkovac network, the outcome was to be determined by the results in 2014 and 2015.</p>	
	<b>CPS FY11-FY14 – Focus Area 2: Improving Environmental Management</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
<b>Major Outcome Measures</b>	<p><b>14. CPS Objective: Strengthen solid waste management services in Bar and Ulcinj</b></p> <p><b>Indicator:</b> Percent of solid waste collected and disposed of in proper facilities</p> <p><b>Baseline:</b> 65% (2010)</p> <p><b>Target:</b> 90% (2011)</p>	<p>The CLR reports that almost all solid waste in the five coastal municipalities is now collected. A new sanitary landfill “Možura” for municipalities Bar and Ulcinj has been completed and Bar and Ulcinj began disposing into the sanitary landfill in mid-2012.</p> <p><a href="#">ICRR P079116</a></p> <p>More than 90% of the solid waste in the target coastal communities is collected on a set schedule and disposed of in proper facilities. The original target was 90%. Almost all solid waste in the five coastal municipalities is now collected. Bar, Ulcinj and Budva began disposing into the Mozura sanitary landfill in mid-2012. Kotor and Tivat also began disposing into Mozura from November 2012.</p> <p>Using data from the <a href="#">Ministry of Sustainable Development and Tourism</a>, the Montenegro team reports that, in the past two years, the waste collection in these municipalities has been the following:</p> <ul style="list-style-type: none"> <li>- Bar – 2014: 98%; 2015: 98%,</li> <li>- Ulcinj – 2014: 70%;,2015: 70%,</li> </ul>	<p>Source: CPS, CPSPR, CLR, and ICRR P079116</p> <p>Bank support was provided through: Environmentally Sensitive Tourist Areas Project (MESTAP) (P079116) and Additional Financing for MESTAP (P120659)</p>



	CPS FY11-FY14 – Focus Area 2: Improving Environmental Management	Actual Results (as of current month/year)	IEG Comments
		<ul style="list-style-type: none"> <li>- Budva – 2014: 95%; 2015: 100%,</li> <li>- Tivat – 2014: 90%; 2015: 90%,</li> <li>- Kotor – Information not available</li> </ul>	
	<p><b>15. CPS Objective: Enhancing sustainable benefits of Lake Skadar natural resources</b></p> <p><b>Indicator:</b> (i) Strengthen Lake regulatory and institutional capacity; (ii) Reduce immediate and longer term threats to Lake water quality</p> <p><b>Baseline</b> (i) No Skadar Lake Commission (SLC) and Working Groups (WGs) in place; no lake-wide database developed</p> <p>(ii) (a) Long term threat: lack of institutional mechanisms, data, and analytic tools; initial monitoring data baseline not agreed; no Predictive Hydrological Model (PHM); no joint Lake Monitoring Plan; (b) Immediate threat: improperly stored hazardous waste at the KAP (Kombinat Aluminijuma Podgotica) site; inadequate outdated information on nature and quantity of legacy waste and site conditions; no basis for analysis of options; no action plan or agreement on way forward.</p> <p><b>Target</b> (i) Operational costs (OCs) of maintaining and participating in Skadar Lake Commission (SLC), lake-wide database, and WGs included in Governments' budgets.</p>	<p><u>(i) Lake regulatory and institutional capacity</u> The CLR reports that Skadar Lake Commission (SLC) met regularly during the project implementation, and the governments had confirmed their commitment to fund SLC meetings beyond 2013. While the budget allocations for SLC, lake-wide database, and Working Groups were made for 2013, the groups did not receive support in 2014 and 2015. This has reversed the regulatory and institutional strengthening results achieved at the project closure.</p> <p><u>(ii) Immediate and longer term threats to Lake water quality</u> (a) The CLR reports that a monitoring baseline was agreed in 2009, numeric values were provided in 2010, and all remained unchanged through the project closure; the Predictive Hydrology Model has been completed, operational and its joint use guaranteed through a bilateral agreement. Joint Lake Monitoring Plan has been established and is in operation.</p> <p><a href="#">ICRR P084605</a> The project substantially helped to establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve sustainable management of Lake Skadar -Shkoder. IEG rated efficacy as substantial in this respect. M</p> <p>(b) The CLR reports that a feasibility study for hazardous waste management at the KAP site has been completed</p>	<p>Source: CPS, CPSPR, CLR, and ICRR P084605</p> <p>The indicator was revised at the CPSPR stage.</p> <p>The CPSPR reported that all targets were achieved.</p> <p>Bank support was provided through: Albania / Montenegro Lake Shkoder Integrated Ecosystem Management Project (P084605) GEF - TF-91939 and TF-91939</p>



	<b>CPS FY11-FY14 – Focus Area 2: Improving Environmental Management</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
	<p>(ii) (a) Agreed monitoring data baseline maintained or improved; PHM developed; joint Lake Monitoring plan in place and used;</p> <p>(b) Government of Montenegro and KAP reached the agreement on a preferred solution and joint action plan adopted for hazardous waste dump at KAP site.</p>	<p>and EIA carried out. Nevertheless, final solution that would allow for the reduction of immediate threats from KAP site has not been agreed on. The Skadar Lake Project has, nevertheless, provided the basis for continuing the work on this area, and the Bank continues the dialogue with the Government within the Industrial Waste Management and Cleanup Project, towards the options for remediation of KAP's red mud basins and hazardous waste dumpsite area, which are primary threats to Lake Skadar.</p>	
	<p><b>16. CPS Objective: Reduce the environmental and public health risks of polluted industrial disposal sites</b></p>		
	<p><b>Indicator:</b> Environmental remediation completed of four industrial disposal sites: (i) KAP in Podgorica; (ii) lignite thermal power plant in Pljevlja; (iii) lead-zinc tailings pond in Pljevlja; (iv) the Bijela shipyard</p> <p><b>Baseline:</b> No remediation</p> <p><b>Target:</b> Remediation completed</p>	<p>The CLR reports these targets are supported by the Industrial Waste Management and Cleanup Project (P122139) approved in September 2014. As of now, a series feasibility studies with site investigations, Environmental and Social Impact Assessments (ESIAs), and basic designs were completed for all four industrial waste disposal sites. A mix of remediation measures have been identified and developed for the four selected sites. Negotiations of the project, however, were delayed by KAP bankruptcy and new ownership. It also took longer than expected to finalize an arrangement for the disposal of ongoing, non-hazardous waste production from Bijela shipyard; the final decision was to dispose of it at the newly constructed Mozura landfill. Overall, much more time than originally anticipated was needed for consultations and getting all stakeholders on board for arrangements related to the Bijela Shipyard and KAP. The targets are expected to be met in the next CPF period.</p>	<p>Source: CPS, CPSPR, CLR and ISR P122139</p> <p>Bank support was provided through: Industrial Waste Management and Cleanup Project (P122139)</p>
	<p><b>17. CPS Objective: Enhance the efficiency of energy use in targeted public schools and hospitals</b></p>		
	<p><b>Indicator:</b> (i) Quantified energy savings of at least 40% on average in the targeted buildings, measured through</p>	<p>The CLR reports that 18 buildings had benefited from energy efficiency retrofits. The results from TM&amp;E show total energy savings of 46.7% on average. The original</p>	<p>Source: CPS, CPSPR, CLR and ISR P107992</p>



	<b>CPS FY11-FY14 – Focus Area 2: Improving Environmental Management</b>	<b>Actual Results (as of current month/year)</b>	<b>IEG Comments</b>
	<p>Technical Monitoring and Evaluation (TM&amp;E)</p> <p>(ii) Number of buildings retrofitted with energy efficiency improvement schemes</p> <p><b>Baseline:</b> (i) 0%; (ii) 0 (2009)</p> <p><b>Target:</b> (i) ≥ 40%; (ii) 27 (2017)</p>	<p>loan selected buildings with the highest savings potential; subsequent buildings included in the additional financing may have somewhat lower savings. Energy efficiency implementation capacity has been enhanced and by the end of the CPS period (June 2015)</p> <p><a href="#">ISR P107992</a></p> <p>Quantified Energy Savings in Targeted Buildings Baseline: 0% (February 2009) Actual: 67% (September 2015) Target: 25% (March 2017)</p> <p>Number of buildings retrofitted with energy efficiency improvement schemes Baseline: 0 (February 2009) Actual: 18 (September 2015) Target: 27 (March 2017)</p>	<p>The indicator was revised at the CPSPR stage. The first indicator lacked dates for baseline and target. The target date for the second indicator was beyond the CPS period.</p> <p>Bank support was provided through: Montenegro Energy Efficiency Project (P107992) &amp; Energy Efficiency Additional Financing (P145399)</p>

**Annex Table 2: Montenegro Planned and Actual Lending, FY11-FY15**

Project ID	Project name	Proposed FY	Approval FY	Closing FY	Proposed Amount	Approved IBRD Amount	Approved IDA Amount	Total IBRD/IDA Amount	Outcome Rating
<b>Project Planned Under CPS/CPSPR 2011-15</b>									
P116787	Financial Sector DPL I	2011	2012	2013	85	85		85	IEG: MS
P120659	Solid Waste AF (AF-ME ENVT SENSITIVE TOURIST AREAS PROJ)	2011	2011	2012	5.7	5.5		5.5	
P130157	Financial Sector DPL II	2012	2012	2014	20	79.2		79.2	ICR: S
P122785	Higher Education, R&D, Innovation	2012	2012	2017	20	16		16	LIR: S
DROPPED	CRIF (Disaster Management)	2012			5			0	
	Env. Hot-Spots Clean Up	2013			60			0	
DROPPED	An additional possible projects	2014			20			0	
P145399	Energy Efficiency AF	2014	2014	2017	6.8	6.8		6.8	LIR: MS
P122139	Industrial Waste Management	2015	2015	2019	68.9	68.9		68.9	LIR: MS
Moved to FY17	Support to Tax Administration	2015			24			0	
DROPPED	Fiscal and Debt Management	2015			23.5			0	
DROPPED	CRIF (disaster management)	2015			2.5			0	
<b>Total Planned</b>					<b>341.4</b>	<b>261.4</b>	<b>0</b>	<b>261.4</b>	
<b>Unplanned Projects during the CPS Period</b>									
	None								
<b>Total Unplanned</b>					<b>0</b>	<b>0</b>			
<b>On-going Projects during the CPS/CPSPR Period</b>									
			<b>Approval FY</b>	<b>Closing FY</b>		<b>Approved Amount</b>			
P114275	HEALTH SYSTEM IMPROVEMENT		2010	2013		7			
P106906	ADD'L FIN LAND ADMIN & MGT		2009	2016		16		16	LIR: S
P107473	INSTIT DEV & AGR STRENGTH		2009	2016		16		16	LIR: S
P107992	ENERGY EFFICIENCY IN PUBLIC BUILDINGS		2009	2017		9		9	LIR: MS
P106899	ECSEE APL #3 - MONTENEGRO		2008	2014			18	18	IEG: S
P079116	SOLID WASTE (MESTAP)		2004	2012			7	7	IEG: MU
P082223	HEALTH SYSTEM		2004	2013			7	7	IEG: MS
P087470	PENSION ADMIN		2004	2011			5	5	IEG: MU
<b>Total On-going</b>						<b>49</b>	<b>37</b>	<b>78</b>	

Source: Montenegro CPS, CPSPR, WB Business Intelligence Table 2a.1, 2a.4 and 2a.7 as of 03/23/16

\*LIR: Latest internal rating. MU: Moderately Unsatisfactory. MS: Moderately Satisfactory. S: Satisfactory. HS: Highly Satisfactory.



**Annex Table 3: Montenegro Grants and Trust Funds Active in FY11-15**

Project ID	Project name	TF ID	Approval FY	Closing FY	Approved Amount
P107473	Montenegro Institutional Development and Agriculture Strengthening (MIDAS)	TF A1293	2016	2018	5,316,407
P144994	EU/IPA AGRICULTURE AND RURAL DEVELOPMENT INSTITUTION BUILDING PROJECT	TF 18039	2015	2018	4,222,135
P133290	Capacity Building for Effective Audit Oversight IDF Grant Project	TF 13555	2014	2017	500,000
P110602	Montenegro Institutional Development and Agriculture Strengthening (MIDAS)	TF 93405	2009	2016	4,000,000
P084605	ALBANIA/MONTENEGRO LAKE SKHODER INTEGRATED ECOSYSTEM MANAGE	TF 91939	2009	2013	2,560,000
<b>Total</b>					<b>16,598,543</b>

Source: Client Connection as of 3/26/16

**Annex Table 4: Analytical and Advisory Work for Montenegro, FY11-FY15**

Proj ID	Economic and Sector Work	Fiscal year	Output Type
P120752	PEIR Follow Up	FY12	Public Expenditure Review (PER)
P127778	CEM Growth and Competitiveness	FY13	Country Economic Memorandum (CEM)
P131561	PEFA Update	FY14	Public Expenditure Financial Accountability
Proj ID	Technical Assistance	Fiscal year	Output Type
P108007	TRANSPORT SECTOR WORK	FY11	Not assigned
P112847	PEFA FOLLOWUP TA	FY12	Not assigned
P123426	ROSC Follow up	FY12	Not assigned
P127558	Labor Market Incentives TA	FY12	Not assigned
P147431	Transport Sector Review	FY15	Not assigned

Source: WB Business Intelligence 3/28/16

**Annex Table 5: IEG Project Ratings for Montenegro, FY11-15**

Exit FY	Proj ID	Project name	Total Evaluated (\$M)	IEG Outcome	IEG Risk to DO
2011	P087470	PENSION ADMIN	4.8	MODERATELY UNSATISFACTORY	NEGLECTIBLE TO LOW
2012	P079116	SOLID WASTE (MESTAP)	13.0	MODERATELY UNSATISFACTORY	MODERATE
2012	P116787	ME Programmatic Financial Sector DPL	78.5	MODERATELY SATISFACTORY	SIGNIFICANT
2013	P082223	HEALTH SYSTEM	14.1	MODERATELY SATISFACTORY	MODERATE
2014	P106899	ECSEE APL #3 - MONTENEGRO	8.9	SATISFACTORY	NEGLECTIBLE TO LOW
<b>Total</b>			<b>119.3</b>		

Source: AO Key IEG Ratings as of 3/21/16

**Annex Table 6: IEG Project Ratings for Montenegro, FY11-15**

Region	Total Evaluated (\$M)	Total Evaluated (No)	Outcome % Sat (\$)	Outcome % Sat (No)	RDO % Moderate or Lower Sat (\$)	RDO % Moderate or Lower Sat (No)
Montenegro	119.3	5	85.1	60.0	34.2	80.0
ECA	17,054.1	211	91.0	77.5	63.8	61.5
World	102,022.4	1,220	81.3	70.5	62.7	49.5

Source: WB Business Warehouse as of 3/27/16

\* With IEG new methodology for evaluating projects, institutional development impact and sustainability are no longer rated separately.

**Annex Table 7: Portfolio Status for Montenegro and Comparators, FY11-14**

Fiscal year	2011	2012	2013	2014	Total
<b>Montenegro</b>					
# Proj	6	6	5	4	21
# Proj At Risk	1	1	1	1	4
% Proj At Risk	16.7	16.7	20.0	25.0	19.0
Net Comm Amt	80.9	84.3	70.3	68.1	303.5
Comm At Risk	16.2	16.2	9.0	16.2	57.6
% Commit at Risk	20.0	19.2	12.8	23.8	19.0
<b>ECA</b>					
# Proj	290	256	246	280	1,072
# Proj At Risk	40	47	47	37	171
% Proj At Risk	13.8	18.4	19.1	13.2	16.0
Net Comm Amt	22,649.7	23,091.9	24,699.7	26,927.9	97,369.1
Comm At Risk	2,116.9	2,668.4	3,844.0	2,635.4	11,264.7
% Commit at Risk	9.3	11.6	15.6	9.8	11.6
<b>World</b>					
# Proj	2,059	2,029	1,964	2,048	8,100
# Proj At Risk	382	387	414	412	1,595
% Proj At Risk	18.6	19.1	21.1	20.1	19.7
Net Comm Amt	171,755.3	173,706.1	176,202.6	192,610.1	714,274.1
Comm At Risk	23,850.0	24,465.0	40,805.6	40,933.5	130,054.1
% Commit at Risk	13.9	14.1	23.2	21.3	18.2

Source: WB BI as of 03/27/16

**Annex Table 8: Disbursement Ratio for Montenegro, FY11-15**

Fiscal Year	2011	2012	2013	2014	2015	Overall Result
<b>Montenegro</b>						
Disbursement Ratio (%)	14.23	27.91	34.98	23.77	35.68	26.30
Inv Disb in FY	8.57	15.50	17.78	7.75	10.60	60.19
Inv Tot Undisb Begin FY	60.21	55.54	50.82	32.59	29.71	228.87
<b>ECA</b>						
Disbursement Ratio (%)	20.51	25.92	24.15	22.78	23.49	23.36
Inv Disb in FY	2,806.39	3,498.43	2,925.82	2,611.49	2,663.82	14,505.96
Inv Tot Undisb Begin FY	13,682.49	13,495.75	12,113.73	11,466.36	11,341.47	62,099.80
<b>World</b>						
Disbursement Ratio (%)	22.38	20.79	20.60	20.79	21.78	21.25
Inv Disb in FY	20,933.36	21,048.24	20,510.39	20,756.98	21,852.73	105,101.70
Inv Tot Undisb Begin FY	93,516.54	101,234.29	99,588.04	99,852.72	100,343.74	494,535.33

\* Calculated as IBRD/IDA Disbursements in FY / Opening Undisbursed Amount at FY. Restricted to Lending Instrument Type = Investment.

AO disbursement ratio table as of 3/27/16

**Annex Table 9: Net Disbursement and Charges for Montenegro, FY11-15**

Period	Disb. Amt.	Repay Amt.	Net Amt.	Charges	Fees	Net Transfer
FY11	8,431,020.6	11,257,735.3	(2,826,714.7)	5,685,344.9	633,136.2	(9,145,195.8)
FY12	93,910,436.3	10,509,341.2	83,401,095.1	6,128,335.3	851,693.6	76,421,066.3
FY13	20,944,572.5	14,805,064.1	6,139,508.3	5,710,441.7	3,174,417.7	(2,745,351.1)
FY14	6,588,702.1	18,726,457.5	(12,137,755.5)	4,632,535.0	646,568.8	(17,416,859.3)
FY15	9,587,969.1	23,447,188.5	(13,859,219.4)	3,878,389.2	655,126.0	(18,392,734.6)
<b>Report Total</b>	<b>139,462,700.6</b>	<b>78,745,786.6</b>	<b>60,716,913.9</b>	<b>26,035,046.2</b>	<b>5,960,942.3</b>	<b>28,720,925.4</b>

World Bank Client Connection 3/28/16

Annex Table 10: List of IFC Investments in Montenegro

**Investments Committed in FY11-FY15**

Project ID	Project Short Name	Institution Number	Cmt FY	Project Status	Primary Sector Name	Greenfield Code	Project Size	Original Loan	Original Equity	Original CMT	Loan Cancel	Equity Cancel	Net Loan	Net Equity	Net Comm	Loan Risk Rating	Equity Risk Rating
31065	Podgorica Roads	662866	2012	Active	Transportation and Warehousing	G	47,761	13,272	-	13,272	-	-	13,272	-	13,272	3B	
30009	Podgorica Bypass	662866	2011	Active	Transportation and Warehousing	G	13,219	13,219	-	13,219	-	-	13,219	-	13,219	3B	
<b>Sub-Total</b>							<b>60,980</b>	<b>26,491</b>	<b>-</b>	<b>26,491</b>	<b>-</b>	<b>-</b>	<b>26,491</b>	<b>-</b>	<b>26,491</b>		

**Investments Committed pre-FY11 but active during FY11-15**

Project ID	Project Short Name	Institution Number	CMT FY	Project Status	Primary Sector Name	Green field Code	Project Size	Original Loan	Original Equity	Original CMT	Loan Cancel	Equity Cancel	Net Loan	Net Equity	Net Comm	Loan Risk Rating	Equity Risk Rating
26984	Montenegro Mall	619845	2008	Active	Construction and Real Estate	G	54,335	15,678	-	15,678	-	-	15,678	-	15,678	7	
27115	NLB Montenegro	621304	2009	Closed	Finance & Insurance	E	13,404	14,102	-	14,102	-	-	14,102	-	14,102	5A	-
<b>Sub-Total</b>							<b>67,739</b>	<b>29,779</b>	<b>-</b>	<b>29,779</b>	<b>-</b>	<b>-</b>	<b>29,779</b>	<b>-</b>	<b>29,779</b>		
<b>TOTAL</b>							<b>128,719</b>	<b>56,270</b>	<b>-</b>	<b>56,270</b>	<b>-</b>	<b>-</b>	<b>56,270</b>	<b>-</b>	<b>56,270</b>		

Source: IFC-MIS Extract as of end June 30, 2015

**Regional Investments active in Montenegro during FY11-15**

Project ID	Project Short Name	Institution Number	CMT FY	Project Status	Primary Sector Name	Green field Code	Project Size	Original Loan	Original Equity	Original CMT	Loan Cancel	Equity Cancel	Net Loan	Net Equity	Net Comm	Loan Risk Rating	Equity Risk Rating
24291	EFSE	536522	2006	Active	Finance & Insurance	G	36,896	-	36,896	36,896	-	-	36,896	36,896	36,896		3B
<b>Sub-Total</b>							<b>36,896</b>	<b>-</b>	<b>36,896</b>	<b>36,896</b>	<b>-</b>	<b>-</b>	<b>36,896</b>	<b>36,896</b>	<b>36,896</b>		



**Annex Table 11: List of IFC Advisory Services for Montenegro**

**Advisory Services Approved in FY11-15**

Project ID	Project Name	Impl Start FY	Impl End FY	Project Status	Primary Business Line	Total Funds, US\$
	None					
<b>Sub-Total</b>						-

**Advisory Services Approved pre-FY11 but active during FY11-15**

Project ID	Project Name	Impl Start FY	Impl End FY	Project Status	Primary Business Line	Total Funds, US\$
29603	Berane SW	2010	2014	CLOSED	PPP	530,444
27548	Hydropower plants on the River Moraca	2009	2012	CLOSED	PPP	3,002,000
555826	Montenegro National BEE Reform	2009	2012	CLOSED	IC	569,050
562267	Montenegro Sub-national Competitiveness	2009	2011	CLOSED	IC	300,000
563669	ADR Montenegro Phase II	2009	2011	CLOSED	IC	238,490
564810	Integrated Solid WASTE Management-Montenegro	2009	2011	TERMINATED	SBA	105,128
565468	ISTR Mont Exten	2009	2012	CLOSED	SBA	189,455
567009	CG MNE II	2009	2012	CLOSED	SBA	248,828
27325	Montenegro Roads	2008	2012	CLOSED	PPP	1,925,500
<b>Sub-Total</b>						<b>7,108,895</b>
<b>TOTAL</b>						<b>7,108,895</b>

Source: IFC AS Data as of June 30, 2015

**Regional Advisory Services active during FY11- FY15**

Project ID	Project Name	Impl Start FY	Impl End FY	Project Status	Primary Business Line	Total Funds, US\$
595728	Balkans Renewable Energy Program Expansion	2013	2016	ACTIVE	CAS	3,440,000
572687	Trade Logistics South East Europe	2012	2016	CLOSED	TAC	2,731,924
586209	ECA Corporate Governance Program	2012	2016	ACTIVE	ESG	4,801,126
595887	WBC Agribusiness study	2012	2013	CLOSED	SBA	139,848
557247	South East Europe Sub-national Doing Business Report	2007	2012	CLOSED	IC	870,884
<b>TOTAL</b>						<b>11,983,782</b>

**Annex Table 12: IFC net commitment activity in FY11 - FY15, Montenegro**

	2011	2012	2013	Total
Infrastructure	13,219,360	13,461,135	1,070	26,681,565
<b>Total</b>	<b>13,219,360</b>	<b>13,461,135</b>	<b>1,070</b>	<b>26,681,565</b>

Source: IFC MIS as of 3/28/16



**Annex Table 13: Total Net Disbursements of Official Development Assistance and Official Aid for Montenegro**

<b>Development Partners</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Australia	0.01	0.01	..	0
Austria	1.16	0.96	1.19	0.81
Belgium	0.09	..	..	..
Canada	0.14	..	0.05	0.09
Czech Republic	0.07	0.1	0.21	0.22
Denmark	0.8	0.76	0.05	..
Finland	0.03	..	..	..
France	0.54	0.59	0.17	-0.3
Germany	4.08	6.01	17.35	5.6
Greece	0.16	0.23	0.29	0.34
Italy	0.29	2.6	4.36	0.31
Japan	4.72	1.14	0.6	0.5
Korea	..	0.11	..	0.09
Luxembourg	2.83	5.44	2.78	1.09
Netherlands	1.62	..	..	..
Norway	2.85	3.51	2.25	1.27
Poland	-0.95	-0.88	-0.9	-0.91
Portugal	..	..	0	0.03
Slovak Republic	0.64	0.4	0.24	0.29
Slovenia	2.41	2.25	2.06	1.53
Spain	0.01	..	-0.66	-0.66
Sweden	0.35	0.59	0.31	0.26
Switzerland	0.01	0.14	0.04	0.13
United Kingdom	0.33	0.77	0.84	0.83
United States	6.45	7.88	6.42	3.65
<b>DAC Countries, Total</b>	<b>28.64</b>	<b>32.61</b>	<b>37.65</b>	<b>15.17</b>
Council of Europe Development Bank [CEB]	0.86	0.51	..	..
EU Institutions	74.72	49.14	58.61	78.76
Global Environment Facility [GEF]	1.32	2.01	1.75	2.49
Global Fund	1.7	0.82	0.82	0.82
International Atomic Energy Agency [IAEA]	0.16	0.47	0.22	0.2
International Bank for Reconstruction and Development [IBRD]	..	..	..	..
International Development Association [IDA]	4.24	2.51	-1.51	-4.87
International Finance Corporation [IFC]	..	..	..	..
OSCE	2.9	2.57	2.56	2.51
UNAIDS	..	..	..	..
UNDP	0.85	0.7	0.44	0.33
UNECE	..	..	..	..
UNFPA	..	..	..	..
UNHCR	2.76	1.88	2.4	..
UNICEF	0.92	0.59	1.09	1.01
World Health Organisation [WHO]	..	..	..	0.13
<b>Multilateral, Total</b>	<b>90.43</b>	<b>61.2</b>	<b>66.38</b>	<b>81.38</b>
Hungary	0.71	0.01	0.68	0.32
Israel	0.02	0.05	0.06	..
Lithuania	0.06	..	0.01	..
Romania	..	..	0.03	..
Russia	..	0.02	..	..
Turkey	2.87	2.75	13.32	5.92
United Arab Emirates	3.92	7.09	-0.17	-0.87
<b>Non-DAC Countries, Total</b>	<b>7.58</b>	<b>9.92</b>	<b>13.93</b>	<b>5.37</b>
<b>Development Partners Total</b>	<b>126.65</b>	<b>103.73</b>	<b>117.96</b>	<b>101.92</b>

Source: OECD Stat, [DAC2a] as of March 28, 2016

**Annex Table 14: Economic and Social Indicators for Montenegro, 2011 - 2015**

Series Name	2011	2012	2013	2014	2015	MNE	ECA	World
						Average 2011-2015		
<b>Growth and Inflation</b>								
GDP growth (annual %)	3.2	(2.7)	3.5	1.8	..	1.5	0.9	2.5
GDP per capita growth (annual %)	3.1	(2.8)	3.4	1.7	..	1.4	0.6	1.3
GNI per capita, PPP (current international \$)	14,330.0	13,960.0	14,560.0	14,530.0	..	14,345.0	27,564.5	13,892.8
GNI per capita, Atlas method (current US\$) (Millions)	7,240.0	7,000.0	7,330.0	7,320.0	..	7,222.5	25,040.7	10,302.6
Inflation, consumer prices (annual %)	3.5	4.1	2.2	(0.7)	..	2.3	2.7	3.8
<b>Composition of GDP (%)</b>								
Agriculture, value added (% of GDP)	9.6	8.9	9.8	10.0	..	9.6	2.0	3.1
Industry, value added (% of GDP)	18.0	17.8	18.8	17.7	..	18.1	25.6	26.7
Services, etc., value added (% of GDP)	72.3	73.4	71.4	72.3	..	72.4	72.4	70.2
Gross fixed capital formation (% of GDP)	19.5	19.8	20.2	19.0	..	19.6	19.9	21.9
Gross domestic savings (% of GDP)	(2.6)	(3.8)	(0.5)	0.4	..	-1.6	22.4	22.5
<b>External Accounts</b>								
Exports of goods and services (% of GDP)	42.3	43.7	41.3	40.1	..	41.9	41.2	29.8
Imports of goods and services (% of GDP)	64.3	68.1	61.4	60.0	..	63.5	39.1	29.8
Current account balance (% of GDP)	(17.4)	(18.8)	(14.5)	(15.2)	..	-16.5		
External debt stocks (% of GNI)	51.9	68.8	67.1	52.9	..	60.2		
Total debt service (% of GNI)	4.7	6.5	8.2	5.8	..	6.3		
Total reserves in months of imports	1.5	1.9	2.4	2.7	..	2.1	6.3	13.4
<b>Fiscal Accounts <sup>1</sup></b>								
General government revenue (% of GDP)	37.76	39.976	41.553	43.973	42.166	41.1		
General government total expenditure (% of GDP)	43.096	45.868	46.73	45.323	52.156	46.6		
General government net lending/borrowing (% of GDP)	-3.864	-3.996	-3.035	0.94	-7.247	-3.4		
General government gross debt (% of GDP)	45.983	53.972	55.767	60.49	69.886	57.2		
<b>Social Indicators</b>								
<b>Health</b>								
Life expectancy at birth, total (years)	74.5	74.6	74.8	..	..	74.6	76.6	71.0
Immunization, DPT (% of children ages 12-23 months)	95.0	94.0	94.0	91.0	..	93.5	95.3	85.5
Improved sanitation facilities (% of population with access)	94.0	94.6	95.1	95.6	95.9	95.0	92.8	65.9
Improved water source (% of population with access)	97.7	98.1	98.4	98.8	99.2	98.4	94.8	82.1
Mortality rate, infant (per 1,000 live births)	5.7	5.3	4.9	4.6	4.3	5.0	10.9	34.9
<b>Education</b>								



Series Name						MNE	ECA	World
	2011	2012	2013	2014	2015	Average 2011-2015		
School enrollment, preprimary (% gross)	56.5	60.9	..	..	..	58.7	76.0	52.8
School enrollment, primary (% gross)	100.5	100.9	..	..	..	100.7	102.1	108.2
School enrollment, secondary (% gross)	91.0	90.9	..	..	..	91.0	101.3	73.9
<b>Population</b>								
Population, total (Millions)	620,079.0	620,601.0	621,207.0	621,800.0	..	620,921.8	895,631,334.3	7,090,433,836.0
Population growth (annual %)	0.1	0.1	0.1	0.1	..	0.1	0.3	1.2
Urban population (% of total)	63.3	63.5	63.6	63.8	..	63.6	70.3	52.4

Source: DDP as of 2/17/2016

\*International Monetary Fund, World Economic Outlook Database, October 2015