



Investing in rural people

Executive Board

Montenegro

Country strategic opportunities programme

2025–2030

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Map of IFAD-funded operations in the country



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
 Map compiled by IFAD | 10-05-2024

Executive summary

1. Montenegro is classified as an upper-middle-income country. In the aftermath of the COVID-19 pandemic, the country experienced strong economic growth boosted by tourism. Despite this positive growth, rising inflation and significant economic disparities persist, particularly between the predominantly rural north and the rest of the country. The northern region, which relies primarily on small-scale agriculture, faces low productivity and limited access to markets and is highly vulnerable to climate change impacts. These challenges, compounded by inadequate infrastructure and limited services, result in chronic poverty, especially among women and youth. This has led to high unemployment and substantial outmigration, further exacerbating inequality.
2. Montenegro's poverty challenges are persistent and systemic, particularly in rural and mountainous areas, where isolation and inadequate infrastructure perpetuate economic hardship. Despite these challenges, the mountainous areas offer substantial potential for sustainable economic growth including opportunities for high-quality food production and ecotourism. Lessons from past IFAD-funded projects have demonstrated that promoting circular food systems enhances livelihoods and addresses the entrenched inequalities plaguing these rural communities.
3. According to the IFAD Graduation Policy, Montenegro's gross national income per capita (GNIPc) has exceeded the Graduation Discussion Income threshold for three consecutive years, prompting an assessment of its readiness to graduate from IFAD borrowing. The country strategic opportunities programme (COSOP) 2025–2030 has been prepared under the joint supervision of IFAD and the Government of Montenegro, represented by the Ministry of Agriculture, Forestry and Water Management. The programme is the product of extensive consultations with government counterparts, beneficiaries at central and local level, civil society, bilateral and multilateral agencies, and United Nations agencies in the country.
4. During the COSOP's development, specific targets for the three graduation criteria were agreed for the duration of the programme with government counterparts and are presented in appendix III (transition projections). Of these, three key indicators will be assessed at COSOP completion as agreed: (i) country's ability to access capital markets upgraded from B+ to BB+ (Standard & Poor's [S&P]) and from Ba3 to Ba1 (Moody's) respectively; (ii) the overall rural sector performance assessment upgraded from 3.9 to 4.5; and (iii) agriculture's share of total government expenditure increased from 1.67 to 2.15 per cent. These targets will be assessed periodically and particularly at midterm and at completion to guide the dialogue between IFAD and the Government of Montenegro regarding the country's readiness for graduation from IFAD borrowing.
5. The COSOP's overall goal is to reduce poverty and enhance resilience to climate change and other shocks by improving rural livelihoods with a focus on poor rural communities, including women and youth. It will be pursued through three strategic objectives: (i) improve the resilience of rural people and landscapes to climate change; (ii) reduce rural poverty through productivity increases and linkages to markets; and (iii) promote the employment and empowerment of rural women and youth. The COSOP results management framework (appendix I) presents the indicators that will track and measure the outcomes of IFAD's interventions, assessing the extent to which strategic objectives are being achieved and ensuring alignment with national priorities.
6. The Montenegro country programme was previously guided by a country strategy note. The present COSOP will increasingly contribute to the development of specific policies for the development of the northern region to reduce inequalities and enhance the region's adaptation to climate change. It will recalibrate future investments and focus on developing sustainable rural institutions at regional

(municipalities) and national (ministries) levels, regional public goods (pastures, forests, water sources) and the piloting and scaling of innovations (clustering, landscape approaches), nationally and with neighbouring countries.

7. The geographic focus will be the 13 municipalities of the northern region. The COSOP's target groups will primarily comprise vulnerable semi-subsistence farmers, but also commercially and economically active smallholders and small and medium-sized enterprises, insofar as they enable smallholder farmers to access market and services.
8. Besides the ongoing Adaptation to Climate Change and Resilience in the Montenegrin Mountain Areas (GORA) project, starting in 2024, two new projects are planned under this COSOP, funded through the Borrowed Resource Access Mechanism for IFAD13 (2025–2027) and IFAD14 (2028–2030) respectively. Opportunities for cofinancing will be pursued through grants supported by supplementary funds and complementary loans from partner international financial institutions.

Montenegro

Country strategic opportunities programme 2025–2030

I. Country context

A. Socioeconomic setting

Table 1
Key data

<i>Indicator</i>	<i>Data</i>	<i>Year of reference</i>
GNIpc	US\$11,500	2023
GDP growth	6.3%	2023
Debt to GDP ratio	60.7%	2023
Debt service ratio	22.8%	2022
Inflation rate (%)	8.6%	2023
Population size	617,213	2022
Population, female	51.3%	2022
Population, youth (0-24)	49%	2023
Unemployment rate	13.1%	2023
Fragility Index (Fragile State Index)	58/120	2023
INFORM Risk Index	2.7/10 (Low)	2024

1. Montenegro is a small, open and import-dependent economy with a modest industrial base and a strong dependence on tourism. It covers an area of 13,812 square kilometres and had a population of 617,213 in 2022. An upper-middle-income country, Montenegro had a [GDP of 7.4 billion](#) and a [GNIpc of US\\$11,500](#) in 2023. The country unilaterally adopted the euro in 2002, officially applied to join the European Union (EU) in 2008 and aims to [becoming a member by 2028](#).
2. The Montenegrin economy has gone through a high growth and high inflation period in the aftermath of the COVID-19 pandemic. Growth remained strong at [an estimated 6 per cent in 2023](#), as private consumption (driven by migrant inflows) and services exports (mainly the tourism sector) gained further ground. Based on this positive performance, in March 2024 S&P revised the outlook on the long-term sovereign credit ratings for Montenegro from stable to positive.
3. The gap between the north and the central and coastal regions is widening. Between 2012 and 2020, the risk of poverty decreased to 15 per cent in the central and coastal regions, [while it remained around 40 per cent in the north](#). The northern region also lags behind in terms of employment; while the employment rate has risen to 60 per cent in the coastal and central regions, [in the north it remains below 35 per cent](#).

B. Assessment framework

4. The country's GNIpc has been above the Graduation Discussion Income threshold for three consecutive years (above US\$7,155). In line with the Graduation Policy, exceeding the threshold does not automatically lead to graduation. An analysis of aspects other than income was carried out to assess the country's level of institutional development and its capital market.
5. The analysis is structured around three criteria for which the benchmarks and targets are presented in table 2 below. The targets are inherently speculative; the assumptions on which the projections are based are presented in detail in appendix III.

Table 2
COSOP assessment framework

		Approval	COSOP results review	COSOP completion report
Assessment criteria	Indicator	At design	Midterm benchmark	Completion target
		2024	2027	2030
Access to international capital markets				
Credit rating	S&P	B+	BB+	BB+
	Moody's	Ba3	Ba2	Ba1
Institutions/policies for sustainable rural development				
Rural sector performance assessment (RSPA)	Overall RSPA rating	3.9	4.1-4.2	4.5
	Policies/frameworks (1.1)	4.7	4.8	4.9
	Climate change policies (3.2)	4.0	4.2	4.5
	Access/use rural financial services (4.1)	3.2	3.8	4.5
Progress towards Sustainable Development Goals (SDGs)				
SDG 1 Poverty	Poverty headcount ratio (upper-middle-income)	8.57%	7.76%	7.08%
	Prevalence of undernourishment (%pop)	2.5%	2.5%	2.5%
SDG 2 Zero Hunger	Prevalence of severe food insecurity	2.1%	2.2%	2%
	Agriculture share of total government expenditure	1.67%	1.9%	2.15%
SDG 5 Gender equality	5.5.1 Proportion of seats held by women in local governments	35.3%	40%	45%
	Gender Inequality Index (over 100)	60.4	65.3	69.8
SDG 10 Reduced inequalities	10.1 Growth rate of income share of bottom 40%	3.4%	3.7%	4.2%
Memo Item				
	GNIpc (Atlas method, thousand US\$)	11.5	13.13	14.34

Data sources: Credit rating (e.g. Moody's, Fitch, S&P); Policies/institutions: IFAD RSPA, International Monetary Fund. SDGs: Poverty (World Bank, World Development Indicators [WDI]); food security (State of Food Security and Nutrition in the World); gender (United Nations Statistics Division); inequality (World Bank, WDI).

GNIpc: World Bank, WDI, October 2024.

Poverty headcount ratio is defined using the World Bank international poverty line of US\$6.85/day.

- These targets will be assessed periodically and will guide ongoing dialogue between IFAD and the Government of Montenegro regarding the country's readiness for graduation from IFAD borrowing.

C. Food system, agricultural and rural sector agenda

- The northern region of Montenegro comprises 13 municipalities, classified as predominantly rural. The region relies more strongly on agriculture and livestock production than other parts of Montenegro, with nearly 36 per cent of the country's agricultural land and 32 per cent of cattle numbers, but with the lowest agricultural revenue. The area is dominated by a mountainous landscape characterized by abundant forest coverage interspersed with pastures and is rich in biodiversity and water resources.
- The northern region's food system is mainly informal and traditional, relying on local production and consumption, although it coexists with more modern and formalized food systems, particularly in more accessible areas and urban centres served by global supply chains. In terms of nutrition and sustainable and healthy diets, the local production is sufficient in terms of quantity and quality; conditions such as obesity are more acute outside of mountain areas.

Challenges and opportunities

- Key challenges constraining rural development in northern Montenegro include widespread subsistence agriculture and limited smallholder support systems; inadequate rural infrastructure, including roads and water access; poor market connectivity; environmental challenges; unequal workload and limited

representation of women in rural organizations and institutions; and absence of employment opportunities and competitive salaries, particularly for youth.

10. Small-scale producers are particularly vulnerable to climate shocks as they rarely have the means to anticipate and adapt to these accelerating changes. The multiple impacts of climate change on production systems go beyond drought and heat cycles, and include hail, late spring frost, increased variability in precipitation and an increase in pests and diseases. *Katuns* (summer pastures) are still used today, but with a much smaller number of cattle and a decline in the quality of pasture, partially due to undergrazing.
11. As a result, the north has been experiencing significant outward migration, mainly to the coast and abroad. However, the region has significant potential for growth, mainly in terms of quality agricultural production and import substitution for the domestic tourist market, as well as further development of the tourism sector and forest management, provided they are sustainably developed.
12. Key opportunities include: (i) improving productivity of primary goods while enhancing the health of ecosystems (including pastures), crops and animals; (ii) adding value to local products such as milk, fruits and honey through small-scale processing with differentiation strategies, including organic production; and (iii) promoting adaptation to climate change by preventing the degradation of natural resources and promoting their sustainable use for agricultural production and tourism.
13. The cultural and natural heritage of northern Montenegro offers further opportunities for the development of ecotourism as a driver of rural development. In this context, the existing rural and traditional food systems represent an asset that can be leveraged to generate income and employment opportunities for rural households, and particularly for women and youth, while promoting a healthy diet. The promotion of agroecology could support the emergence of a [circular food system premised on the renewability of resources](#).

Government policy and institutional framework

14. Montenegro is a parliamentary representative democratic republic headed by the Prime Minister. Presidential and parliamentary elections were held in 2023, after a period of political instability. EU membership remains a top priority and has been driving the country's reform process.
15. Rural and agricultural development is regulated by the [Law on Agriculture and Rural Development of 2009](#). Other key sectoral policies and plans related to IFAD's mandate are listed below, while the key gaps identified are summarized in table 3.
 - (i) **The Agriculture and Rural Areas Development Strategy 2023-2028**, which emphasizes the sustainable use of natural resources and the production of high-quality agricultural and food products.
 - (ii) **The third phase of the Instrument for Pre-accession Assistance for Rural Development Programme (IPARD-III)**, which aims to improve the competitiveness and increase the added value of products, create jobs and improve living conditions in rural areas.
 - (iii) **The National Strategy of Sustainable Development to 2030**, which identifies sustainable agriculture and rural development as a priority.
 - (iv) **The Youth Strategy 2023-2027**, which indirectly impacts rural youth by aiming to establish a sustainable interdepartmental support system for young people in the country.
 - (v) **The National Strategy for Gender Equality 2021-2025**, which recognizes rural women as a vulnerable social group and proposes the introduction of

incentives for women who own land and want to start or improve agricultural production.

- (vi) **The Montenegro Tourism Development Strategy 2022–2025**, whose operational goals include improving the quality of diversified tourism products, including rural tourism and tourism in protected areas.
 - (vii) **A strategy for the development of the northern region**, which is under development.
16. **National climate policy framework.** Montenegro is by constitution an ecological state, where the protection of the environment and ecosystems forms the basis for its economic and social development. Montenegro ratified the United Nations Framework Convention on Climate Change, as well as the Kyoto Protocol and the Paris Agreement, in addition to the Convention on Biological Diversity. The National Climate Change Strategy to 2030 (published in 2015) is the key policy instrument for the management of climate change in Montenegro. Montenegro established the Standing Working Group for Climate Change Adaptation and Mitigation to advance the implementation of climate action in the country.

II. IFAD engagement: lessons learned

A. Results achieved during the previous country strategy note

17. The country programme was previously guided by a country strategy note (CSN), which oversaw the implementation of the Rural Clustering and Transformation Project (RCTP). In the absence of a country strategy performance evaluation, not foreseen for countries with a CSN, the RCTP's project completion report, including an impact assessment, and its performance evaluation carried out by the Independent Office of Evaluation of IFAD provide a good measure of the results achieved and a good means of drawing lessons from the country portfolio as developed below.
18. The project was successful in enhancing economic mobility among beneficiary households, leading to a 34 to 35 per cent increase in household income. The RCTP also contributed to the enhancement of productive capacities, access to market and the climate resilience of beneficiaries, who exhibited a 21 per cent higher likelihood of recovery from climatic shocks than the control group at completion.

B. Lessons from the previous CSN and other sources

19. The implementation of RCTP allowed IFAD to develop and consolidate its value added in addressing poverty and inequalities in the north. The project's experience generated the following lessons, which are further detailed in RCTP's impact assessment and [project completion report](#).
- (i) Matching grants are a viable mechanism to support the graduation of small-scale producers towards larger investments.
 - (ii) Multi-stakeholder platforms (MSPs) are an effective engagement mechanism to increase market participation.
 - (iii) Climate resilience can be enhanced through income diversification and improved access to climate-resilient infrastructure.
 - (iv) RCTP's gender-sensitive strategies effectively contributed to women's empowerment.
 - (v) The limited engagement recorded in some of the target crops highlights the need for in-depth market and demand analysis at design.
 - (vi) The success of RCTP is the direct result of its strong and committed implementation team.

- (vii) RCTP's hybrid approach to financial management arrangements proved effective and will be replicated in future projects.

III. Strategy for transformational country programmes

A. COSOP theory of change

20. The theory of change is rooted in the development challenges highlighted above, which can be summarized as follows: fragmented production landscape, served by inadequate transport and water infrastructure; the increased risk of climate-related hazards, including floods, drought and wildfires; the absence of producers' organizations and the limited accessibility of extension services; social barriers constraining the livelihoods of rural women and youth; and weak policy and institutional framework for sustainable development in the rural mountainous areas. These challenges contribute to the isolation of smallholder farmers and constrains their production, productivity and access to markets, leading to poverty and outmigration.
21. The country programme will address these challenges through four main causal pathways to achieve the goal of rural poverty reduction and enhanced resilience:
- (i) Promoting the adoption of sustainable livestock and agricultural technologies and practices.
 - (ii) Building adaptive capacity to climate change at territorial level through integrated landscape management.
 - (iii) Investing in climate-resilient infrastructure and facilitating MSPs to promote the processing and marketing of local products.
 - (iv) Empowering women and youth through matching grants and ad hoc capacity-building efforts, which can lead to income diversification and better job opportunities, thus reducing outmigration.
22. The underlying assumptions and risks underpinning the theory of change are described in appendix IX, alongside a more detailed narrative.

B. Overall COSOP goal and strategic objectives

23. The COSOP's overall goal is to reduce poverty and enhance resilience to climate change and other shocks by improving rural livelihoods with a focus on poor rural communities, including women and youth. IFAD will contribute to transforming the rural economy into a more efficient circular food system, based on climate-resilient farms and more productive and diversified MSPs connected to the local private sector.
24. Three strategic objectives will be pursued:
- **SO1: Improve the resilience of rural people and landscapes to climate change.** Climate-resilient measures and agroecological practices will be promoted, including fertility management and vermicomposting, sustainable water management, drought-resistant crops, adapted local breeds of livestock, forest and river protection, and climate-proofing of rural infrastructure. Specific support to housing (e.g. thermal insulation and solar energy) will be considered. Such measures will have co-benefits in terms of climate change mitigation (greenhouse gas [GHG] emissions reduction and carbon sequestration), thereby contributing to global public goods, and will offer more resilient and diversified livelihood options to smallholder farmers, notably through the development of ecotourism. Emphasis will also be placed on improving the institutional and policy environment for adaptation in mountainous areas.
 - **SO2: Reduce rural poverty through productivity increases and linkages to markets.** Increased production and productivity of local food

products (dairy, meat, berries, honey, non-timber forest products, aromatic and medicinal plants) will be supported, together with the clustering of local stakeholders, investment in market access infrastructure, the facilitation of linkages with the local private sector (such as agroenterprises and traders) through MSPs and the promotion of a circular food system. The programme will support small-scale producers in graduating as registered farmers, which will result in eligibility for national support. Commercial and economically active smallholders and small and medium-sized enterprises (SMEs) will also benefit from support as intermediaries, to strengthen linkages with local producers and allow them to buy, process and sell their products. The capacities of municipal and government extension services will be built to further strengthen service delivery to smallholder farmers.

- **SO3: Promote the employment and empowerment of rural women and youth.** The focus will be on improving the access of women and young people to economic resources, services and opportunities; increasing their decision-making power and representation in community-based organizations and platforms, including through the development of gender and youth action plans; and reducing women's excessive workload. The use of gender-transformative approaches (such as the Gender Action Learning System [GALS]) will be promoted. The COSOP aims to create new employment opportunities for young women and men in ecotourism and other non-farm activities (such as small-scale processing, trading and transport).
25. **IFAD's unique value proposition** lies in its capacity to address rural poverty in the northern region, contributing to an inclusive development trajectory that leaves no one behind. IFAD will work closely with other development partners active in the northern rural sector, most notably the EU which, supports the Government in advancing towards EU accession through the IPARD programme. IFAD will leverage its comparative advantage by supporting the smallest producers, as they lack the level of assets and formal registration status required to access IPARD funding and government support. This complementarity will contribute to expanding the outreach of national programmes to the poorest rural households, ensuring that they are also able to benefit from the country's development pathway and eventual EU accession.
 26. **Sustainability.** The present COSOP is anchored in a set of sustainability principles: (i) adopting a participatory approach emphasizing the active involvement of communities in the implementation and management of interventions, including through the establishment of MSPs and the development of local climate adaptation strategies; (ii) strengthening community-level technical capacities to ensure that stakeholders have adequate knowledge and skills to maintain the benefits of COSOP interventions; and (iii) ensuring ownership of project activities by all project stakeholders, starting with the capacity-building of municipal and government extension services to ensure continued delivery of support at local level. The municipalities' cofinancing of all investments in public goods provides another guarantee of ownership and lasting support for operation and maintenance costs, as has been shown by RCTP.
 27. **Exit strategy.** The strategy relies on the commitment of all stakeholders to adopt the recommended approaches, and their progressive empowerment to implement and replicate activities autonomously. Stakeholders at both the national and the local levels will be engaged to sustain project interventions after their completion, for instance by incorporating road maintenance costs into municipal budgets and providing for producer subsidies in the agricultural budget of the Ministry of Agriculture, Forestry and Water Management (MAFWM). The engagement of the private sector will further strengthen the sustainability of MSPs, while the capacity-building of local extension workers will assure the continuity of services to the related clusters.

28. **Scaling.** RCTP generated several best practices that lend themselves to replication within Montenegro and beyond. In particular, the rural clustering approach proved well-adapted to the context of northern Montenegro and will therefore be scaled by the Adaptation to Climate Change and Resilience in the Montenegrin Mountain Areas (GORA) project. The cofinancing model introduced by RCTP via its matching grant facility has already been adopted by some municipalities in lieu of the previously used refund modality and will continue to be promoted under the present COSOP.
29. IFAD will encourage peer-to-peer exchanges and learning in support of scaling up successful experiences. The present COSOP will also contribute to relevant national policies and institutions, thereby facilitating the scaling up of relevant approaches and practices, as summarized in the table below.

Table 3
COSOP strategic objectives

<i>Key development priority (strategic objective)</i>	<i>Underlying institutions</i>	<i>Policy reform challenges</i>	<i>Proposed interventions (lending, non-lending)</i>
SO1: Improve the resilience of rural people and landscapes to climate change	Ministry of Ecology, Sustainable Development and Northern Region Development (MERT)	Weak policy and institutional framework for sustainable development in the rural mountainous areas	Development and implementation of local climate adaptation strategies at municipal level; support to the National Council for Sustainable Development (NCSD) Working Group on mountainous areas; Strategy for the development of the northern region
SO2: Reduce rural poverty through productivity increases and linkages to markets	MAFWM	Limited implementation capacity	Capacity-building of municipal and government extension services
SO3: Promote the employment and empowerment of women and youth	MERT, MAFWM, Ministry of Human and Minority Rights, Ministry of Sports and Youth	Limited focus on youth and women	Implementation of gender and youth action plans at municipal level

C. Target group and targeting strategy

30. The COSOP's target groups will be: (i) vulnerable semi-subsistence farmers (households living close to the poverty line and below the threshold for existing government subsidies); (ii) commercial and economically active smallholders; and (iii) small and medium-scale private sector actors along the local value chains, such as agroenterprises, traders and processors. The latter will be supported insofar as they are able to enhance access to services and markets by smallholder farmers, who will remain the primary target group. On average, 50 per cent of the COSOP's beneficiaries will be women and 30 per cent will be young people (below 40 years old).
31. A combination of measures will be used to ensure appropriate targeting. These will include cluster/landscape selection. The targeting strategy will also rely on self-targeting, as many activities have immediate relevance for the COSOP's target group. Eligibility criteria will be applied across planned interventions to further strengthen the relevance of beneficiary selection and avoid elite capture.
32. In terms of geographic targeting, the focus will be on the 14 poorest municipalities located in the mountainous areas of the country: 13 in the northern region (Berane, Bijelo Polje, Mojkovac, Petnjica, Šavnik, Žabljak, Andrijevica, Gusinje, Kolašin, Plav, Pljevlja, Plužine, Rožaje), and the mountainous part of the municipality of Nikšić. The COSOP will also take account of the additional vulnerabilities of specific categories such as women-headed households, persons with disabilities and members of minority groups.

IV. IFAD interventions

A. Financing instruments

33. Montenegro became a Member of IFAD in 2015. RCTP was the first project funded by IFAD in the country. It reached completion in 2023 with impactful outcomes. In the context of Montenegro's non-eligibility for support under the Twelfth Replenishment of IFAD's Resources (IFAD12), IFAD has mobilized an Adaptation Fund (AF) grant to scale up RCTP's results through the GORA project, which is expected start in 2024.
34. Sustained additional financing will be needed to complement IFAD's ongoing activities in support of Montenegro's development pathway towards graduation. The Government confirmed its willingness to access more IFAD funds through the Borrowed Resource Access Mechanism (BRAM). Based on the transition projections presented in appendix III, the country will continue to be eligible for BRAM financing under IFAD13 (2025–2027) and IFAD14 (2028–2030). Therefore, a second BRAM contribution is envisaged under IFAD14, after the midterm review of the COSOP. The second BRAM cofinancing could be expanded to new thematic areas such as sustainable forest management, biodiversity conservation and youth employment.
35. Grant resources will be mobilized to complement and provide a concessional element to the ordinary term loans. A second tranche of US\$10 million from the AF will be available after the start-up of GORA and could be mobilized by IFAD upon the request of the Government. Moreover, IFAD can support the Government in mobilizing funding from the ninth replenishment cycle of the Global Environment Facility (GEF) Trust Fund and from the Green Climate Fund (GCF) to cofinance future IFAD investments in the country. IFAD will also explore opportunities to support the Government in accessing the newly established Global Biodiversity Framework Fund (GBFF), the Pandemic Fund (from which IFAD is seeking accreditation) and the Montenegro SDG Acceleration Fund established by the United Nations Country Team.
36. The country programme aims to foster innovations; invest in local public goods (such as roads and water infrastructure) as well as regional/global public goods (through the sustainable management and conservation of natural resources, and mitigation of GHG emissions); and contribute to effective and sustainable rural institutions and policies for adaptation in mountainous areas.

B. Country-level policy engagement and institution building

37. The programme will support a specific technical working group on mountainous areas under the NCSD, thus enhancing the participation of IFAD in policy processes.
38. The COSOP will also support municipalities in developing and adopting local climate adaptation strategies for mountainous areas – aligned with climate vulnerability analysis – and in including adaptive measures and gender and youth action plans. It will build the capacities of rural institutions such as rural clusters/MSPs and the SMEs they are linked to, in order to maximize benefits to smallholder farmers.
39. The programme will also provide technical assistance to the MAFWM by strengthening technical and financial capacity, and to the MERT by supporting the development and implementation of the upcoming strategy for the development of the northern region.

C. Innovation

40. RCTP successfully piloted and introduced innovative approaches and solutions to rural poverty reduction. These included social innovations such as the rural clustering approach and technical innovations, such as vermicomposting or

small-scale dairy processing. These innovations achieved excellent results, which will be replicated under GORA.

41. The country programme will continue to promote these innovations among a broader target group while piloting additional ones, including agroecological practices, mapping of climate vulnerability, nature-based solutions for integrated landscape management, integrating pastoral and ecological practices and, at the social level, gender-transformative approaches and youth employment mechanisms.

D. Information and communications technology for development (ICT4D)

42. The country programme will support community centres equipped with ICT to offer rural young people the opportunity to access information and network in underserved areas. Additional measures involving ICT could include facilitating access to early warning systems for climate hazards such as droughts, floods and landslides, using existing solutions in the country or supporting the development of ad hoc systems.

E. Knowledge management

43. A learning process will be deployed to facilitate the adoption of methodologies, tools and approaches and their replication in Montenegro and in the subregion. Overall responsibility for these activities will rest with the project monitoring and evaluation (M&E) officers, who will coordinate with local government counterparts and other projects. Project experiences will be communicated and mainstreamed through relevant policy forums, including the NCS D working group and the Regional Rural Development Standing Working Group in South Eastern Europe, to facilitate their incorporation within relevant strategic frameworks.

F. Strategic partnerships and South-South and Triangular Cooperation

Government and civil society

44. The COSOP will be strongly anchored within the MAFWM, the MERT, the Department for Gender Equality Affairs of the Ministry of Human and Minority Rights, and the Directorate for Youth of the Ministry of Sports and Youth. Synergies will continue with the Union of Municipalities of Montenegro. This will translate into a high level of local cofinancing – an additional factor of ownership at national and local levels.
45. The involvement of national research institutions will be key to ensuring national ownership of innovative approaches and activities supported by the country programme. A memorandum of understanding with relevant research institutions will be established to ensure the continuous involvement of research partners to document project activities and track results. A partnership with the Statistical Office of Montenegro will also be considered for the tracking of poverty in rural mountainous areas.

Development actors (United Nations agencies, international financial institutions, NGOs, etc.)

46. The country programme will complement and add value to other development partners' initiatives by targeting the smallest farmers who are not yet eligible for larger programmes such as IPARD (EU) and Montenegro Institutional Development and Agriculture Strengthening (World Bank). Regular interactions will be held with partners to leverage existing complementarities and explore the development of new synergies and cofinancing (see key file 4 for details).
47. IFAD is a member of the United Nations Country Team and will contribute to its activities. Specific partnerships will be sought with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Development

Programme, at both policy and project level, through potential new grants supported by supplementary funds, including climate funds and the SDG Acceleration Fund. Depending on the results achieved, the scaling up of best practices developed by ongoing and future interventions in the area of livestock, sustainable forest management and rural women's empowerment will also be considered through new project designs.

48. Some NGOs are active in the mountainous areas, particularly in agrotourism, promotion of local food and protection of the environment. The country programme will collaborate with them to benefit from their knowledge, draw lessons from their activities and scale these up when the experience has been positive.

South-South and Triangular Cooperation

49. Montenegro's experience and innovative approaches that have been, and will continue to be, experimented with in the mountainous areas are valuable for other countries in the Balkans, and in Europe and Central Asia. This is a key entry point for South-South and Triangular Cooperation, which has already been initiated with Bosnia and Herzegovina, and will be developed under the current COSOP.

Private sector

50. Collaboration with private sector actors will be mainly developed through local SMEs, which play a catalytic role in territorial development. These may include input suppliers, processors and off-takers who promote local products, ultimately benefiting smallholder farmers. Partnership opportunities include investments in milk collection centres, meat-processing plants and cold storage facilities. In this context, the support of the IFAD Private Sector Operations Division will be mobilized and the possibility of leveraging the IFAD non-sovereign operations facility will be explored. A partnership with the European Bank for Reconstruction and Development could also be envisaged.

V. COSOP implementation

A. Investment volume and sources

51. The ongoing GORA project has a total cost of US\$32 million and is funded by an AF grant of US\$10 million (of which US\$9.2 million for project costs) with cofinancing from the Government (through tax, cash and in-kind contributions), municipalities and beneficiaries.
52. Two additional projects are planned under the present COSOP. The first one (GORA+) will aim at strengthening GORA's achievements and will be funded under IFAD13 through BRAM resources (for a minimum of US\$14 million, based on the Government's initial request) and potentially cofinanced by a second AF grant of US\$10 million upon the request of the Montenegrin National Designated Authority.
53. The second planned project will be funded by BRAM resources made available under IFAD14, conditional on the country's continued eligibility and interest in borrowing. An amount equal to that requested under IFAD13 has been tentatively retained in the financing table below.
54. As Montenegro is classified as a small state economy in accordance with the World Bank, funding terms will be based on ordinary term conditions for Category 2 countries instead of Category 4 (less concessional). Such terms include maturity up to 30 years, with a grace period of maximum 18 years and an average maturity up to 18 years.

Table 4

IFAD financing and cofinancing of ongoing and planned projects
(Millions of United States dollars)

	IFAD financing	Source	Selectivity criteria (COSOP)	Cofinancing		Cofinancing ratio
				Domestic	International	
Ongoing						
GORA	0	N/A	I, GPG, SP, KM*	13	19 (9.2 + 9.8)	N/A
Planned						
GORA+	14 (TBC)	BRAM (IFAD13)	I, GPG, SP, KM	TBD	TBD	N/A
TBD	14 (TBC)	BRAM (IFAD14)	I, GPG, SP, KM	TBD	9.2 + ?	N/A
Total	28 (TBC)			TBD	TBD	N/A

* I: policies and institutions for sustainable rural development; GPG: regional or global public goods; SP: strategic piloting of innovative approaches; KM: knowledge management for scaling.

B. Resources for other activities

55. Opportunities to leverage additional grant resources to complement ongoing and planned projects will be explored. These may include resources from AF, GEF, GCF, GBFF, the Pandemic Fund and the SDG Acceleration Fund. The Government of Montenegro has access to significant technical assistance from the EU, and there is currently no demand for additional reimbursable technical assistance.

C. Transparency

56. The country programme's reliance on national systems for financial management and reporting allows for the integration of project expenditures into the national budget. This will increase transparency and facilitate tracking. IFAD will disclose all external audits and encourage the Government to do the same. All information relating to public procurement will be published on the procurement site and made accessible publicly and in a timely manner, with an effective appeals mechanism in place.

D. Country programme management

57. The programme will be managed from the multi-country office in Rome. It will be headed by a country director supported by a programme officer and an internal project delivery team, in which climate and social inclusion specialists will be key for mobilizing supplementary funds and supervising the projects. Project supervision missions will be organized on an annual basis and complemented with implementation support missions as needed.

E. Monitoring and evaluation

58. The monitoring and evaluation of the COSOP's results management framework (RMF) will rely predominantly on project-level M&E systems, which will be provided with the necessary capacity. The possibility of facilitating the adoption of geographic information system technology for project-level M&E will be explored through new project designs. In addition to the project-level indicators included in the RMF, a selection of country-level indicators will be monitored as part of the COSOP assessment framework. Progress on the resulting set of indicators will be monitored by the country team through annual, midterm and completion reviews based on project progress reports (for project-level indicators) and other sources (for COSOP assessment criteria).

VI. Target group engagement

59. Based on the RCTP experience, beneficiaries will be fully involved in the planning and implementation of activities as part of cluster development processes and integrated landscape management approaches. Stakeholders will also be consulted in prioritizing infrastructure investments. The COSOP will ensure that an effective communication strategy is in place to disseminate information on project activities

and inform potential beneficiaries about the criteria for participation. Grievance redress mechanisms will be developed at project level and managed by the project management units.

VII. Risk management

60. The main risks are summarized in appendix VIII. With regard to the COSOP assessment criteria, the RSPA targets may be impacted by risks related to political commitment and sector strategies and policies. These risks are assessed as low, owing to Montenegro's strong prioritization of rural and agricultural development, and will be further mitigated by ensuring continued engagement with ministries and municipalities in the face of political change, and by strengthening the Government's climate change adaptation capacity, as described in previous sections. SDG-related targets, on the other hand, are threatened by the widening divide between rural mountainous areas in the north and the rest of the country. The programme will address the underlying causes of poverty and inequality in these areas, thus contributing to mitigating risks related to SDG 1 and SDG 10. Environmental and climate change-related risks have also been identified as a significant threat to the achievement of the programme's objectives. By building the resilience of smallholders and the ecosystems they depend on in an integrated manner, the programme will be able to mitigate these risks and support the emergence of more resilient food systems and livelihoods.

Results Management Framework

Country strategy alignment	Related SDG and UNSDCF outcomes	COSOP overall goal and strategic objectives	Lending and non-lending activities for the COSOP period	Milestone Indicators	
				Impact / Outcome indicators	Outreach / Output indicators
<ul style="list-style-type: none"> <u>National Strategy of Sustainable Development to 2030 (NSSD)</u>: prioritizing sustainable agricultural development and climate change adaptation. 	SDG 1 (No poverty) SDG 13 (Climate action) UNSCDF outcome 1 (Inclusive economic development and environmental sustainability)	Overall goal: Enhance climate resilience and reduce poverty by improving rural livelihoods, focusing on poor communities, women, and youth	Lending/investment activities <ul style="list-style-type: none"> Ongoing: Gora Indicative: Gora+ and BRAM under IFAD14 Non-lending/non-project activities <ul style="list-style-type: none"> CLPE: support to NCSD Working Group on Mountainous Areas; engagement with RRD-SWG KM: impact assessments Partnerships for implementation (Municipalities, MAFWM, MERT), co-financing (AF, GEF, GCF, OPEC Fund), complementarity (WB, EU) 	<ul style="list-style-type: none"> Number of households with increased resilience to climate change Percentage decrease in rural poverty rate in supported project areas compared to rural poverty line Climate change priorities integrated into national development strategy (AF 7) 	<ul style="list-style-type: none"> Number of persons receiving services promoted or supported by the project SF.2.1. Satisfaction with project-supported services SF.2.2. Influence in decision-making of local authorities and project-supported service providers Number of policies and strategies influenced by project lessons learned Active Working Group on mountainous areas as part of the National Council for Sustainable Development
<ul style="list-style-type: none"> <u>National Climate Change Strategy to 2030 (NCCS)</u>: promoting adaptation to and mitigation of climate change in an integrated and multisectoral manner, complying with the international commitments. 	SDG 13 (Climate action)	SO1: improving the resilience of rural people and landscapes to climate change	Lending/investment activities <ul style="list-style-type: none"> Ongoing: Gora Indicative: Gora+ and BRAM under IFAD14 Non-lending/non-project activities <ul style="list-style-type: none"> CLPE: Local Climate Adaptation Strategies KM: Case studies on integrated landscape management Partnerships: UNDP on climate policy support 	<ul style="list-style-type: none"> 3.2.2 households reporting adoption of environmentally sustainable and climate resilient technologies and practices Natural resource assets maintained or improved under climate change and variability-induced stress (AF 5) Physical infrastructure improved to withstand climate change and variability-induced stress (AF 4.2.) 	<ul style="list-style-type: none"> Number of farmers trained on climate-resilient technologies and practices. Number of pastoralists supported in resilient pastoral practices. Number of developed local climate adaptation mountain strategies at landscape level. Number of hectares ha of land protected or under improved practices. Number of rain-harvesting structures constructed or rehabilitated Number of physical assets strengthened or constructed to withstand conditions resulting from

					climate variability and change (by sector and scale) (AF 4.1.2.)
<ul style="list-style-type: none"> • <u>Strategy for the Development of Agriculture and Rural Areas 2023-2028</u>: improve the competitiveness and increase the added value of products, create jobs and improve living conditions in rural areas, as well as connect them with tourism, improve rural infrastructure, organic production and forest protection. 	SDG 1 (No poverty)	SO2: reduce rural poverty through productivity increase and linkages to markets	<p>Lending/investment activities</p> <ul style="list-style-type: none"> • Ongoing: Gora • Indicative: Gora+ and BRAM under IFAD14 <p>Non-lending/non-project activities</p> <ul style="list-style-type: none"> • CLPE: capacitation of local extension services • KM: case studies on rural clustering approach • Partnerships: NGOs working on slow food, agrotourism and environment protection; SMEs involved in MSPs; FAO on FFS and ICT4D 	<ul style="list-style-type: none"> • 1.2.4 Households reporting an increase in production • % of households reporting an increased stability of income (production/commercialization) • 2.2.2 Supported rural enterprises reporting an increase in profit • 2.2.6 Households reporting improved physical access to markets, processing and storage facilities 	<ul style="list-style-type: none"> • Number of small producers registered as farmers • Number of extension service agents trained • Number of beneficiaries awarded Matching grants (MG) • Number of active Multi-Stakeholder Platforms (MSPs) • Number of HH accessing services provided by the MSPs • Number of SMEs supported involving SHFs in their activities • Number of supported storage and processing facilities • 2.1.5 km of roads constructed, rehabilitated or upgraded
<ul style="list-style-type: none"> • <u>Youth Strategy 2023-2027</u>: establishing a sustainable interdepartmental support system for young people. • <u>National Strategy for Gender Equality 2021-2025</u>: advancing the different dimensions of gender equality across the country. 	SDG 5 (Gender equality) SDG 8 (Decent work and economic growth)	SO3: Promoting gender equality and youth employment	<p>Lending/investment activities</p> <ul style="list-style-type: none"> • Ongoing: Gora • Indicative: Gora+ and BRAM under IFAD14 <p>Non-lending/non-project activities</p> <ul style="list-style-type: none"> • CLPE: Municipal Gender and Youth Action Plans • Partnerships: Ministry for Human and Minorities Rights' Department for Gender Equality, Ministry of Youth and Sports' Directorate for Youth, FAO/UNDP on rural women empowerment 	<ul style="list-style-type: none"> • 2.2.1 Jobs created for young people • Number of women in leadership positions in MSPs • CI IE.2.1 Individuals demonstrating an improvement in empowerment (total persons, females, males) 	<ul style="list-style-type: none"> • Number of women and youth awarded MGs • Number of women and youth participating in MSPs • Number of women and youth trained on entrepreneurship and leadership • Number of women and youth supported to develop income generating activities, SMEs and agrotourism • Number of HHs supported through the GALS methodology

Key files

Key file 1: Rural Poverty and agricultural sector issues (refers to chapter I A)

Priority Areas	Affected Group	Major Issues	Actions Needed
Increase production and productivity in crop and livestock systems	Smallholder farmers Vulnerable households	<ul style="list-style-type: none"> • Prevalence of subsistence agriculture with no access to governmental and IPARD support • Lack of farmers' organisations/ fragmented and weakly organised sector • Lack of access to basic services/ including education and extension system, outdated and ineffective • Inadequate water and marketing infrastructure • Degradation of pastures and their productivity due to shrubs and unpalatable species • 	<ul style="list-style-type: none"> • System of matching grants to the most vulnerable • Support to municipalities' extension services • Enhancing the use of summer pastures by improving water access and developing forest grazing • Improved fodder production with small mechanisation and access to improved varieties • Improved livestock fertility management practices
Promotion of local products and access to markets	Smallholder farmers Commercial and economically active smallholders Small and medium scale private sector actors	<ul style="list-style-type: none"> • Small production volume and limited produce standardization • Fragmented access to infrastructure • Poor connectivity to input and output markets • Inadequate equipment for storage, processing and transportation facilities 	<ul style="list-style-type: none"> • Rural clustering and linking small producers to more economically developed ones and SMEs • Restoration of existing roads and construction of new ones to enable access to market • Promote small equipment to small farmers and larger equipment to advanced farmers, with spill-over effect to small farmers around them • Promote local products, ecotourism and circular food systems
Adaptation/resilience to Climate Change	Smallholder farmers Vulnerable households	<ul style="list-style-type: none"> • Increased risk of floods and droughts • Decreasing pastoral resources due to increasing droughts • Increased frequency and intensity of wildfires • Vulnerability of roads to weather events • Water resource scarcity • Limited resilience of smallholder production systems • 	<ul style="list-style-type: none"> • Promotion of landscapes approaches for the management of natural resources • Promotion of agroecology and climate resilient production practices • Promote sustainable access to water (multiple usage water systems, ponds) • Promotion of improved and adapted rural housing • Support to fire brigades
Gender equality	Rural women, including young women and women from ethnic minorities	<ul style="list-style-type: none"> • Unequal employment opportunities • Unequal workload (productive and reproductive) • Lack of representation of women in rural organisations and institutions • Over-representation of women among unpaid family workers 	<ul style="list-style-type: none"> • Prioritise women's targeting across all interventions (clusters, matching grants, adaptive measure to adapt to CC, training...) • Ensure interventions respond to women's specific productive needs and interests, but avoid reinforcing gender bias and stereotypes • Support the introduction of time and labour-saving technologies and the provision of public services (e.g. childcare and elderly care services) in order to reduce women's workload (productive and reproductive) • Increase women's participation in relevant organisations, institutions and decision through different measures (e.g. quotas, institutional capacity development, etc.) • Promote the adoption of gender-transformative approaches that help challenge unequal social and gender norms at household and community level

Priority Areas	Affected Group	Major Issues	Actions Needed
Youth employment	Young people in rural areas	<ul style="list-style-type: none"> ● Lack of employment opportunities and low salaries ● Lack of services, both basic ones (health, education) and social ones ● Lack of enabling environment for business development ● Unattractiveness of work in agricultural production ● Strong migration and depopulation of the rural areas 	<ul style="list-style-type: none"> ● Prioritise youth's targeting across interventions ● Improve youth's access to basic services (e.g. vocational training) ● Promote agritourism in favour of young people ● Support youth's engagement in non-farm activities, such as small-scale processing, trading and transport
Nutrition and food security	General population	<ul style="list-style-type: none"> ● Prevalence of nutrition-related non-communicable diseases as well as micronutrient deficiencies ● Lack of progress in relation to low-birth-weight and exclusive breastfeeding targets ● Infant and young child feeding still suboptimal ● Need to improve healthy diet and promote healthy consumer behaviours/choices 	<ul style="list-style-type: none"> ● Invest in traditional food and country cuisine as part of the support to agribusiness and agrotourism ● Improve adherence to food safety and food quality standards for traditional and new products

Key file 2: Target group identification. Priority issues and potential response

(refers to chapter III C)

Typology	Poverty Levels And Causes	Coping Actions	Priority Needs	COSOP Response
Vulnerable semi-subsistence farmers	<ul style="list-style-type: none"> Scattered agricultural production landscape, characterized by remote and small parcels Prevalence of subsistence agriculture with no access to governmental and IPARD support Lack of farmers' organisations/ fragmented and weakly organised sector Lack of access to basic services/ including education and extension system, outdated and ineffective Inadequate infrastructure, such as adapted roads and water systems 	<ul style="list-style-type: none"> Reliance on single product (mainly livestock) for revenues Reliance on farmgate sales of fresh and processed produce Processing of milk surplus into cheese and other dairy products for sale and own consumption Migration from rural to urban centres 	<ul style="list-style-type: none"> System of matching grants targeted at the most vulnerable to improve production and productivity Support municipalities' extension services to improve outreach to smallholders Facilitating grouping and aggregation for improved access to market Enhancing the use of summer pastures by improving water access and developing forest grazing Improved fodder production thanks to small mechanisation and fertility management 	<ul style="list-style-type: none"> SO1 and SO2
Commercial and economically active smallholders and small-scale processors	<ul style="list-style-type: none"> Limited linkages to profitable markets Lack of enabling environment for business growth, including market and transport infrastructure Small production volume and challenges with certification and standardization Limited availability of equipment, capacities and infrastructure for processing and value addition Lack of capital for investment and no access to finance 	<ul style="list-style-type: none"> Cooperation with other farmers to build volume and standardisation Reliance on funding from government, diaspora and development partners to expand activities Recurring to capacity building support from development partners to develop processing operations 	<ul style="list-style-type: none"> Support to the consolidation of farmer groups/rural clusters Restoration of existing roads and construction of new ones to enable access to market and services (e.g. vet) Support to the acquisition of equipment and infrastructure for farmer groups/rural clusters Support to access profitable markets locally and in the coastal touristic area Promote local products, ecotourism and circular food systems 	<ul style="list-style-type: none"> SO2
Private sector actors along the selected value chains, such as agro-enterprises and traders	<ul style="list-style-type: none"> Limited accessibility of smallholder producers due to poor transport infrastructure and scattered production system Low volume and standardization of smallholder production 	Reliance on smallholder's own aggregation initiatives, such as rural clusters	<ul style="list-style-type: none"> Restoration of existing roads and construction of new ones to enable access to smallholder suppliers Support smallholder aggregation initiatives for increased production volume and standardization 	<ul style="list-style-type: none"> SO2

Rural women	<ul style="list-style-type: none"> • Disproportionately represented among unpaid family workers • Unequal workload of productive and reproductive work (burden of care and household work) • Unequal access to assets, resources, inputs and services (extension and financial) • Limited participation in rural organisations and institutions • Unequal workload of productive and reproductive work (burden of care and household work) 	<ul style="list-style-type: none"> • Reliance on more labour-intensive farm activities for income (e.g. milking activities) <p>Higher likelihood than men to migrate to urban areas</p>	<ul style="list-style-type: none"> • Introduction of time and labour-saving technologies and provision of social services (e.g. childcare and elderly care) in order to reduce women's workload (productive and reproductive) • Enhanced access to agricultural support services (extension, financial, business development), including by improving the policies and operational modalities of service providers • Enhanced opportunities for women-led businesses (e.g. agrotourism and agribusiness) • Promotion of equal opportunities for men and women at different levels (cluster meetings, project steering committee, etc.) • Promotion of gender-transformative approaches (at household and community level) that challenge prevailing unequal social and gender norms 	• SO3
Rural youth ¹	<ul style="list-style-type: none"> • Lack of employment opportunities and low salaries • Lack of services, both basic ones (health, education) and social ones • Lack of enabling environment for business development 	Strong migration from rural to urban areas	<ul style="list-style-type: none"> • Improve access to basic services • Enhanced opportunities for youth-led businesses (e.g. agrotourism and agribusiness) • Enhanced access to vocational training and skills development opportunities • Promotion of equal opportunities for young men at different levels (cluster meetings, project steering committee, etc.) • Enhance youth's access to digital tools and solutions applied to the agribusiness sector 	SO3

¹ Acknowledging the significant rural outmigration of youth from the targeted areas, and building on the lessons learned from previous projects, IFAD adopts a broader definition of youth compared to the Montenegrin Youth Strategy, targeting individuals aged 18 to 40.

Key file 3: Organisation matrix (strength, weaknesses, opportunities and threats analysis) (refers to chapter III-B;IV-B, C, F)

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
Enablers				
Ministry of Agriculture, Forestry and Water Management	<ul style="list-style-type: none"> Recently approved Strategy for the Development of Agriculture and Rural Areas 2023-2028 Availability of complementary funding from IPARD-III 	<ul style="list-style-type: none"> Lack of physical presence at municipal level Delays in accreditation to IPARD-III measures, including M6 on infrastructure Lack of capacities on climate change adaptation and mitigation 	<ul style="list-style-type: none"> Centralization of agri-budget at the IPARD Paying Agency IPARD instruments not adapted to smallholder farmers Existence of organic certification program and upcoming new law on organic agriculture 	<ul style="list-style-type: none"> IFAD support to continue leveraging complementarities with IPARD IFAD to continue engaging with Municipalities at local level
Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development	<ul style="list-style-type: none"> New ministry set-up includes a directorate for Northern Region Development Existence of a Standing Working Group for Climate Change Adaptation and Mitigation 	<ul style="list-style-type: none"> Lack of in-house expertise (e.g. on biodiversity and engineering) Limited funding for strategy implementation 	<ul style="list-style-type: none"> Motivated NDA seeking to leverage external funding opportunities Upcoming programs/strategies for biodiversity and for the development of the Northern region 	<ul style="list-style-type: none"> IFAD is available to support the NDA to mobilize additional climate financing IFAD to consider supporting in mobilizing Global Biodiversity Fund
Municipalities	<ul style="list-style-type: none"> Field presence of Municipalities Existence of Union of Municipalities Rural Development Strategies in some Municipalities (Andrijevica and Berane) 	<ul style="list-style-type: none"> Budget constraints, limited funding from agri-budget Lack of capacities for IPARD funding applications Limited technical capacities in climate adaptation 	<ul style="list-style-type: none"> Continuity of municipality staff Strong ownership of interventions 	<ul style="list-style-type: none"> IFAD to continue engaging with municipalities for synergies and co-financing IFAD to facilitate the adoption of municipal adaptation strategies for rural areas
National Council for Sustainable Development	<ul style="list-style-type: none"> More stable than elected government institutions Existence of relevant multi-stakeholder working groups (including upcoming one on mountainous areas) 	<ul style="list-style-type: none"> Limited human and technical resources 	<ul style="list-style-type: none"> Could play a strong role in donor coordination UNDP is supporting the development of its capacities 	<ul style="list-style-type: none"> IFAD to support the WG to become a platform where mountain development priorities can be addressed and brought to the interest of other national stakeholders
Service Providers				
SMEs involved in MSPs (e.g. Milk Collection Centres)	<ul style="list-style-type: none"> Access to stable domestic demand 	<ul style="list-style-type: none"> Inability to reach and support remote smallholder suppliers 	<ul style="list-style-type: none"> Opportunities for growth in domestic and international market 	<ul style="list-style-type: none"> The IFAD programme will leverage on SMEs for territorial development
Client Organizations				
Rural clusters/MSPs	<ul style="list-style-type: none"> Horizontal and flexible organization based on mutual interest 	<ul style="list-style-type: none"> Bad reputation of collective action 	<ul style="list-style-type: none"> Strong incentive for members to cooperate 	<ul style="list-style-type: none"> IFAD programme to continue focusing on trust-building and seek adapted institutional forms of organization

Key File 4: Strategic partnerships potential (refers to chapter IV-G, V-A)

Partnering objective	Partner	Nature of project or justification for partnering	Project/Programme Coverage	Status	Expected results from the partnership
Complementarity	EU	<ul style="list-style-type: none"> Programme for the Development of Agriculture and Rural Areas in Montenegro Under IPARD III 2021-2027 	<ul style="list-style-type: none"> Relevant measures include: Investments in physical assets of agricultural holdings (M1); Investments in physical assets concerning processing and marketing of agricultural and fishery products (M3); Agri-environment, climate and organic farming (M4); Implementation of local development strategies – LEADER approach (M5); Investments in rural public infrastructure (M6); Farm diversification and business development (M7); Establishment and protection of forests (M11) 	on going	Complementary support: IPARD investments in physical assets of agricultural holdings (M1) are targeted to the already registered farmers, while the IFAD programme will support small unregistered farmers. Complementarities will also be sought on other measures, particularly investment in rural public infrastructure (M6) and the Implementation of local development strategies – LEADER approach (M5), for which the GoM is pending accreditation.
Complementarity	WB	<ul style="list-style-type: none"> Second Institutional Development and Agricultural Strengthening Project for Montenegro (MIDAS-II) 	<ul style="list-style-type: none"> Improve the competitiveness of agriculture and fisheries in Montenegro through enhanced delivery of government support in alignment with EU accession requirements 	on going	Complementary support: MIDAS supports already registered farmers, while the IFAD programme will support small farmers before registration. MIDAS-II focuses predominantly on the fisheries sector.
Co-financing	OPEC Fund	<ul style="list-style-type: none"> The OPEC Fund is not yet present in the country but is planning to develop projects in the country 	<ul style="list-style-type: none"> The OPEC plans to contribute primarily to infrastructure 	to be developed	Partnership with GORA and further projects to finance infrastructure (mainly roads and water systems) to be explored
Co-financing	AFD	<ul style="list-style-type: none"> AFD is developing its activities in Montenegro and will open an office in 2025 	<ul style="list-style-type: none"> The programme is still to be defined but will cover rural economic development and infrastructure 	to be developed	Partnership with GORA and further projects to finance specific value-chains and infrastructure, to be explored
Grant financing	AF	<ul style="list-style-type: none"> A second grant allocation of USD 10 million from the AF will be available after the start-up of Gora 	<ul style="list-style-type: none"> The new proposal could aim at scaling-up Gora project achievements 	to be developed	Upon request of the Montenegrin NDA, IFAD can support the Government of Montenegro to develop a second phase for the Gora project
Grant financing	GEF	<ul style="list-style-type: none"> IFAD can support the Government of Montenegro in mobilising GEF9 financing to help achieve national and COSOP objectives 	<ul style="list-style-type: none"> To be determined 	to be developed	Development of a proposal for additional grant financing to ongoing or upcoming IFAD-funded projects, upon request of the Montenegrin NDA
Technical cooperation/scaling-up	FAO	<ul style="list-style-type: none"> The FAO is supporting the MAFWM through several small-scale pilot projects that offer opportunities for 	<ul style="list-style-type: none"> Ongoing projects on Livestock Farmers Field Schools (L-FFS) and support to the national breeding strategy, sustainable forest management and rural women empowerment 	to be developed	FFS have a strong potential to be implemented in a gender-responsive/transformational way; IFAD & FAO can use them to link technical training and gender awareness raising. The FAO

Partnering objective	Partner	Nature of project or justification for partnering	Project/Programme Coverage	Status	Expected results from the partnership
		learning, technical cooperation and scaling-up within the present COSOP			project on sustainable forest management could provide relevant lessons for upcoming IFAD projects. The potential to scale-up these initiatives within the IFAD country programme will be assessed at project design stage.
CLPE/technical cooperation/co-financing/scaling-up	UNDP	<ul style="list-style-type: none"> UNDP is supporting the Montenegrin government on climate policy and governance; it will also implementing upcoming projects on seascape/landscape management (GEF) and rural women empowerment with FAO (SDG acceleration fund). 	Climate policy, landscape management, rural women empowerment.	to be developed	Collaboration on country-level policy engagement in the area of climate change mitigation and adaptation; technical cooperation and/or co-financing at project level through upcoming projects. Depending on the results of the rural women empowerment project, the scale-up of specific interventions within the country programme could be considered.
KM/CLPE	RRD-SWG	<ul style="list-style-type: none"> Platform for networking and regional cooperation, promoting dialogue, networking and regional cooperation on rural development in SSE 	<ul style="list-style-type: none"> Active in rural tourism, organic agriculture, waste management, digitalization, women and youth, etc. 	to be developed	Potential opportunities to collaborate in the generation and dissemination of knowledge and in political dialogue and advocacy
KM/technical cooperation	Kisjele vode	<ul style="list-style-type: none"> NGO based in Bijelo Polje working on the preservation of local food tradition and culture alongside the protection of biodiversity and the environment 	<ul style="list-style-type: none"> Ecotourism, promotion and marketing of local produce. 	to be developed	Draw lessons from their activities and benefit from their knowledge of local context and local populations

Transition projection

As the country's GNI per capita has been above the graduation discussion income threshold for three consecutive years (above US\$7,155), this has triggered a discussion around graduation (see IFAD graduation policy for reference). Exceeding the threshold does not automatically lead to graduation: instead, it only prompts an analysis beyond income, which considers whether the country has reached a level of institutional development and capital market access that enables it to sustain its own development process without recourse to IFAD funding. To this end, a detailed analysis has been conducted as part of this annex to assess Montenegro's pathway towards graduation from IFAD borrowing over the course of the next six years.

This assessment proceeds by verifying three criteria, each measured by selected indicators, namely: 1) ability to access external capital for development at reasonable terms, measured through S&P and Moody's credit rating; 2) progress in establishing and sustaining key institutions and policies for sustainable and equitable socioeconomic rural development, measured through the IFAD Rural Sector Performance Assessment Index (RSPA); and 3) Progress towards economic and social development, as reflected by a selection of Sustainable Development Goals (SDGs) indicators.

In the sections below, we first present Montenegro's economic outlook to set the stage, to then present a brief discussion of each graduation criteria along with proposed target values for the respective indicators at the start or approval, midterm, and end of the COSOP implementation period (respectively 2024, 2024 and 2030). "Completion" targets indicate plausible projected targets after a six-year implementation period. Completion targets do not imply graduation readiness.

Montenegro's economic outlook and key vulnerabilities

Montenegro is classified as an Upper Middle-Income Country (UMIC), with a total GDP of 6.1 billion and a GDP per capita standing at USD 9,893 in 2022.² It is a small open economy which depends mostly on the service sector, in particular tourism services. In 2022, the service sector contribution to GDP was recorded as 61.5% whereas the agricultural sector's value added amounted to 6.3% of the country's total output in the same year. Despite its strong momentum of growth and prosperity fueled by reforms that are anchored by the EU accession path, the economy is prone to several vulnerabilities.

The most important macro-financial and development challenge the country is facing is regarding its growth strategy which puts the economy through frequent boom-bust cycles. Similarly, the country's high growth phase during 2015-2019 was fueled by the large public spending on the Bar-Boljare highway and private investments in energy and tourism, which were concentrated in few prestigious real estate projects. This led to a temporary construction boom leading to decline in the unemployment rate among 15+ population to a historic low of 15.1 percent in 2019, and the employment rate rising to 49 percent. Rural and low-income households benefited from this boom period. The income of the bottom 40 percent grew on average by 4.7 percent annually during 2013-2017, surpassing the whole population's income growth of 3.0 percent.³

² 2022 estimates. Source: <https://data.worldbank.org/country/montenegro>

³ World Bank Montenegro Systematic Country Diagnostic Update June 2021

Despite this positive outlook, it is important to note that the jobs created during this period were mostly low-wage, seasonal and temporary since they were predominantly in the construction, tourism, and trade sectors. The generous tax incentives for the construction and operation of luxury resorts created few permanent skilled jobs or linkages with domestic suppliers and entrepreneurs as these have relied heavily on imported goods and services. Since these investments expanded employment only in low value-added sectors, hence, they had minimal impact on productivity across the broader economy.

Soon after this boom period Montenegro was strongly hit by the COVID-19 pandemic. Covid-19 crisis hit and dragged the country into a deep recession with a GDP growth rate of -15.3% in 2020. This deep recession had substantial impacts on labor markets, thus depriving the living standards of households leading to a newly poor population. Firms in the private sector—particularly in tourism and other related services, which accounts for a quarter of Montenegro’s GDP faced serious interruptions in their business activities. The pandemic worsened the already existing economic and social inequality disproportionately affecting the poor, marginalized, and vulnerable populations including the long-term impacts on their human capital.⁴

The Montenegrin economy picked up fast in the post-pandemic period with a growth rate of 13% in 2021 according to World Economic Outlook Statistics. In 2022, the country recorded a growth rate of 6% which stems mostly from increases in personal consumption expenditures, driven by the rise in public sector wages, employment gains, and household borrowing. In terms of sectoral contribution, a significant portion of the economic growth in 2022 was due to strong tourism revenues stemming partially from the Ukrainian and Russian nationals fleeing from the Russia’s war of aggression against Ukraine.⁵ The economy continued its strong growth performance in 2023, at an estimated 6 percent, as tourism surpassed 2019 levels and the inflow of migrants continued to support private consumption.⁶

The rapid recovery following the pandemic was a positive development for the economy, but the labour market outcomes are more crucial for the well-being of households. To understand whether the recovery in the aftermath of the pandemic was one of those “jobless” ones, we look at the unemployment rate, employment and wage growth in the post-pandemic periods. During and after 2022, the rebound of tourism and measures adopted in late 2021, resulted in strong employment. This path continued into 2023 with the unemployment rate declining to a record low level owing to the good tourism season. In the third quarter of 2022 the unemployment rate of the country fell to a historic low of 13%, and the annual average rate of 14.7 percent surpassed the pre-pandemic best of 2019. The 2023 annual average unemployment rate fell further down to 13.1 percent, helped by a rate of 11.8 percent in the third quarter.⁷

Inflation stands out as a weak spot for Montenegro in the post pandemic period. Inflation is an important contributor an economy’s poverty rates as evidenced in the literature. In particular, when it stems from rising food and energy prices, it hurts the low-income households the most since these items make up a larger share of the low-income households’ consumption basket.

⁴ United Nations Montenegro (2020). “Rapid Social Impact Assessment of COVID- 19 outbreak in Montenegro”.

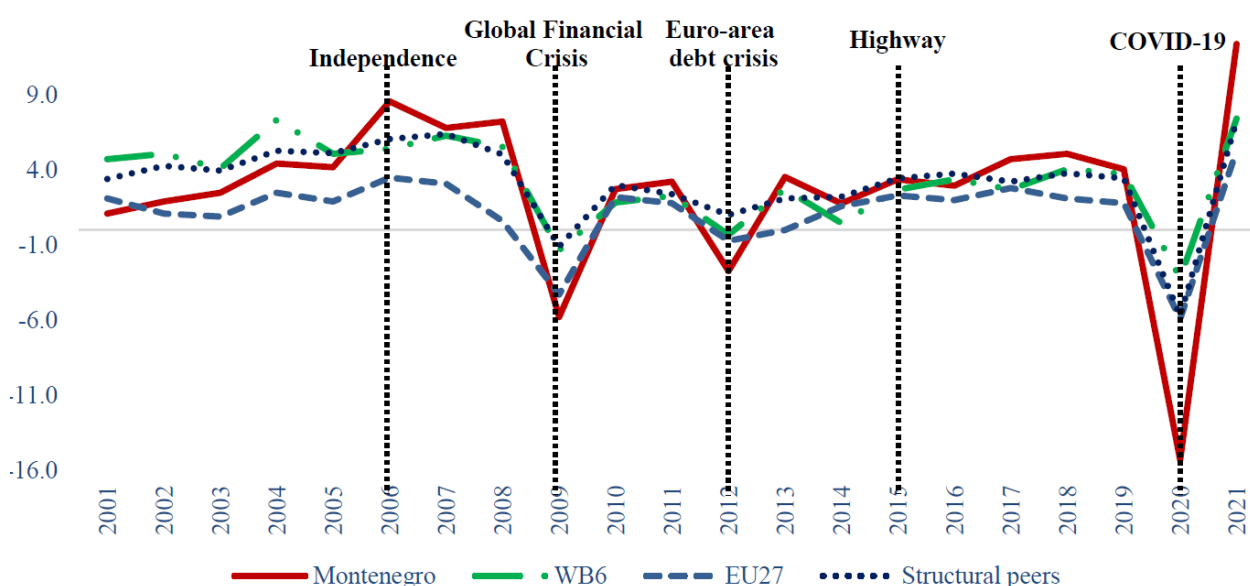
⁵ EU Autumn report Montenegro

⁶ Montenegro: Staff Concluding Statement of the 2024 Article IV Mission. Podgorica, February 12, 2024

⁷ Government of Montenegro, Economic Reform Programme 2024-2026. Podgorica, 2024; World Bank Poverty and Equity Brief, Montenegro, October 2024.

The inflation rate in Montenegro was at a record- high level of 11.9% in 2022. Despite the observed slowdown, inflation was recorded at an average of 9.5% during the first ten months of 2023. The biggest contribution to the high inflation came from the prices of food and non-alcoholic beverages and housing, water, electricity, gas, and other fuels expenditures. Strong domestic demand, a large influx of immigrants, large increases in wages and social transfers are the main drivers of the inflationary period. The forecast for the upcoming years points out an ease in the inflationary process with 2024 estimates at 5.7% and 2025 estimates at 3.8%. Overall, we can claim that Montenegrin economy has gone through a high growth and high inflation period in the aftermath of the pandemic and starting from 2023 both the growth performance and the increasing prices are expected to moderate over the 2024-2028 horizon.

Figure 1: GDP growth rate of Montenegro and some related countries.



WB6: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia. Structural Peers: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Dominican Republic, Georgia, Kosovo, North Macedonia, and Serbia.

Figure taken from "The World Bank, Montenegro Country Economic Memorandum. June 2022. Source: WDI, WB Staff calculation

Following the pandemic, the recovery has remained fixated on exclusive real estate investments in tourism, constraining the diversification of economic activity and ignoring the main economic activity in rural areas, which is agriculture. The agricultural sector in Montenegro shares a common trait with other Western Balkan countries, which is low productivity and weak export competitiveness. Reasons underlying this situation is the small average farm size, land fragmentation, and little specialization in farming whereby the sector is dominated by mixed farms that integrate both crops and livestock. These factors all lead to critical limitations in boosting productivity of the local economies especially the rural regions.

As a result of this unsustainable growth strategy, which ignore the long-run productive capacity of the country but rather focus on a narrow set of sectors like tourism and construction, many of the constraints causing Montenegro's vulnerabilities and hindering sustained progress in shared prosperity remain relevant today and threaten its social contract, as well as its pristine natural assets. While there have been some strides in improving the business climate,

challenges encompass inconsistent enforcement of laws and regulations, lax oversight of competition and state aid policies, and inefficiencies in public administration and investment management remain. The burden of high labor taxes and entrenched structural issues in the labor market, such as high inactivity, informality, unemployment, skills mismatches, and demographic disparities, exacerbate the scarcity of economic opportunities and hinder shared prosperity. Furthermore, achieving equity and efficiency in service delivery in education, health, and social protection remains an ongoing struggle, disproportionately affecting marginalized groups like Roma, women, youth, and those residing in rural and underdeveloped regions.⁸

In the absence of reforms, Montenegro's GDP per capita will not converge to the average EU level before 2075. Accelerating income convergence requires a strong reform impetus that boosts and sustains high levels of economic growth—raising long-term growth to an average of 4 percent would imply convergence in 2048, while an average long-term growth rate of 5 percent would achieve the convergence of incomes with EU levels by 2040.⁹

The government of Montenegro stated in the most recent Economic Reform Programme that priorities in implementing the EU agenda in the country's accession process shape the medium-term growth prospects of Montenegro. The new European Union Initiative "New Growth plan for Western Balkans" is expected to contribute significantly to the enlargement process and economic growth prospects of the country. To that end the government plans to implement various structural reforms whose objectives include:

- (i) Broadening the range of economic activities and enhancing the competitiveness of the economy,
- (ii) Reinforcing the resilience of Montenegro's economy against external shocks,
- (iii) Ensuring macroeconomic and fiscal stability,
- (iv) Enhancing the business environment, and
- (v) Initiating a robust investment cycle.¹⁰

The policy suggestions provided by the World Bank group are centered around similar goals. Achieving and maintaining a sustainable productivity growth strategy requires policies that reduce market inefficiencies in the service sector which account for 70% of GDP. Barriers that prevent markets from rewarding the more productive firms should be removed. Innovation and investment in green technology is also needed to sustain growth in critical sectors such as tourism and agriculture. Leveraging trade to a higher degree is also key to productivity enhancement as export volume and firm productivity growth reinforce each other. Investing in the total human capital stock of the country is proposed as a key step for both achieving a sustainable growth strategy as well as improving the income inequality in the country through mitigating the inequalities at birth. The inequality of opportunities disproportionately affecting the rural populations account for more than one-third of the labor income inequality in the country. Gender is the most important contributor to the unequal distribution of opportunities in the country, which potentially shrink the future pool of skilled workers and entrepreneurs. Unlocking the full human potential of the country depends on how well policies centered

⁸ World Bank June 2021 Montenegro Systematic Country Diagnostic Update

⁹ World Bank (2022) Montenegro - Country Economic Memorandum : Towards a Sustainable Growth Strategy (English). Washington, D.C. : World Bank Group. Retrieved from <http://documents.worldbank.org/curated/en/099042023094089685/P1773730ce27c30bd0a5310f9c5e5bd5d57>

¹⁰ Government of Montenegro, Economic Reform Programme 2024-2026. Podgorica, 2024

around targeted social protection and promoting gender equality, that ensure access to high-quality education and health services are provided equally across different geographic areas and income groups.

As of December 31, 2023, Montenegro's public debt reached €4.13 billion, accounting for 60.27% of the country's GDP. The state of Montenegro's public debt in 2023 indicates a challenging yet manageable financial situation. At 60.27% of GDP, the public debt ratio has decreased compared to previous years, largely due to economic growth rather than significant reductions in debt levels. The reliance on external borrowing, particularly from sources like the Chinese Exim Bank (holding 19.4% of external debt), and the heavy use of Eurobonds (42.4% of the total debt), highlights Montenegro's dependence on international markets for financing. While the fixed-rate structure of most of the debt (79.91%) provides stability against interest rate fluctuations, the remaining portion linked to variable rates (20.09%) exposes Montenegro to rising costs as EURIBOR rates increase. The country's capacity to continue servicing its debt was demonstrated by the repayment of over €300 million in 2023, but new borrowing on both domestic and international markets signals ongoing financial pressures. The overall trend shows that while Montenegro is making progress, it remains reliant on borrowing to meet its financial obligations, and any significant shifts in international market conditions or economic performance could affect its ability to manage this debt sustainably. This delicate balance underscores the importance of continued economic growth and prudent fiscal management to avoid escalating debt burdens in the future¹¹.

B.1 Criterion 1: Ability to access external capital for development

A country's ability to access external capital depends on its creditworthiness. Credit ratings are an important measure of the country's creditworthiness. Empirical evidence shows that GDP growth rate, government debt, fiscal balance are significant short-run determinants of a country's credit rating.¹²

The future projections for Montenegro show that economic growth is expected to slow down to around 3.7% in 2024 owing to moderated expectations in tourism growth and net migrant inflows as well as increasing borrowing costs which are expected to pull back household consumption and private investment. IMF's recent GDP projections for the country foresee that the Montenegrin economy will settle down at a 3% growth rate as of 2026 (See Table 1.) The GDP per capita in current USD is forecasted to climb from \$12800 in 2024 to \$17224 in 2029.

Based on the 2029 IMF projection, we can use the average growth rate of 3% to compute the 2030 projection of GDP per capita of the country. This yields the value of 17.7 thousand USD for the completion value of the COSOP.

¹¹ <https://www.gov.me/clanak/izvjestaj-o-javnom-dugu-na-dan-31122023-godine>

¹² Afonso, A., Gomes, P. and Rother, P. (2011), Short- and long-run determinants of sovereign debt credit ratings. *Int. J. Fin. Econ.*, 16: 1-15. <https://doi.org/10.1002/ijfe.416>

	2020	2021	2022	2023	2024	2025	2026	2027	2028
% change in GDP, constant prices, national currency	-15.3	13.0	6.4	6.0	3.7	3.7	3.0	3.0	3.0

Table 1: Annual % GDP growth for Montenegro Source: International Monetary Fund, World Economic Outlook Database, October 2024

Following the expected slowdown in GDP growth, the employment growth is expected to decelerate in 2024-2025, with the weakening of domestic and external demand. Despite the strong inflationary path over the past two years the real wages grew by 18.4 percent in 2022, this strong growth in real wages slowed down considerably to 1.2 percent in the first nine months of 2023. The forecast for the upcoming years points out an ease in the inflationary process with 2024 estimates at 4.2% and 2025 estimates at 3.7%¹³. Overall, we can claim that Montenegrin economy has gone through a high growth and high inflation period in the aftermath of the pandemic and starting from 2023 both the growth performance and the increasing prices are expected to moderate over the 2024-2028 horizon.¹⁴

The current situation regarding the government debt shows that the country's external debt stock amounts to 142% of its GNI and the annual debt service in 2022 is 16% of the national income. As of 2022, the government has 8.815 million USD worth of total external debt stock and 95% of this debt stock is long term.¹⁵

The Economic Reform Programme also contains fiscal policy measures aimed at reducing the fiscal deficit to below 3 percent of GDP in 2026. At the same time, the central budget primary surplus is forecasted for 2026, as well as a downward public debt trend. During Q1 of 2024, the Government of Montenegro will prepare and propose the adoption of the Fiscal Strategy. Article 17 of the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, No. 070/2021) stipulates the preparation of the Fiscal Strategy for the term of office of the Government and for it to be submitted to the Parliament for adoption. The Fiscal Strategy will contain additional fiscal adjustment policies by proposing reform solutions in the following areas: social, healthcare, and pension systems, as well as the tax policies. Effective management of public finances is crucial for maintaining macroeconomic stability, a challenge acknowledged in economic reform programme. To mitigate fiscal risks, reforms are proposed to enhance the governance of state-owned enterprises. This entails implementing stronger control and oversight mechanisms to enhance competitiveness and operational performance across these enterprises.

EU's planned provision of financial support has the potential to ease the credit conditions of the country. Under the New growth Plan for Balkan countries, EU is planning to increase financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans for the period 2024-2027, a proposal for a new instrument worth €6 billion, consisting of €2 billion in grants and €4 billion in concessional loans, with payment conditioned

¹³ World Economic Outlook, International Monetary Fund, October 2024.

¹⁴ Government of Montenegro, Economic Reform Programme 2024-2026. Podgorica, 2024

¹⁵ World Bank. 2023. *International Debt Report 2023*. Washington, DC:

on the Western Balkans' partners fulfilling specific socio-economic and fundamental reforms.¹⁶ At least half of the total amount (grants and loans) will go to investments through the Western Balkans Investment Framework (WBIF). The European Commission on October 23rd 2024, approved the Reform Agendas of Albania, Kosovo, Montenegro, North Macedonia and Serbia following the EU Member States' positive opinion. In their ambitious Reform Agendas, the five Western Balkans governments commit to socioeconomic and fundamental reforms they will undertake to spur growth and convergence with the EU under the Growth Plan during the period 2024 - 2027.¹⁷

The most recent credit ratings of the Montenegrin economy are provided by S&P and Moody's. As of March 2024, S&P upgraded the outlook of the economy from stable to positive and kept the credit score at B, later upgrading Montenegro's rating to B+ in August 2024. Additionally, Moody's also upgraded Montenegro's rating from B1 to Ba3 with a stable outlook, confirming positive developments in the Montenegrin economy.

In its most recent evaluation report of Montenegro, S&P attributed its most recent upgrading of Montenegro's score to the underlying fiscal and balance-of-payments performance of the country. Despite this favorable outlook, the agency pointed out continuing risks associated with the possibility of the government financing further sections of its ongoing large highway construction project through debt.¹⁸ The upgrade of Montenegro's ratings to Ba3 from B1 reflects improvements in its credit profile driven by a robust medium-term growth outlook and a tangible improvement in fiscal strength due to lower public debt level and reduced fiscal risks related to the completion of the four-section Bar-Boljare highway. Montenegro's rating could be further upgraded if fiscal consolidation significantly accelerates and fiscal risks associated with constructing the remaining sections of the Bar-Boljare motorway remain contained. A continuous strong reform drive with further material progress toward EU accession, supported by a stable political environment, would also be credit-positive. A reduction in susceptibility to event risk would likewise support a higher rating.

Considering the modest medium to long term growth prospects of the country alongside a cautiously optimistic view of economic trends across the globe and the EU and the commitment of the country in maintaining fiscal discipline, a moderately positive outlook for Montenegro's economic progress and access to external development funding is reasonable. Comparing Montenegro to bordering peer countries in the East and Central Europe area shows that Montenegro is surrounded by countries with higher credit ratings such as B+, BB-, BB+ and BBB+, given to Bosnia and Herzegovina, North Macedonia and Albania, Serbia and Croatia, respectively. Peer countries with higher scores differ from Montenegro mainly in terms of its fiscal outlook, with a lower debt to GDP ratio and higher general government revenue to GDP ratio and with their lower inflation rates.¹⁹

Based on all these, we expect that Montenegro will achieve a credit score of BB+/Ba1 by maintaining a fiscal discipline notwithstanding the risks imposed by external factors in the mid-

¹⁶ EU New Growth Plan for the Western Balkans https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/new-growth-plan-western-balkans_en

¹⁷ https://neighbourhood-enlargement.ec.europa.eu/news/commission-approves-reform-agendas-albania-kosovo-montenegro-north-macedonia-and-serbia-paving-way-2024-10-23_en

¹⁸ Montenegro Outlook Revised to Positive on Resilient Growth and Potential Stronger Fiscal Performance; Affirmed At 'B/B'. Retrieved from: <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3133500>

¹⁹ See the color coded map at <https://disclosure.spglobal.com/sri/>

term. At the end of the COSOP cycle, the inflation outlook will be settled down at moderate levels along with sustained and modest economic growth rates. The favorable outlook of the economy together with a commitment to the fiscal discipline is projected to bring the country's credit score close to its peers with an estimated guess of BB+/Ba1 at the end of the cycle.

Criteria	Indicator	Approval (2024)	Mid-term Benchmark (2027)	Completion Target (2030)
Ability to access external capital				
Credit Rating	S&P	B+	BB+	BB+
	Moody's	Ba3	Ba2	Ba1

Table 2: Possible targets for Montenegro's ability to access external capital.

B.2 Criterion 2: Progress towards economic and social development as reflected by selected SDGs

Montenegro has articulated its commitment to the 2030 Agenda for Sustainable Development through the implementation of the National Strategy for Sustainable Development. The synergies between the 2030 Agenda and the EU accession process have been documented, showing that achieving all EU accession benchmarks will at the same time ensure that 65 % of the SDG targets are met.²⁰ Thus the EU accession program of the country is the key factor for its SDG progression path in the medium term.

Recent and projected trends towards meeting SDG1 “No Poverty”

SDG1 No Poverty

The objective of SDG1 is to “to end poverty in all its forms everywhere”. A natural first step in evaluating the performance of a country in eradicating poverty and its potential to achieve the no poverty goal of the SDGs is to check some important macro indicators and their trajectories over the near future.

Originally the indicator used to measure poverty is the poverty headcount ratio which measures the percentage of the population living on less than US\$5.50 in 2011 international prices. However, the global increase in the price levels necessitates a periodic update of these poverty lines because of which the new poverty lines have been changed to \$2.15, \$3.65, and \$6.85 for low-income (or international), lower-middle-income, and upper-middle-income countries in 2017 prices.

The share of people under the middle-income poverty line in Montenegro after temporarily stalling at 15.5% in 2020, resumed its pre-pandemic reduction path shortly, thereafter, declining

²⁰ https://montenegro.un.org/sites/default/files/2020-04/_2019_Unraveling%20Connections%20-%20EU%20Accession%20and%20the%202030%20Agenda.pdf

to 12.2% in 2021 and further to 10.1% in 2022. In 2023, the poverty rate is projected to have declined to 8.9%.

There are no poverty projections for Montenegro which extend until 2030 thus a projection will be calculated based on 2030 GDP forecasts of the country. Cross country empirical evidence using low- and middle-income country data show that a 10% increase in GDP per capita results in a 4-5% decrease in poverty.²¹ According to IMF's WEO GDP projections, the GDP growth rate is settled at an annual 3% rate after 2026 in the country. Using a more optimistic elasticity estimate provided in the literature, we project the upper middle-income national poverty rate to be around 7.08% in 2030. The assumptions involve a poverty rate decline of 0.8 percentage points from 2024 to 2027 and of 0.7 percentage points from 2027 to 2030.

Criteria	Indicator	Approval (2023 Estimate)	Mid-term Benchmark (2027)	Completion Target (2030)
SDG1 No poverty	Poverty head-count ratio (Upper-middle income)	8.57%	7.76%	7.08%

Table 3: Targets for Montenegro's progress monitoring in meeting the SDG1 "No Poverty"

Geographical Aspects of Poverty (or a disaggregated poverty outlook)

Looking at the poverty prevalence at a regional level reveals some striking results for Montenegro. Although the country's overall risk of poverty is on a downward trend (falling from 25.2 % in 2012 to 21.2 in 2020), in the Northern parts of the country, poverty rates average above 40% levels since 2012. On the contrary, in the Coastal and Central regions of the country prevalence of poverty decreased from 20% in 2012 to 15% in 2020. The same pattern appears when using alternative poverty indicators such as World Bank's upper-middle income poverty rate of \$6.85 per day. Based on this, a red flag should be raised that the gap between the Central and Coastal Regions and the Northern parts of Montenegro is widening.

²¹ Balasubramanian, Pooja; Burchi, Francesco; Malerba, Daniele (2021) : Does economic growth reduce multidimensional poverty? Evidence from low and middle-income countries, Discussion Papers, No. 288, Georg-August-Universität Göttingen, Courant Research Centre - Poverty, Equity and Growth (CRC-PEG), Göttingen

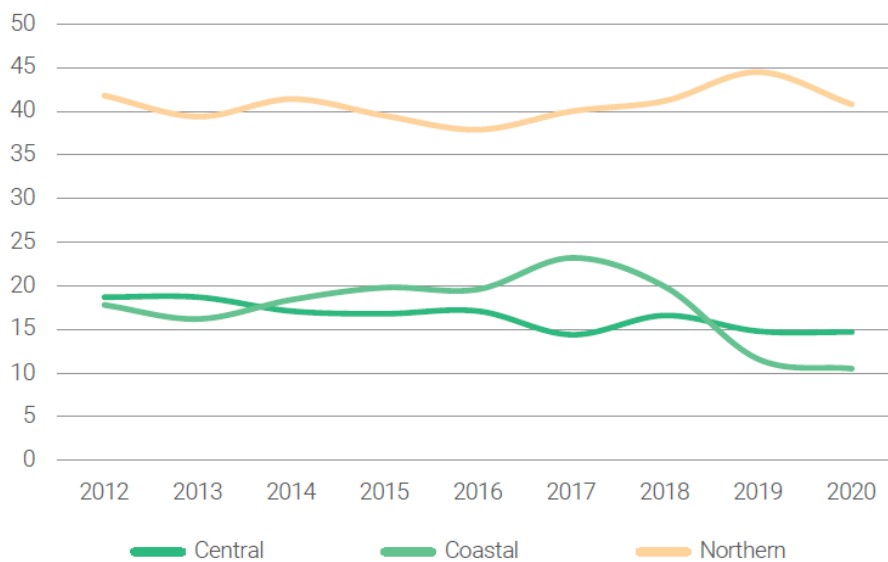


Figure 2: At Risk of Poverty Rate. Extracted from SDG Policy Brief “Is Montenegro’s North at Risk of being left behind? Source: Monstat Statistics of Income and Living Conditions

Northern parts of the country lag behind along key development indicators. These regional disparities in living standards have important impacts on the structure of the population and the economy, which will put the country in a vicious cycle of widening regional disparities, if no action is taken. These can be listed as follows:²²

1. Not only is the North side of the country poorer but also the activity rate, the unemployment and employment rates in this region fare worse than the central and coastal regions. Employment rate has remained stagnant around 35 percent in the last 5 years. Even the launch of the minimum wage-tax policy programme in January 2022 was not helpful in stimulating employment in the North. This situation contrasts sharply with the Central and Coastal regions where employment displayed a significant rebound in the post-pandemic period.²³
2. A natural outcome of having disproportionately impoverishing regions in a country is outward migration from the poorer regions. Northern Montenegro is experiencing this with outward migration flows from the North towards the Central and Southern parts of the country, from rural to urban areas, which is causing a decline and aging in the Northern parts of the country. According to recent evidence, although the country’s total population has grown in the last 30 years, the population of the North declined by nearly 50.000 people.²⁴
3. The labor market indicators of the Northern regions also lag behind those of the Coastal and Central Regions. Labor Force Survey Results reveal that between 2018 and 2023, northern employment remained stagnant between 25-35%.
4. Although there are no official statistics showing the average nominal and real wages by sub-regions in Montenegro an overall idea can be inferred from the wage structures of industrial sectors. The North of Montenegro is predominantly engaged in activities like

²² UN Montenegro SDG Policy Brief. “Is Montenegro’s North at risk of being left behind?” Quarter 4, 2023.

²³ Ibid

²⁴ Ibid

agriculture and forestry, which are known as sectors with high rates of informality. This naturally implies that workers with wages below the minimum are abundant in the North lowering the average wages in this region.²⁵

Given the current situation on the poverty disparities, especially with the Northern regions lagging significantly behind others, reducing poverty and rural inequality are flagged as urgent areas of intervention by both the United Nations and the EU.²⁶ The country has been strongly encouraged to start implementing the IPARD-III programme consisting of tools and policies to improve competitiveness of the agricultural sector, food safety and food quality through farm diversification and business development, investments in physical assets of agricultural holdings especially the ones concerning processing and marketing of agricultural products.²⁷ If followed seriously, these policy measures are expected to reduce the regional disparities and result in a convergence across the three regions within the country. The EU accession phase of Montenegro makes it highly likely that these areas emphasized by the EU will be prioritized. The following table presents projections on regional poverty indicators based on the following assumptions and evidence. The UN's target of reducing poverty in all forms implies "cutting at least by half the proportion of men, women, and children of all ages living in poverty in all its dimensions according to national definitions until 2030"²⁸. These targets are particularly binding for the Northern areas of Montenegro which consists vastly of rural populations. If implemented rigorously, policies to promote productivity in tourism and service sectors will further enhance the income and growth prospects and bring the poverty rate to half its current level. The IFAD RCTP Impact assessment report proposed a 0.8 percentage points annual decline in poverty based on a rigorous quasi-experimental design conducted in 2023.²⁹ Assuming an increased annual decline rate of 1.2 percentage points that reflects additional policy measures that will be put in place during the period, the poverty rates for 2027 and 2030 would be:

Criteria	Sub-regional Indicator	Approval (2024)	Mid-term Benchmark (2027)	Completion Target (2030)
SDG1 No poverty	Population at risk of poverty (%)			
	Northern Region	40%	36.4%	32.8%
	Central	15%	11.4%	7.8%
	Coastal	10%	6.4%	2.8%

Table 4: Regional poverty indicators. Source: MonStat and Authors' calculations.

²⁵ Ibid

²⁶ Ibid

²⁷ IPARD-III report

²⁸ <https://ourworldindata.org/sdgs/no-poverty>

²⁹ Mendiratta, V., and Maggio, G 2023. Impact Assessment Report for the Rural Clustering and Transformation Project (RCTP) in the Republic of Montenegro. Rome: IFAD

SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

An assessment of the 2015-2020 period shows that at a global scale, the food security goal is at high risk of not being met by 2030. The Europe and Central Asia (ECA) region also displays a similar outlook. No progress was achieved within the goal to meet individual targets in the region. However, during this period Montenegro showed a relative success by being one of the three countries which did not go through a stagnancy/ regression in terms of food security in the ECA region.³⁰ During the pandemic and post-pandemic periods, unlike the global scale or other countries in Europe, the prevalence of undernourishment did not increase in Montenegro. FAO statistics show that the country successfully reduced its undernourishment rate from 9.1% in 2001 to 2.5% around 2007 and the rate has stayed at nearly the same level since then. (See Figure 1).

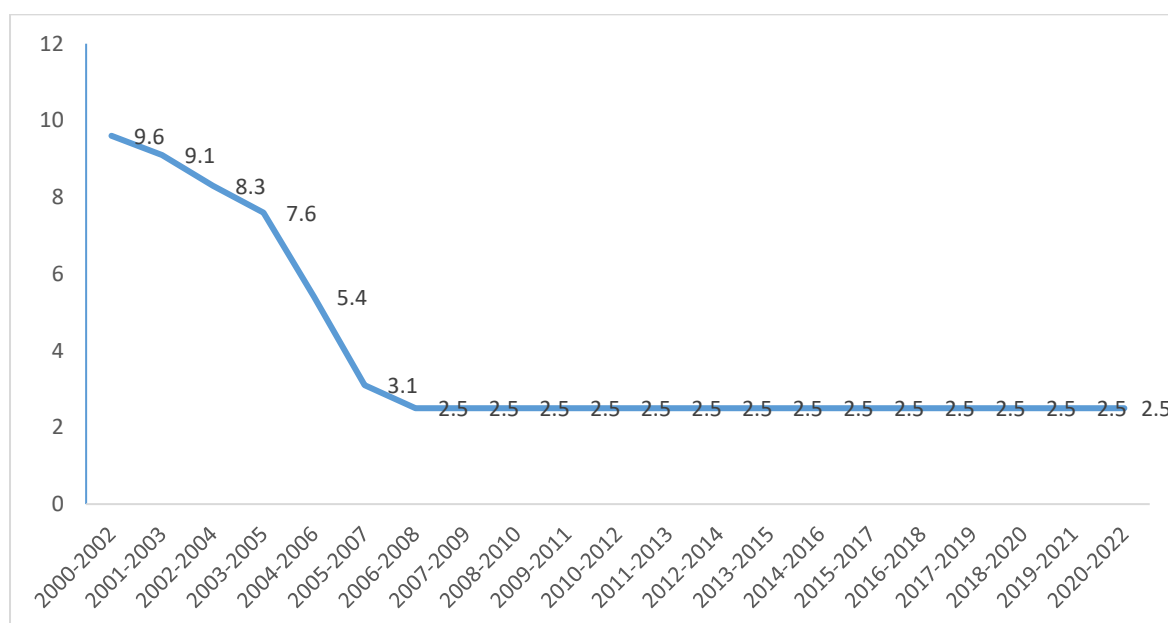


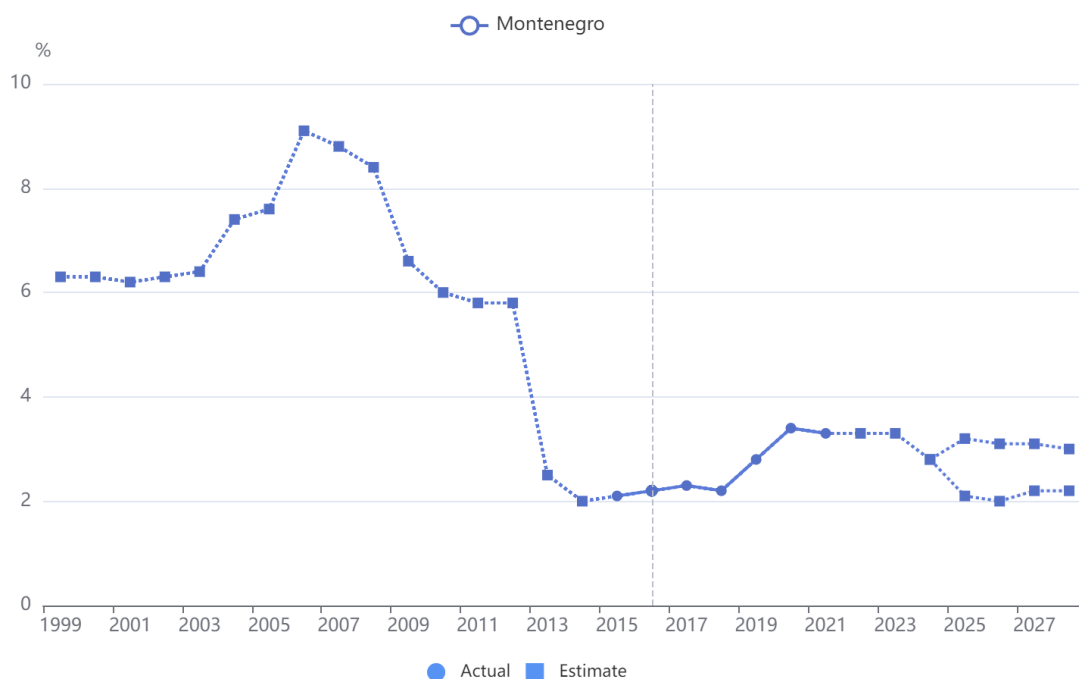
Figure 3: Prevalence of undernourishment (in %) Source: FAO Statistics. Retrieved from <https://www.fao.org/faostat/en/#country/273>. Accessed in March, 2024.

Given the stable path of the country and its good performance relative to other countries in its region, it is reasonable to assume that the prevalence of undernourishment will stay at its current low level of 2.5% (see Figure 3).

Since this indicator has been hovering stagnantly around moderate levels, a further check on a different indicator of the SDG2 goal can provide better guidance on the country's current and future position with regard to maintaining this goal. To that end, we look at the indicator 2.1.2, the prevalence of moderate or severe food insecurity. For this indicator our source is the World Bank's World Food Security outlook database. This database provides projections for the prevalence of severe food insecurity indicator until 2028, for both a baseline and a downward scenario. The 2025 figures for the baseline projection yields a 2.1% prevalence of severe food insecurity. The downward scenario, on the other hand, projects it to be 3.2%. The mid-term benchmark, which corresponds to year 2027, is 2.2% and the downside scenario produces a 3.1% food insecurity estimate. In 2026, a 2% prevalence of food insecurity in Montenegro is

³⁰ UNU-MERIT SDG Progress Assessment Report, December 2023.

projected. The 0.2 percentage points increase after this year can possibly be a transitory one. As the economy approaches the 2030-2031 period, due to the balanced growth path expectations and the fact that the SDG agenda will be more pronounced in national policies, it is reasonable to assume that the severe food insecurity prevalence would revert back to 2%. (See Table 3 and figure 3)



Source: World Bank, Development Data Group

Figure 4: Prevalence of severe food insecurity, World Food Security Outlook Database, World Bank. Retrieved at: <https://microdata.worldbank.org/index.php/catalog/6103/study-description>, Accessed: March, 2024

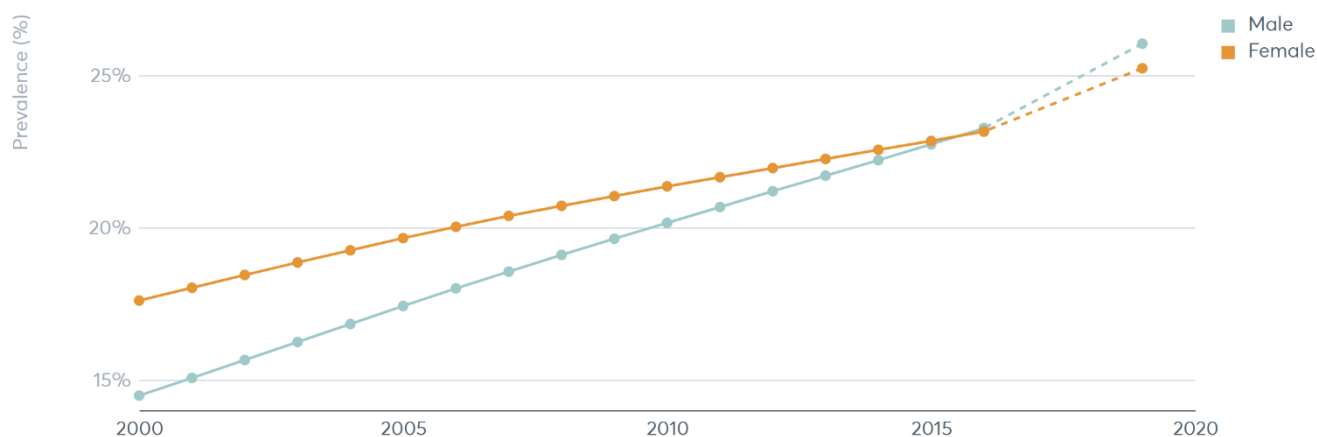
Criteria	Indicator	Approval	Mid-term Benchmark	Completion Target
SDG2 Zero Hunger	2.1.1 Prevalence of undernourishment	2.5%	2.5%	2.5%
	2.1.2 Prevalence of severe food insecurity	2.1%	2.2%	2%
	Agriculture share of total government expenditure	1.67%	1.9%	2.15%

Table 5: Targets for Montenegro's progress monitoring in meeting the SDG2

Another important nutrition-related indicator is the prevalence of obesity. Despite the paradoxical nature of the relationship, obesity and poverty are positively associated with each

other. Several factors contribute to the rising obesity rates among the impoverished population. Firstly, factors such as elevated unemployment rates and lower levels of education correlate with an increased risk of obesity. Additionally, irregular meal patterns exacerbate this issue. Furthermore, insufficient physical activity plays a significant role, particularly among those with limited financial resources who may lack access to proper sports equipment.³¹

Figure 5: Prevalence of adult obesity Source: Global Nutrition report



<https://globalnutritionreport.org/resources/nutrition-profiles/europe/southern-europe/montenegro/> Accessed April 2024)

Global obesity projections for 2025 are estimated at 18% for males and 21% for females. In Montenegro 25.2% of adult women and 26.0% of adult men were found to be obese in 2019. With these rates, the prevalence of obesity in Montenegro remains lower than the regional average of 25.3% for women but surpasses the regional average of 24.9% for men.³² Furthermore obesity projections of the country show that the country will not reach the 2025 global targets.³³

Another SDG2 sub-indicator³⁴ which is relevant for IFAD mandate is the agriculture share of total government expenditure. The latter increased from 0.5% in 2002 to 1.5% in 2022. Montenegro's agricultural sector continues to be a strategic focus for the country, particularly regarding its EU accession objectives. The Agro-budget, a key instrument for annual government support, plays a critical role in aligning Montenegro's agricultural policy with EU standards. Since 2022, Montenegro's agricultural budget has increased by 42%, surpassing EUR 66 million in 2023, with approximately EUR 45 million sourced from the state budget. This increase underlines the government's commitment to strengthening the agricultural sector as part of its gradual alignment with the EU's Common Agricultural Policy (CAP). However, challenges remain, as Montenegro's budget allocation to agriculture still falls short of covering

³¹ Żukiewicz-Sobczak W, Wróblewska P, Zwoliński J, Chmielewska-Badora J, Adamczuk P, Krasowska E, Zagórski J, Oniszczyk A, Piątek J, Silny W. Obesity and poverty paradox in developed countries. *Ann Agric Environ Med*. 2014;21(3):590-4.

³² <https://globalnutritionreport.org/resources/nutrition-profiles/europe/southern-europe/montenegro/>

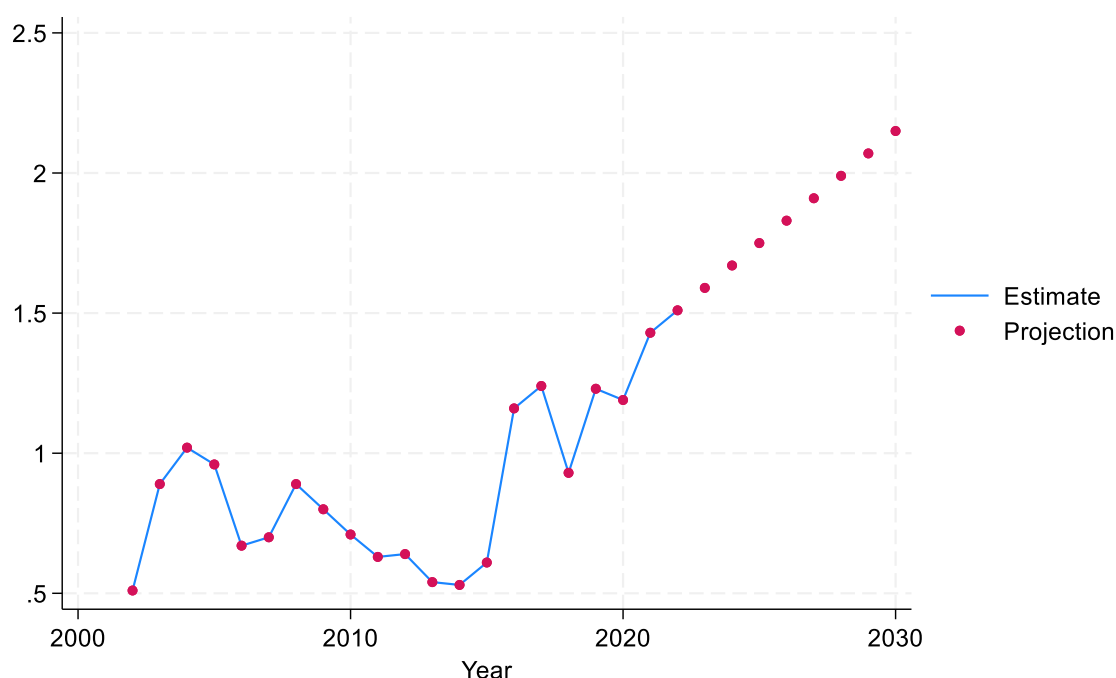
³³ WHO Country Profile. Retrieved from https://cdn.who.int/media/docs/default-source/country-profiles/ncds/mne_en.pdf?sfvrsn=3a6eb1be_36&download=true

³⁴ <https://unstats.un.org/sdgs/dataportal/countryprofiles/mne#goal-2>

the sector's comprehensive needs. Direct support measures focus on production-coupled payments, particularly in dairy, arable crops, and livestock, while rural development measures aim to enhance competitiveness, support farm investments, and promote sustainable farming. General services in the sector include essential areas like education, research, and advisory services, which are vital for long-term growth.

The Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project, co-financed by the World Bank and GEF, continues to support a significant portion of these initiatives, reinforcing the country's EU integration efforts. Rising budget allocations have enabled a notable increase in per-hectare support, from EUR 106 in 2019 to EUR 171 in 2022, positioning Montenegro close to the EU standard of EUR 200 per hectare. However, aligning with the full CAP objectives will likely necessitate further funding as Montenegro progresses through its EU accession process. Despite these increased allocations, more comprehensive resources are essential to adequately support the sector's needs, particularly in infrastructure and technology, to enhance its competitiveness and resilience.

In light of these trends and based on a linear extrapolation, such indicator is projected to reach 1.67% in 2024, 1.9% in 2027 and 2.15% in 2030.



Source: <https://unstats.un.org/sdgs/dataportal/countryprofiles/mne#goal-2> & authors calculations

SDG 5: Gender Equality

In Montenegro, 91.7% of legal frameworks that promote, enforce and monitor gender equality under the SDG indicator, with a focus on violence against women, are in place. However, there is still a significant need for sustained development efforts to achieve gender equality in the country. The most crucial starting point is addressing the existing data gap. By December 2020,

just 43.5% of the necessary indicators for monitoring the Sustainable Development Goals (SDGs) through a gender lens were accessible, revealing significant gaps, notably in crucial sectors such as unpaid care and domestic work. Moreover, several critical domains, including gender and poverty, instances of physical and sexual harassment, women's access to assets like land, and the intersection of gender and environmental concerns, lack standardized methodologies for consistent monitoring. Addressing these gaps in gender-related data is imperative to fulfill Montenegro's commitments to gender equality within the SDG framework.³⁵

In Montenegro women fall short of realizing their true potential. Ownership of businesses by women remains below 10%. Moreover, there's a notable disparity in the representation of women in managerial positions, both in the public and private sectors. Despite some progress in recent years, women continue to constitute a minority in various aspects of social, economic, and political life.³⁶ In Montenegro, women possess 36% and 31% of all residential and commercial/business units, respectively. However, despite this significant ownership share, they only own 25% of the total square footage of registered real estate. Interestingly, the same percentage of women (25%) hold sole ownership of real estate, whereas a notable 59% of men enjoy full ownership rights.³⁷

Typically, rural women engaged in agricultural livelihoods encounter the most substantial hurdles. According to the Statistical Office of Montenegro, in 2020, women comprised 36% of the workforce in the agriculture sector. However, data from the Register of Agricultural Holdings in June 2023 revealed that women headed 15% of the farms.³⁸

The gender pay gap is estimated at 21.6%. This implies that for every euro earned by men, women on average earned 78.4 cents. Interestingly the gender pay gap rises as women move up the ladder of the income distribution and as their education level rises. This indicates the existence of a glass ceiling for women in Montenegrin labor markets. The gap exists not only for the wage earnings but also the employment and participation of women. The gap in participation rate is measured as 14.8 percentage points, which is above the EU average of nearly 12.5 percentage points. A similar picture also arises with the employment rates between male and female workers. The country level data does not point to a significant raw difference between the unemployment rates of men and women.³⁹

The gender disparities are also more pronounced in the Northern parts of the country compared to coastal and central regions. In the North female unemployment rate is 4 percentage points higher than male whereas in the central and coastal regions this gap is reduced to 2 percentage points. Moreover, the unemployment rate among females is higher than their employment rates in the North, which was 24.1% in the 2023 Q1.⁴⁰ This mainly results from the types of employment in the North compared the Coastal and Central regions. Among the female

³⁵ <https://data.unwomen.org/country/montenegro>

³⁶ Montenegrin Employers Federation (MEF) and E3 Consulting LLC (2017) Report: Women in Management in Montenegro, Podgorica.

³⁷ Organization for Security and Co-operation in Europe (2023). Gender and property ownership in Montenegro - mapping the property gap Retrieved from: <https://www.osce.org/mission-to-montenegro/547829>

³⁸ EEAS Europe, 2021. Gender Equality Profile of Montenegro.

³⁹ ILO 2023. The Gender Pay Gap in Montenegro: A statistical update and policy implications

⁴⁰ MONTENEGRO Social Protection Situational Analysis, 2022, UNICEF and the World Bank

employees, more than 20 percent were involved in agriculture and 72.6 percent were in services. This is in stark contrast with other regions where most of the female are employed in the services and industrial sectors and barely any are employed in agriculture.

Regional disparities are also present in other dimensions such as property ownership. The Coastal region has the highest levels of female ownership of real estate (such as of Budva (45 percent), Herceg Novi (44 percent) and Bar/Tivat. (40 percent) whereas central and Northern municipalities such as Petnjica (10 percent), Tuzi (12 percent) and Gusinje (15 percent) record much lower levels.⁴¹

With just eight years remaining to achieve the Sustainable Development Goals (SDGs) and even less time to meet the criteria for EU accession, SDG Acceleration Fund was set up under the umbrella of the Montenegrin government and the United Nations System in the country. This Fund aims to provide specialized and advanced support to ensure success in both endeavors. The Fund has identified three strategic priority areas of UN work in Montenegro and is committed to bolstering policies promoting these areas.

- Inclusive economic development and environmental sustainability;
- Human capital development, reducing vulnerability, social inclusion; and
- Social cohesion, people-centred governance, rule of law and human rights.

The Fund has declared a results framework which includes strategic priority areas and some outcomes to measure the success in these areas. One strategic area is social cohesion, people-centered governance, rule of law and human rights. The expected outcome by 2027 is that all people, especially the vulnerable, will benefit from improved social cohesion, increased realization of human rights and rule of law and accountable, gender-responsive institutions. Percentage of women in parliaments is one key indicator that the results framework will be monitoring. As of 2023, women represent 28.4% of the national parliament. For local governments, the share is 32.8%.⁴² The country is therefore lagging behind some peer countries such as Croatia (33.7%), and Albania (35.7%) and the 2022 EU average (33 %).⁴³ Their 2027 target can thus be taken as the mid-term benchmark for this COSOP since the government and the United Nations are committed to achieving these goals by 2027. However, achieving these goals will need systematic commitment from their side. Assuming a linear path of progress, the data on these indicators for the year of the COSOP approval are calculated as 33% for national parliaments and 35.3% for local ones. Given that the target for these indicators are set between 40 and 60% by the UN⁴⁴, during the remaining three years until the completion, a wise assumption would be a slowdown in the growth rate of proportion of women in the parliament. Thus, we assume that by 2030, women representation in both national and local governments will be around 45% in Montenegro. In the table, we only present the sub-indicator on women representation in local governments as the latter is more actionable by IFAD.

⁴¹ Organization for Security and Co-operation in Europe (2023). Gender and property ownership in Montenegro - mapping the property gap. Retrieved from: <https://www.osce.org/mission-to-montenegro/547829>

⁴² <https://w3.unece.org/SDG/en/Indicator?id=141>

⁴³ https://data.ipu.org/compare?field=country%3A%3Afield_structure_of_parliament

⁴⁴ <https://www.unwomen.org/sites/default/files/2022-03/SDG-5-tracker-Technical-note-en.pdf>

The European Institute of Gender Inequality (EIGI) computes an overall index of gender inequality for EU member states and EU countries.^{45 46} The 2023 index value for Montenegro is 59.3, reflecting an increase of 4.3 points since 2019. Montenegro's score is 9.3 points lower than the EU-27 average, which is 68.6. Among the main domains, Montenegro has the largest gender equality gap in the area of money, scoring 20.7 points below the EU-27 average. The smallest gap is in the area of health, where Montenegro's index is only 0.8 points lower than the EU-27 average. As an alternative indicator for SDG 5, the index values during the COSOP cycle are presented in Table 6. This index improved by 4.3 points between 2019 and 2023. This implies an average annual increase of 1.1 points which gives us a value for 2024 estimated at 60.4. Assuming an increase in the annual growth rate to 1.5 points after 2024, targets will be set at 65.3 in the midterm and around 69.8 points at the end of the COSOP cycle.

Criteria	Indicator	Approval 2024	Mid-term Benchmark 2027	Completion Target 2030
SDG5 Gender Equality	5.5.1: Proportion of seats held by women in local governments	35.3%	40%	45%
	Gender Inequality Index (over 100)	60.4	65.3	69.8

Table 6: Targets for Montenegro's progress monitoring in meeting the SDG5 "Gender Equality"

SDG 10: Reduced Inequalities

In Montenegro, inequality remains a pressing concern, albeit showing a downward trend. While social transfers play a crucial role in decreasing the Gini coefficient, a more pronounced reduction could be attained through the restructuring of the personal income tax system (PIT). Currently, the PIT system exhibits regressive tendencies, exacerbating inequalities instead of alleviating them. Implementing tax reform could not only generate additional revenue but also facilitate investment in the enhancement of social benefits targeting the most vulnerable demographics.⁴⁷

In 2001, the income share of the bottom 40% was 13.5% as opposed to 32% for the top 10% in Montenegro. Beginning from 2001, the bottom 40%'s share in total income started to decline gradually until it hit 9.5% in 2011 and since then it remained stagnant around that level.^{48,49} The same share was 21.7% for the EU-27 countries, on average, in 2022 while for a selected

⁴⁵ This index assesses gender equality in EU Member States across six domains: work, money, knowledge, time, power, and health. Scores range from 1 to 100, with 1 indicating complete inequality and 100 indicating complete equality.

⁴⁶ MONSTAT (2023) Gender Equality Index For Montenegro. Release 100/2023.

⁴⁷ Simulating redistributive social policy scenarios for Montenegro FINAL REPORT 07 January 2022

⁴⁸ The latest figure belongs to 2021.

⁴⁹ UNDP Mapping income inequality: Bottom 40 and top 10 percent. <https://data.undp.org/insights/mapping-income-inequality>

frontier country, the share⁵⁰ was 25.5%..⁵¹ The average growth rate for the income share of bottom 40% required to achieve this target at this future date is then estimated to be at 4.2%.⁵²

World Bank Data on SDG's provides an estimate of the growth rate of the income share of bottom 40% (3.4% in 2018 in Montenegro)⁵³. To determine the targets for this indicator, the growth rate of the bottom 40% income share is assumed to remain stagnant at this level until 2024. If the growth rate of this share is assumed to increase linearly to match an average rate of 4.2% upon completion of the COSOP cycle, and to remain constant thereafter, the midterm target of income share of the bottom 40% will be estimated at 11.69% in 2027, while the completion target will be 13.14% in 2030. If instead Montenegro maintains its current growth rate, which is nearly equal to the growth rate of average income level in the country, the income share of bottom 40% will be 11.6% at midterm and 12.8 at completion. (See table below)

	Benchmark Scenario		Downside Scenario	
	Growth rate of bottom 40%	Share of bottom 40%	Growth rate of bottom 40%	Share of bottom 40%
2024	0.034	10.50*	0.034	10.50*
2025	0.035	10.87	0.034	10.86
2026	0.036	11.26	0.034	11.23
2027	0.037	11.68	0.034	11.61
2028	0.038	12.13	0.034	12.00
2029	0.040	12.61	0.034	12.41
2030	0.042	13.14	0.034	12.83

Table 7: Projections on the growth rate of bottom 40% income share. Source: UNDP Mapping income inequality: Bottom 40 and top 10 percent, World Bank data on SDGs and author's calculations.

Criteria	Indicator	Approval	Mid-term Benchmark	Completion Target
SDG10 Reduced inequalities	10.1 Growth rate of income share of bottom 40%	3.4%	3.7%	4.2%

Table 8 :Targets for Montenegro's progress monitoring in meeting the SDG10 "Reduced inequalities"

B3. Criterion 3: Rural Sector Performance Assessment (RSPA)

As of 2022, 32% of the population in Montenegro was living in the rural areas. This proportion has decreased from 41% in 2000.⁵⁴ Various challenges plague the rural sector, hindering its development and preventing the rural-urban income convergence. The poor physical

⁵⁰ A frontier country has been selected to benchmark Montenegro's position against its progress and level (Slovakia).

⁵¹ This date is selected roughly as 2045.

⁵² <https://data.europa.eu/data/datasets/zauue5ecxacqmz2lbo2g?locale=en>

⁵³ [https://databank.worldbank.org/source/sustainable-development-goals-\(sdgs\)/preview/on](https://databank.worldbank.org/source/sustainable-development-goals-(sdgs)/preview/on)

⁵⁴ <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=ME>

connection of rural areas to input markets and outlets is one of these challenges. Rural production is mostly concentrated in the agricultural sector and occurs in small volumes. Moreover, it is very diversified in terms of the quality dimension.

Agriculture

The agriculture's contribution to value added, along with forestry and fishing, accounts for 5.5% of GDP⁵⁵ and 4.5% of the economically active population is represented in these sectors in Montenegro.⁵⁶ The most recent Farm Structure Survey indicates that in 2016, there were a total of 43,291 farm holdings in the country, with about 99236 farmers associated with agricultural activities. The agricultural sector in Montenegro shares a common trait with other Western Balkan countries, which is low productivity and weak export competitiveness.⁵⁷ One important reason for this is that the average farm size, which is 5.8 ha is low compared to the EU average of 16 ha. per farms. Land ownership is fragmented, with 58% of agricultural holdings owning less than 2 ha.⁵⁸ Moreover, there is little specialization in farming, which is important for boosting productivity. The sector is dominated by mixed farms that integrate both crops and livestock. As of June, 2023, approximately 19622 farms were registered in the Register of Agricultural Holdings⁵⁹ (of which 2974 were headed by women representing 15% of farms), which ensure access to subsidies and government assistance. The remaining agricultural holdings are engaged in subsistence level farming. This is another reason, besides underinvestment in capital formation and research and advisory services which leads to low farm and land productivity in the country similar to other Western Balkan countries.⁶⁰ Low agricultural productivity manifests itself in Montenegro's share of agricultural export to the EU. The recent averages for Montenegro show that only 10% of the country's exports are agricultural exports to EU, whereas the same ratio goes up to 66% for Albania and almost 50% for Serbia.

⁵⁵ <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=ME>

⁵⁶ https://monstat.org/uploads/files/ARS/2023/2/LFS%20release_2023_Q2.pdf

⁵⁷ World Bank Group "Western Balkans Regular Economic Report" No.24 Fall 2023

⁵⁸ http://monstat.org/userfiles/file/fss/Saopstenje%20FSS-final%2029_12_2017%20eng.pdf

⁵⁹ 2,974 were headed by women, which represents 15.15% of farms.

⁶⁰ World Bank Group "Western Balkans Regular Economic Report" No.24 Fall 2023

b. Share of agricultural export to the EU in total export (av. 2018–2020)

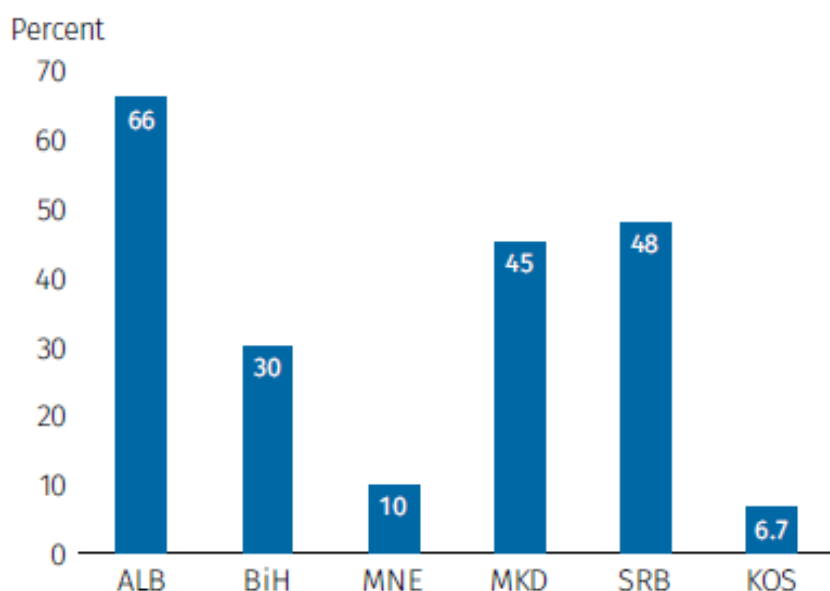


Figure 6: Share of agricultural export to the EU in total export. Figure extracted from World Bank Western Balkans Regular Economic Report No. 24, Fall 2023.

Geographically, the Northern parts of Montenegro rely more heavily on agricultural activities, consequently the lack of productivity in agriculture is likely to deepen the already existing inequalities between the Northern rural areas and the Southern /Central parts of the country.

Service sector's development in rural areas has been hampered by the existence of long and cumbersome transportation routes.⁶¹ Moreover, the large variations in local charges for businesses in the tourism and related sectors work against their establishment in the inland parts of the country, which predominantly represent the rural sector. Taxes, utility fees, and other charges faced by businesses in tourism and related sectors vary between 3% to 14% of operating revenue, depending on the municipality. Often, these fees and taxes are higher in the less advanced inland municipalities compared to the richer coastal ones. This controversial policy further exacerbates the divide between the rural and urban areas of the country and limits the range of economic activities in the rural sectors⁶².

The Rural Sector Performance of Montenegro will be assessed based on three RSPA indicators' clusters and an overall index score.

Overall RSPA index score: Utilizing a standardized methodology, the Rural Sustainable Policy Assessment (RSPA) tool dissects each query into a series of measurable qualitative and quantitative indicators. These indicators serve as the foundation for computing an aggregate RSPA score. Quantitative metrics gauge policy performance, while qualitative metrics assess the efficacy of the policy framework. Each question within the RSPA employs a blend of both qualitative and quantitative indicators. RSPA scores, graded on a scale from 1 to 6, can thus be

⁶¹ IFAD Montenegro Country Strategy Note 2023-2024

⁶²The World Bank "Montenegro Country Economic Memorandum", June 2022.

compared to scores of other countries participating in the assessment. Therefore, the RSPA baseline rating serves as a comprehensive evaluative metric, providing insight into the overall effectiveness and influence of Montenegro's principal institutions and policies concerning sustainable and equitable socioeconomic rural development.

Montenegro's overall RSPA score was 3.9 in 2018 and was degraded to 3.6 in 2021, like Turkiye and Brazil, countries who also have passed the GDI threshold. Assuming a linear progressive trajectory, we assume that it will reach 3.9 at approval, 4.1-4.2 at mid-term and complete the COSOP cycle with an overall score around 4.5.

Criteria	Indicator	Approval	Mid-term Benchmark	Completion Target
Rural Sector Performance Assessment	Overall RSPA Rating	3.9	4.1-4.2	4.5

Table 9: Possible targets for Montenegro's progress in establishing and sustaining key institutions and policies: expected overall RSPA's ratings.

Cluster 1.1 evaluates the overall policies and framework for rural development and rural poverty alleviation. There are six indicators to evaluate the dedication and success of the government to promote and implement strategies that focus on investing in the rural poor.

1.1.1: Does the country have a national development strategy?

Montenegro's key national development document is Montenegro Development Directions 2018-2021 which was adopted in 2017.⁶³ As part of its efforts to implement a sustainable development framework, Montenegro has devised the new National Strategy for Sustainable Development of Montenegro by 2030 (NSSD). This comprehensive framework addresses the national on the path towards sustainable development of Montenegrin society until 2030 while also meeting the requirements for Montenegro's accession to the European Union.⁶⁴

1.1.2: Does that strategy include a specific focus on rural development?

The key national development documents 'Montenegro Development Directions' the Strategy for the Development of Agriculture and Rural Areas and the Economic Reform Programme have sections focused on rural development. To realize the strategic development goal of increasing the quality of life in the short term, four priority sectors have been formally established, according to Montenegro Development Directions 2018-2021⁶⁵. One of these four priority sectors (along with tourism, energy and manufacturing) is "agriculture and rural development". The "development directions" themselves are "smart growth", "sustainable growth" and "inclusive growth". "Agriculture and rural development" is also identified as one of nineteen policy fields (and more specifically as one of six policy fields under the heading "sustainable growth"). In addition, Montenegro has recently embraced the Strategy for the

⁶³ Government of Montenegro. Montenegro Development Directions 2018-2021: <https://www.gov.me/en/article/184592--montenegro-development-directions-2018-2021>

⁶⁴ Government of Montenegro. Ministry of Sustainable Development and Tourism. National Strategy for Sustainable Development Until 2030 (NSSD): <http://www.nssd2030.gov.me/>

⁶⁵ Government of Montenegro. Montenegro Development Directions 2018-2021: <https://www.gov.me/en/article/184592--montenegro-development-directions-2018-2021>

Development of Agriculture and Rural Areas 2023-2028. This strategy aligns with the objectives of the new Common Agricultural Policy for 2021-2027. The focal areas of policy in this Strategy are the sustainable use of natural resources, increasing the quality of agricultural and food products and incorporating innovative production methods to serve that purpose. The measures planned also target diversification of farms and business development, and rural development and infrastructure construction. The latter refers to co-financing of projects on rural areas such as important common facilities, local roads, and water management. Other agriculture support measures include support programmes on education, research and development, analytical activities, extension services.

Montenegro's Economic Reform Programme covering 2021-2023 has a subsection, Agriculture, Industry and Services, where the main objective of agricultural policy is to boost competitiveness of agricultural production, improve living conditions in rural areas, and to enable sustainable use of available resources.⁶⁶ The document assesses planned reforms in terms of social impacts (employment, poverty and gender equality). In 2022, the country also adopted the third phase of the Instrument for Pre-accession Assistance for Rural Development Programme (IPARD-III). IPARD is a programme which aims to develop rural areas and agri-food sectors of EU candidate countries and simultaneously promoting a gradual alignment with EU's common agricultural policy rules.⁶⁷

1.1.3: Headcount ratio of population in multidimensional poverty, which is expressed as percentage of Rural Population vulnerable to poverty (those who experience 20-33.32% intensity of deprivations) according to the University of Oxford multidimensional poverty index. This ratio was 1.34% in 2018 and ⁶⁸ 1.3% in 2021.

1.1.4: Does the strategy mentioned above include specific plans for the development of a rural non-farm economy (i.e., develop rural areas outside of agricultural development)?

Specific plans for the diversification of economic activity in rural areas is the subject of many measures in various documents. Under the heading of Agriculture and Rural Development, the Montenegro Development Directions 2018-2021 document [1] envisage several measures for agriculture and rural development, and these include the diversification of economic activities in rural areas. The Strategy for the Development of Agriculture and Rural Areas [2], as reported by FAO, seeks, in addition to supporting agriculture and social development, to “develop economic opportunities and new job opportunities in rural areas with a specific focus on developing the quality of tourist offers and short value chains for production of high-quality products and services. The Program of Rural Tourism Development Action Plan 2019-2021 [3] states that “investing in economic activities in rural areas through support for non-agricultural activities includes agricultural activities and non-agricultural activities related to the improvement of rural life. This measure promotes the development of rural tourism, local

⁶⁶ Government of Montenegro. Public Relations Service. 2021. Montenegro Economic Reform Programme 2021-2023: <https://www.gov.me/en/documents/0fafc236-eba0-458f-b524-f09925037fd1>

⁶⁷ Montenegro Ministry of Agriculture, Forestry and Water Management. Programme For the Development of Agriculture and Rural Areas in Montenegro Under IPARD III 2021-2027. <https://www.gov.me/en/mpsv>

⁶⁸ OPHI (Oxford Poverty and Human Development Initiative) and UNDP (United Nations Development Programme) (2023). Unstacking global poverty: Data for high-impact action. United Nations Development Programme and Oxford Poverty and Human Development Initiative. Accessed at <https://ophi.org.uk/global-mpi/2023>

handicrafts, traditional crafts, etc. It is of a social nature and aims to improve the living conditions in rural areas by raising the standard of living of the rural population.”

Montenegro has revised its action plan on rural tourism development for the period 2019-2021 [4], focusing on rural tourism as a broader objective aimed at improving living standards and ending depopulation in rural areas. Additionally, as part of the EU’s rural development policy in capacity building and implementation, the "LEADER" approach is being implemented for local development strategies in the country. Besides community development and improving social capital, this approach aims to contribute to the rural economy, particularly rural tourism, and enhance public areas in rural life.⁶⁹

1.1.5: Percentage change in agriculture in terms of value added as measured by the World Bank: this indicator was estimated -2.9% (2022)⁷⁰

1.1.6: Change in agriculture share of the GDP (% of GDP) as measured by the World Bank⁷¹: This indicator went down from 6.5 to 6 % in 2022.

The IPARD-III 2021-2027 plan presents a SWOT analysis of the rural agricultural sector in Montenegro. Strengths include the country’s rich biodiversity, high soil quality, preservation and fertility, high demand in the domestic market for products in the higher price range and evident changes in the institutional framework in recent times. Weaknesses of the sector have been listed as lack of competitiveness, low level of technology, small and fragmented agricultural holdings, weak connection with tourism sector, unfavorable age and social structure in rural areas, and poor infrastructure in the majority of rural areas. However, some opportunities have been identified to support the development trajectory of the sector. For example, the additional food demand through tourism has the potential to strengthen agriculture. Financially, the availability of state and EU IPARD II support for rural development provides an important opportunity. The rural agricultural sector is facing certain challenges due to their low productivity level and their preference to foreign goods. As Montenegro penetrates larger trade systems, the higher degree of competition faced by certain sectors also has the potential to endanger major parts of the commercial production. Moreover, non-agricultural sectors concentrating in certain parts of the country coupled with no agricultural development may result in further rural areas depopulation and under-utilization of natural resources. Barriers in accessing finance for farmers due to high loan interest rates is another important challenge jeopardizing rural development.

Montenegro’s policies and framework for rural development RSPA score was estimated at 4.6 in 2021. Given current policies, Montenegro’s outlook for 2024-2030 promises a commitment to national development strategies with a focus on the rural sector as well as enlarging the range of economic activities which cover the non-agricultural sectors. Since the country is in the EU accession phase, it is expected that national strategies aimed at improving the productivity of the agricultural sector and fostering the growth of non-agricultural sectors will be implemented at an accelerated rate until the 2025-2028 period. Based on this conjecture, we expect the RSPA score at approval to sit at 4.7, the mid-term score at 4.8, and the completion target at 4.9.

The following table presents the country’s expected policies/frameworks ratings.

⁶⁹ Programme for the Development of Agriculture and Rural Areas In Montenegro Under IPARD III 2021-2027

⁷⁰World Bank national accounts data, <https://data.worldbank.org/indicator/NV.AGR.TOTL.KD.ZG?locations=ME>

⁷¹IFAD RSPA document

Criteria	Indicator	2021	Approval 2024	Mid-term Benchmark 2027	Completion Target 2030
Rural Performance Assessment	Sector Policies/Frameworks (1.1)	4.6	4.7	4.8	4.9

Table 10: Possible targets for Montenegro’s progress in establishing and sustaining key institutions and policies: expected Policies/Framework ratings.

RSPA Cluster 4.1: Access to and use of rural financial services: This cluster attempts to capture the extent to which policies and legal frameworks create an enabling environment for the provision of inclusive rural financial services along six indicators:

4.1.1 Ease of doing business index: Getting Credit - DTF - Getting credit (DB15-18 methodology): an economy’s ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business index is reported along 11 different dimensions one of which is getting credit. Montenegro’s ease of getting credit score was reported at 85 in 2019 and 2020, which means that overall, the country is 15 points away from the best performer.

4.1.2 Whether the country a signatory to Maya Declaration: No Montenegrin institution appears among the signatories listed in Annex E of the Alliance for Financial Inclusion 2017 Maya Declaration Progress Report.⁷²

4.1.3 Whether country is committed to/presents progress reports: As Montenegro is not a signatory to the Maya Declaration, it does not present reports.⁴⁸

4.1.4 Findex: Borrowed to start, operate, or expand a farm or business, rural (% age 15+) : The latest available figure was 4.98% in 2017. This ratio had increased from 3.63% in 2014.⁷³

4.1.5 Findex: Financial institution account, rural (% age 15+) World Bank data shows that this percentage increased from 50.4% in 2011 to 68.4% in 2017.⁷⁴

4.1.6 Whether there is specialized capacity for financial inclusion in place in the regulatory agency: The Montenegrin government emphasizes financial inclusion and specialized capacity for financial inclusion is in place. The Central Bank of Montenegro supervises 8 microcredit financial institutions (MFIs) that grant loans for specific purposes and invest in short-term securities issued by the Government of Montenegro.⁷⁵ Moreover, the 2020 Annual Report of the Central Bank of Montenegro highlights its policy of intensifying projects in financial education, literacy, and inclusion. Initiatives such as the “Savings Week” and the “Global

⁷² Alliance for Financial Inclusion (AFI). 2017 Maya Declaration Progress Report: https://www.afi-global.org/sites/default/files/publications/2017-09/2017_MAYA_progress%20report_digital.pdf

⁷³ World Bank Group Global Findex database

⁷⁴ World Bank Group Global Findex database

⁷⁵ Central Bank of Montenegro. Microcredit financial institutions (MFIs): <https://www.cbcbg.me/en/core-functions/supervision/financial-service-providers/microcredit-financial-institutions-mfis>

Money Week” are part of this effort.⁷⁶ The Global Money Week, held from March 22nd-28th 2021 aimed to raise the levels of financial literacy among children and youth in the country. According to the World Bank Findex Report 2014, 40% of Montenegro’s adult population were without access a formal account and only 5% had any kind of formal savings.⁷⁷

As of May 2024, the most recent overall RSPA score for access to, and use of rural and financial services is 3.2. The low score mainly results from the fact that Montenegro is not a signatory of Maya Declaration. This is one reason for the low penetration of loans in the rural sector as well. Hence the midterm and the completion targets will be shaped mainly by the country’s plans to sign this declaration. The completion target has thus been set at 4.5, above the highest score among IFAD-12 economies⁷⁸score for cluster 4.1. The midterm target will lie in between these two around a level of 3.8.

Criteria	Indicator	Current	Approval 2024	Mid-term Benchmark 2027	Completion Target 2030
Rural Sector Performance Assessment	Access/Use rural financial services (4.1)	3.2	3.2	3.8	4.5

Table 11: Possible targets for Montenegro’s progress in Access to and Use of Rural Financial Services

RSPA Cluster 3.2: Climate change policies: This cluster attempts to capture the extent to which the government has a strategy for dealing with climate change and whether this strategy has been integrated into sectoral planning processes within public planning. It includes ten indicators:3.2.1: Does the country have a [current] national climate change strategy? Rated 5 on a scale of 1-5.

Montenegro has a current national climate change strategy – namely, the National Climate Change Strategy by 2030. The document could not be found in English, however, Section 3 of the Strategic Environment Assessment (SEA) for the National Climate Change Strategy by 2030 provides a detailed overview of the strategy.⁷⁹ In addition, Montenegro’s Third National Communication to the United Nations Framework Convention on Climate Change was presented in February 2020, which lists several measures in multiple fields.⁸⁰

⁷⁶ Central Bank of Montenegro. 2020. Central Bank of Montenegro Annual Report 2020: https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_publikacije/god_izv_o_radu/cbcg_annual_report_2020.pdf

⁷⁷ The World Bank. Financial Inclusion Data / Global Findex. 2014: <https://datatopics.worldbank.org/financialinclusion/country/montenegro>

⁷⁸ Among the IFAD12 graduating economies, we have China with the highest RSPA score and the second highest one is Mexico.

⁷⁹ The European Union’s IPA Programme for Montenegro. Juan Palerm et al. 2015. SEA of Montenegro’s National Climate Change Strategy (NCCS) <https://europa.eu/capacity4dev/file/86283/download?token=RXWgmldp>

⁸⁰ Ministry of Sustainable Development and Tourism (MSDT) - United Nations Development Programme (UNDP) in Montenegro. 2020. Montenegro Third National Communication on Climate Change 2020: https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf

3.2.2: Does that strategy cover adaptation? Rated 5 on a scale of 1-5

The National Climate Change Strategy and Montenegro's Third Communication to the United Nations Framework Convention on Climate Change encompass strategies and actions for adaptation. The NCCS proposes both climate change mitigation and adaptation options in various sections of the document as well as the integration of climate change adaptation into national planning and risk management.⁸¹ In addition, Chapter 5 of Montenegro's Third Communication to the United Nations Framework Convention on Climate Change (pp.155-231) is concerned with Vulnerabilities and lists a variety of adaptation measures in several areas such as health and agricultural sector, urban and coastal areas etc.⁸²

3.2.3) Does the strategy cover adaptation for agriculture? Rated 5 on a scale of 1-5

The National Climate Change Strategy proposes lists several adaptation measures such as regulations that focus on crop, livestock and soil management and preparatory measures that will enable effective intervention when disasters occur.⁸³ Moreover, the heading "Adaptation measures for the agriculture sector" (pp.208-210) under the section 5.3 in Montenegro's Third National Communication to the United Nations Framework Convention on Climate Change (specifically further addresses vulnerabilities and adaptation measures in agriculture. Several adaptation measures are recommended, concerning also biodiversity, irrigation and drainage systems, water supply, cultivation practices and density, the use of pesticides and insecticides, the use of fertilisers and expansion of a range of user-friendly agro-meteorological information.⁸⁴

3.2.4) Does the strategy cover adaptation for natural resources (e.g., water, forests, crops)? Rated 5 on a scale of 1-5

The National Climate Change Strategy lists multiple adaptation measures under water resources, agriculture and forestry sections, including hydrology and meteorology monitoring in Montenegro, use of varieties and hybrids of different maturity periods to avoid least favourable parts of the year and conservation of forest gene pool through the protection of key habitats and species.⁸⁵ Moreover, under the headings "Adaptation measures in the water resources sector" (pp.185-191), "Adaptation measures for the forestry sector" (pp. 195-197) and "Adaptation measures for the agriculture sector" (pp.208-210) under the section 5.3 in

⁸¹ The European Union's IPA Programme for Montenegro. Juan Palerm et al. 2015. SEA of Montenegro's National Climate Change Strategy (NCCS)

<https://europa.eu/capacity4dev/file/86283/download?token=RXWgmldp>

⁸² Ministry of Sustainable Development and Tourism (MSDT) - United Nations Development Programme (UNDP) in Montenegro. 2020. Montenegro Third National Communication on Climate Change 2020:

https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf

⁸³ The European Union's IPA Programme for Montenegro. Juan Palerm et al. 2015. SEA of Montenegro's National Climate Change Strategy (NCCS)

<https://europa.eu/capacity4dev/file/86283/download?token=RXWgmldp>

⁸⁴ Ministry of Sustainable Development and Tourism (MSDT) - United Nations Development Programme (UNDP) in Montenegro. 2020. Montenegro Third National Communication on Climate Change 2020:

https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf

⁸⁵ The European Union's IPA Programme for Montenegro. Juan Palerm et al. 2015. SEA of Montenegro's National Climate Change Strategy (NCCS)

<https://europa.eu/capacity4dev/file/86283/download?token=RXWgmldp>

Montenegro's Third National Communication to the United Nations Framework Convention on Climate Change several measures are listed – for example with respect to water mapping and information systems and establishment of cross-sector monitoring of forest ecosystem status to inform adaptation measures.⁸⁶

3.2.5) Global Climate Risk Index as per German Watch CRI score: Rated 78 on a scale of 0-100.

3.2.6) Agriculture Adaptation as per CCAFS: Rated 4.7 on a scale of 0 -5.

3.2.7) Adaptation Finance as per CCAFS: Rated 1 on a scale of 0-1.

3.2.8) ND-Gain Index as per the Notre Dame Global Adaptation Initiative: Rated 55 on a scale of 0-100

3.2.9) Agricultural Inclusion as per CCAFS: Rated 3 on a scale of 0-5.

3.2.10) Does that strategy (mentioned above) consider risks to rural poor i.e. disasters, incomes, houses? Rated 1 on a scale of 1-5.

The national climate change policy documents do not contain specific measures for the rural poor. The National Climate Change Strategy does mention ensuring an appropriate standard of living for the rural population but does not set a clear strategy or action to address the risks specifically for rural poor.⁸⁷ Montenegro's Third National Communication to the United Nations Framework Convention on Climate Change does not specifically focus on impacts on the rural poor either, although it does address some risks which might disproportionately affect rural and/or poor people such as coastal flooding and extreme temperatures, recommending appropriate spatial planning in preparation for floods and early warning systems and public information for heatwaves.⁸⁸

Regarding this cluster, according to the CCAFS, the areas where Montenegro remains weakest are related to rural households' vulnerability to natural disasters and agricultural inclusion. Progress along these indicators will bring Montenegro's overall score, which increased from 3.7 to 3.9 in 2021, to 4 at approval year in 2024. Progress at midterm is expected to reach a score 4.2, with further improvement to 4.5 by the end of the COSOP implementation period.

Criteria	Indicator	2021	Approval	Mid-term Benchmark	Completion Target
Rural Sector Performance Assessment	Climate change policies (3.2)	3.9	4.0	4.2	4.5

⁸⁶ Ministry of Sustainable Development and Tourism (MSDT) - United Nations Development Programme (UNDP) in Montenegro. 2020. Montenegro Third National Communication on Climate Change 2020: https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf

⁸⁷ The European Union's IPA Programme for Montenegro. Juan Palerm et al. 2015. SEA of Montenegro's National Climate Change Strategy (NCCS) <https://europa.eu/capacity4dev/file/86283/download?token=RXWgmldp>

⁸⁸ Ministry of Sustainable Development and Tourism (MSDT) - United Nations Development Programme (UNDP) in Montenegro. 2020. Montenegro Third National Communication on Climate Change 2020: https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf

Table 12 : Possible targets for Montenegro's progress in establishing and sustaining key institutions and policies: expected Climate change policies ratings

Final Assessment Framework:

Table 11: Summary of the assessment framework and proposed target values

Criteria	Indicator	Approval 2024	Mid-term Benchmark 2027	Completion Target 2030
Access to Finance: Credit Rating	S&P	B+	BB+	BB+
	Moody's	Ba3	Ba2	Ba1
Rural Sector Performance Assessment	Overall RSPA Rating	3.9	4.1-4.2	4.5
	Policies/Frameworks (1.1)	4.7	4.8	4.9
	Climate change policies (3.2)	4.0	4.2	4.5
	Access/Use of rural financial services (4.1)	3.2	3.8	4.5
SDG 1 No poverty	Poverty headcount ratio (Upper middle-income poverty line)	8.57%	7.76%	7.08%
SDG 2 Zero hunger	Prevalence of undernourishment (% pop)	2.5%	2.5%	2.5%
	Prevalence of severe food insecurity	2.1%	2.2%	2%
	Agriculture share of total government expenditure	1.67%	1.9%	2.15%
SDG 5 Gender Equality	5.5.1: Proportion of seats held by women in local governments	35.3%	40%	45%
	Gender Inequality Index (over 100)	60.4	65.3	69.8
SDG 10 Reduced inequalities	10.1 Growth rate of income share of bottom 40%	3.4%	3.7%	4.2%
<i>Memo Item</i>				
	GNI per capita (Atlas method (current thousands US\$))	11.5	13.13	14.34

Data sources: Credit rating (e.g., Moody's, Fitch, Standard & Poor); Policies/Institutions: IFAD RSPA;

SDGs: Poverty (WB, WDI); Food Security (SOFI); Gender (UN Stats); Inequality (WB, WDI).

Poverty headcount ratio is defined using the WB International Poverty line of US\$6.85/day.

GNI per capita: World Bank, World Development Indicators, October 2024.

SECAP background study

Introduction

1. The SECAP background study aims to inform and strategically orient the COSOP on social, environmental and climate change issues. It includes: (a) a synthesis of the key climate, environmental and social challenges identified as mainstreaming priorities for IFAD (b) an institutional analysis, and (c) key recommendations to address the challenges to targeting vulnerable groups including women, youth, indigenous peoples, people with disabilities and undernourished individuals in the face of climate change, land degradation and other environmental challenges.
2. The study guides climate change adaptation and mitigation measures, aligning with the Government's existing sustainable national development policies, environmental action plans, and climate change strategies including the Nationally Determined Contribution (NDC). Most importantly, the SECAP also guides the establishment of an outcome-driven COSOP for IFAD in Montenegro that addresses sustainable environmental and natural resources management, promotes more significant social equity in rural communities, and encourages appropriate measures for adaptation to climate change.
3. The main objectives of the background study are:
 - a. To conduct a strategic assessment of the current and future environmental, climate and social trends in Montenegro's performance in poverty reduction and rural development;
 - b. To propose strategic opportunities for IFAD's contribution to Montenegro's adaptation and mitigation objectives and national/rural sector development plans, thus supporting the country to achieving the Sustainable Development Goals (SDGs) and NDCs.
4. This study is based on the review of documents and statistical data from secondary sources including IFAD strategy papers and action plans, and reports from other multilateral agencies and development partners. Stakeholder consultations were held in Montenegro between April 15-26, 2024.

Part 1 - Situational analysis and main challenges

1.1 Socio-economic situation and underlying causes

5. Montenegro is a small, open and import-dependent economy with a modest industrial base and a strong dependence on tourism. It covers an area of 13,812 km². Montenegro's population peaked in 2017 at 622,373 and started declining thereafter, due to emigration and slowly declining birth rates.
6. **Poverty.** Despite sustained economic growth over the past decade, internal geographic differences remain, affecting communities' socio-economic development. Montenegro relies on a dual economy with a thriving model in coastal and central parts, while the northern mountainous area is increasingly disconnected from growth drivers and investments, suffering limited competitiveness, emigration and isolation. The national poverty rate is 16.4 % of the population in 2023⁸⁹. The population of the northern region is the most exposed to the risk of poverty. In 2023, 40.8% of the population of the northern region was at risk of poverty, while the population of the central region had the lowest risk of poverty (14.7%)⁹⁰.

⁸⁹ World Bank (2023). Western Balkans Regular Economic Report 24\2023 *Towards Sustainable Growth*

⁹⁰ MONSTAT (2023). Statistical Yearbook 2023

7. The northern region's lower income can be explained by a dominant share of agriculture. Farm size and farming patterns, lack of innovation, connectivity, post-harvest storing facilities, handling and packaging, are the main causes for limited marketing opportunities available to rural producers.
8. Unemployment follows the same geographic pattern, penalizing the north. Unemployment nationally is 12.2%⁹¹, while above 35% in the North, which recovered more slowly from the COVID19 pandemic than in the rest of the country, despite recent economic growth.
9. Citizens in that region also have inferior access to social services and water, sewage, digital, and transportation infrastructure. Deteriorated rural roads in particular cause social, economic and health problems for increasingly isolated rural settlements.
10. Migration from the North to the South exacerbated the internal divide. The North, hosting the UN world heritage national park, and a unique culture, provides opportunities to develop sustainable tourism with strong linkages to the local agriculture and service sectors, generate well-paid jobs and retain skilled labor, especially youth.
11. **Gender.** Gender equality in Montenegro has improved, although more efforts are needed. In 2023, the Gender Equality Index⁹² was 59.3, a 4 points increase since 2019, but still lower than the EU average of 67.433. Gender-based inequality of opportunities results in a correspondent dissimilarity in the labor force participation, particularly in rural areas, affecting the overall country economic performance.⁹³ Working conditions tend to be less flexible for women than men, and maternity remains an important obstacle for women to access and remain in the labor market. Discrimination is prohibited in Montenegrin laws, yet women report being asked about marital status and family planning, thus affecting their employment prospects.⁹⁴
12. The Western Balkans remain a region dominated by patriarchal norms, and Montenegro is no exception. Gender parity in education is good, with nearly equal school attendance of boys and girls. However, women are formally employed much less than men, especially in agriculture. Out of 16,803 farmers in 2021, only 1683 (14%) were women.^{95,96} In terms of asset ownership, women in Montenegro own only 4% of real estate, and 8% of land.⁹⁷ Women are disproportionately time-poorer than men, spending significantly more time caring for dependent family members and household work, which consequently leaves them with less time for paid work, leisure and community/social interactions. Gender-based violence (GBV) remains common, especially within the household: 43% of women in Montenegro experienced some form of violence in their lifetime, and 18% in the previous 12 months⁹⁸.

⁹¹ MONSTAT (2024). Labor force survey 2023 Q4. Release 27\2024

⁹² The Gender Equality Index is based on the definition that gender equality is an 'equal share of assets and equal dignity and integrity between women and men'. It identifies six main domains of gender equality: work, money, knowledge, time, power and health.

<https://eige.europa.eu/sites/default/files/documents/Montenegro%20Gender%20Equality%20Index.pdf>.

⁹³ World Bank (2023). Montenegro Country Economic Memorandum, *Towards a sustainable growth strategy*.

⁹⁴ EC and UNDP (2020). Gender Equality Index for Montenegro for 2019.

⁹⁵ Regional Cooperation Council (2023). Women Entrepreneurship in the Western Balkans - economy factsheets

⁹⁶ MARD (2015). Government of Montenegro, MARD. Strategy for the Development of Agriculture and Rural Areas 2015-2020.

⁹⁷ OSCE (2023). Gender and property ownership in Montenegro - mapping the property gap.

⁹⁸ Report on the Rapid Social Impact Assessment of the COVID-19 Outbreak in Montenegro. UN Montenegro, April-June 2020.

13. Labor force participation remains lower among women, more so for minorities. Labor force participation rate among women aged 15 and above reached 49.9 % in 2019, but remains substantially lower than men (65.2%); the trend reflects women's employment rate of 42.1% against 55.7% for men. This is especially true for minority groups: Roma female labor participation rate is the lowest rate in the Western Balkans. Only 10.5% of firms are women-owned, and 19.3% have a woman as manager. In public administration, gender-parity in higher positions is still far from being achieved, as most of top positions are held by men. In property ownership, Montenegro has almost three times more male property owners than female ones (74 vs. 25.9%). Women earn less than men, with a gender wage gap of around 16% even after controlling for education and experience. Limited access to affordable quality care, the structure of labor taxes and regulations, and discriminatory social norms continue to constrain women's access to income-generating opportunities. Inequalities are accentuated by the growing gap in employment opportunities between urban and rural populations, which doubly affects rural women's livelihoods. Closing gender gaps in economic opportunities requires removing barriers to employment and entrepreneurship for women, by increasing their access to assets, resources, and services, including technical training, rural finance, social protection and child and elderly care services.
14. Climate change vulnerability often adds to the existing gender inequalities, resulting in a disproportionate impact on women and women-led enterprises. Key trends include⁹⁹:
- a. Vulnerability peaks among rural women: the vulnerability of rural women has roots in their structurally limited access to assets (land, livestock, natural resources), which in turn hobbles their ability to respond to climate-induced stress and shocks with the necessary nimbleness.
 - b. Businesswomen are more vulnerable than their male peers. Being smaller in size and lacking access to capital and technology, women-led businesses appear more exposed to possible climate-induced disruptions. Structural land tenure imbalances are rife and curtail women's access to opportunities of investment in climate-resilient practices and technologies.
 - c. Data gaps hinder gender-sensitive climate action. Improving the availability and quality of sex-disaggregated socio-economic and environmental statistics is essential to designing site- and context-specific, gender-sensitive climate action.
15. **Youth.** Youth in Montenegro are defined as people over the age of 15 years up to the age of 30 years old. In 2011 (latest census), Montenegro counted 620,029 inhabitants, of which 132,702 (21.4%) were young people aged 15 to 29¹⁰⁰. Twenty-one percent of youth were not in employment, education or training (NEET) in 2020¹⁰¹. The proportion of NEET is higher in rural areas compared to urban regions.¹⁰² Montenegrin society is characterised by a constant threat of a 'brain drain' due to the desire of the most educated young people to move out of the country. The reason for leaving the country is predominantly the quest for better economic conditions¹⁰³. Internal migration is on the rise, as young people have begun moving to the cities and suburbs. This has left the rural population to a generally older

⁹⁹ UNEP (2023). Gender-sensitive assessments of climate change risks in the Mediterranean

¹⁰⁰ MONSTAT (2011). National census.

¹⁰¹ World Bank (2020). <https://data.worldbank.org/indicator/SL.UEM.NEET.ZS?locations=ME>

¹⁰² COST. 2020. Rural NEETs in Montenegro. 2009/2019.

¹⁰³ Friedrich-Ebert-Stiftung (2019). Youth Study Montenegro 2018/2019.

demographic, making the family farm model unsustainable¹⁰⁴. Excluding a large share of Montenegro's new generation from access to advanced education and health services for factors beyond their control—such as their birthplace or the socioeconomic status of the parents—shrinks the potential pool of tomorrow's skilled workers and entrepreneurs.¹⁰⁵ Marginalization and the general social climate of a disorganised society, unconsolidated democracy and prolonged transition period reflects the still strongly manifested attitudes of authoritarianism, traditionalism and intolerance towards differences (especially as expressed in homophobia)¹⁰⁶.

16. **Marginalised groups.** There are persistent differences in poverty rates in geographical terms but also in relation to specific groups, including Roma, Ashkaelia, and Egyptians (RAE) who are particularly vulnerable in Montenegro. According to the 2010 Census, approximately 1 % of the population in Montenegro self-identified as Roma, but expert estimates suggested that between 15,000 and 25,000 Roma reside in Montenegro, with a mean estimate of about 3 % of the population¹⁰⁷. The majority resides in Podgorica, Bijelo Polje and Berane, while another sizable share lives along the coast. A 2009 UNDP report¹⁰⁸ found that among RAE groups, more than 14 % were "excluded", according to a Social Exclusion Index (SEI)¹⁰⁹, which is much higher than the national rate of 3.5 %. The 2022 Report on Roma and Egyptians in Montenegro confirmed that members of this population group are still isolated from the rest of the population and mainly live in segregated settlements, which leads to an increase in social distance and exclusion due to such physical separation. Anti-Roma sentiment is the main reasons for social exclusion, resulting in a high rate of unemployment, low enrolment and completion rates in schools. structural disadvantages experienced by women are compounded for RAE women. RAE girls attend school less, marry younger, do not work and do not have high aspirations. There appear to be no indications of change over the last decade¹¹⁰.
17. **Persons with disabilities.** Overall physical accessibility for persons with disabilities, including in education and medical facilities, remains limited¹¹¹. Data from the 2011 Census of Population, Households and Dwellings conducted by Monstat indicates that 11% of the population, equivalent to 68,064 individuals, face challenges in their daily activities due to long-term illness, disability, or age¹¹².
18. **LGBT persons.** Despite recent legislative efforts, homophobia and social stigma toward LGBT people remain pervasive. In July 2020, Montenegro's parliament narrowly voted to legalize civil partnerships for same-sex couples, making it the first non-EU Balkan state to do so. However, homosexuality remains a sensitive issue in Montenegro, a socially conservative country, as it does in other Balkan nations. Between 2019 to 2022, more than 400 cases of discrimination and hate speech were reported.¹¹³ In 2018, Montenegro scored 1.69 on a scale of 1-4, where 1 equals very low acceptance, 2=Low acceptance, 3=High acceptance, and 4=Very high

¹⁰⁴ Sarovic, R. (2014). Agricultural family farm in Montenegro. *Agriculture & Forestry*, Vol. 60. Issue 1.

¹⁰⁵ World Bank (2022). Background Note, Inequality of opportunity holds back Montenegro's labor and human capital potential

¹⁰⁶ Friedrich-Ebert-Stiftung (2019). Youth Study Montenegro 2018/2019.

¹⁰⁷ Council of Europe, 2012. <http://www.coe.int/en/web/portal/roma/>

¹⁰⁸ UNDP (2009). National Human Development Report 2009. Montenegro: Society for All

¹⁰⁹ Households are considered vulnerable/excluded if their incomes are low (in poverty), they have difficulty in paying utility, mortgage or any other bills and are in arrears, and if they have insufficient access to health services. Individuals are considered vulnerable/socially excluded if unemployed or employed but social contributions are not paid, less than 8 years of schooling and no longer in education, and insufficient access to health services.

¹¹⁰ Browne, E. (2017). Gender in the Western Balkans. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

¹¹¹ European Commission (2015). Montenegro 2015 Report.

¹¹² EU (2023). Empowering people with disabilities in Montenegro.

¹¹³ EU (2023). <https://webalkans.eu/en/stories/montenegros-lgbtq-community-celebrates-self-determination/>

acceptance^{114,115}. In 2012, Gallup found that 70% of respondents would not want a homosexual neighbour. More than 80 % of respondents believed that homosexual acts are morally wrong¹¹⁶. Montenegro has adopted legislation that allows transgender people to identify by their preferred gender after gender reassignment surgery, and in 2012, the Law on Health Insurance was amended to provide coverage for gender reassignment surgery. In 2013, the government worked with various LGBT NGOs to create the 2013-2018 Strategy for Improving Quality of Life of LGBTQI+ Persons.

19. All surveys point to a general lack of data about LGBT populations in rural areas, with most respondents residing in urban centres. This trend could have social implications, particularly on the lack of awareness of citizens' rights, as well as access to services.
20. **Nutrition.** The prevalence of nutrition-related non-communicable diseases are among the main causes of death and significantly contribute to the disease burden in Montenegro. Montenegro is 'on track' to meet two targets for maternal, infant and young child nutrition (MIYCN). No progress is recorded towards achieving targets on low-birth-weight (5.5%), exclusive breastfeeding (16.8%), and stunting (7.2%), nearly three times as high in Roma children¹¹⁷. Montenegro is 'on course' for the wasting target (2.2%). Montenegro is 'on course' to prevent increasing of overweight children (7.3%)¹¹⁸. No progress towards the obesity target, with an estimated 25.2% of adult women and 26.0% of adult men living with obesity. Montenegro's obesity prevalence, 25.2% for women and 26% for men is in line with the regional average of 25.3% and 24.9% respectively. Diabetes affects 7.1% of adult women and 8.7% of adult men¹¹⁹. With reference to micronutrient deficiencies, vitamin D deficiency is rare in children and affects nearly one tenth of women, vitamin A deficiency is nearly non-existent in women and children, while iron deficiency affects about 40% of children and almost 60% of non-pregnant women. Anaemia is found in 13% cent of children aged 6–59 months, denoting a "mild" public health problem.
21. Montenegrin cuisine is rich in local varieties and healthy diet. Marketing Montenegro's traditional food and country cuisine could generate youth engagement in the agrifood system and agribusiness and integrate tourism in rural areas. Food and feed safety, is a priority in to protect human life and health, the environment, consumers and efficient market functioning. Montenegro remains moderately prepared on hygiene rules for foodstuff production to ensure food safety, the quality of seed, plant protection material, protection against harmful organisms and animal nutrition.

1.2. Environment and climate context, trends and implications

a. National trends

22. Montenegro is by constitution an ecological state, where the protection of its environment and ecosystems forms the basis for its economic and social development. Montenegrin mountain landscape is characterized by abundant forest coverage interspersed with pastures, and rich in biodiversity and water resources. Environmental degradation and climate change typically have the strongest negative

¹¹⁴ World Bank (2018). Life on margins. Survey results of the experiences of LGBTI people in Southeastern Europe.

¹¹⁵ The Index of Perception of General Acceptance of LGBTI People ranks countries based on indicators such as a) expression of intolerance in public; b) expression of sexual orientation in public; c) positive measures to promote human rights of LGBTI people.

¹¹⁶ The European Parliament's Intergroup on LGBT Rights notes that violence has increased recently. Attacks are rarely reported and activists are exposed to discrimination.

¹¹⁷ Statistical Office of Montenegro - MONSTAT, UNICEF, The Montenegro Multiple Indicator Cluster Survey (MICS), 2018

¹¹⁸ Global Nutrition Report (2021). Country Nutrition Profiles: Montenegro.

¹¹⁹ Ibid.

impact on the income and health of the poor and vulnerable. They also involve high economic costs by undermining ecosystem services needed for a thriving agriculture production as well as tourism, Montenegro's growth and jobs engine.

23. **Land.** The utilised agricultural area in 2020 was 257,000 ha¹²⁰, which is 18% of the total area of Montenegro. Of this, 243,000 ha (94.3%) are meadows and pastures, while arable land used for plant production makes about 14,000 ha (arable fields: 9,000 ha; permanent crops: 5,400 ha).¹²¹
24. Climate change creates additional stresses on land and in particular on already degraded land by exacerbating the existing risks to food systems¹²². Land degradation makes agricultural production more sensitive to climate change impacts. Major natural hazards threatening land resources are floods, landslides and forest fires¹²³. Other threats from anthropogenic activities include excessive logging, mining projects, and soil pollution from industrial activities and landfills. Nonetheless, parts of Montenegro have, rather than degrading, become steadily more resilient since the 1950s, due to a significant increase in vegetation across the country, leading to decreased run-off and better infiltration¹²⁴.
25. **Forests.** Forest¹²⁵ cover in Montenegro is 59.5% (826,782 ha) with an additional 9.9% of "forestland¹²⁶" (137,480 ha). Montenegro's forests are located partly on steep and rocky slopes, making 11.9% of the forest area and 8.4% of the forestland area is not accessible. A considerable portion is under legal protection, with 5.2% of forests located within national parks and 14.6% within Emerald zone areas.¹²⁷ Forest management in Montenegro follows 10-year Management Plans.

¹²⁰ MONSTAT (2020)

¹²¹ Ministry of Agriculture, Forestry and Water Management (2023). SDRA 2023–2028

¹²² IPCC Special Report on Climate Change and Land (2019)

¹²³ World Bank (2024). Climate Change and Development Report (CCDR)

¹²⁴ Nyssen et al. (2012)

¹²⁵ Forests in Montenegro are defined in the First National Forest Inventory as land spanning more than 0.5 hectares with trees higher than five meters and a crown cover of more than 10%, or trees able to reach these thresholds in situ.

¹²⁶ Forestlands include land which due to its natural characteristics and management conditions is most suitable for raising and cultivating forests, as well as land on which there are facilities intended for forest management, game breeding and protection.

¹²⁷ World Bank (2024). Carbon pricing impact assessment for Montenegro

26. The high percentage of forest cover is an advantage in terms of environmental protection and improvement. In national parks, 66% of the forested area is occupied by high forest (24,475 ha), conifer forests cover 20.4% (7,575 ha), shrubs 13.6% (5,050 ha), and artificially raised communities cover 25ha.¹²⁸ The dominant share of self-renewing stands indicates a still high level of bioecological stability and productivity, especially in the national parks of Biogradska Gora, Prokletije, and Durmitor.

27. Forest and forest land ownership is 49% private. Standing volumes of State-owned forests is higher than private ones (227.9m³ VS 88.7m³). Private forests are more fragmented, with more than half of the estates comprising no more than 5 hectares¹²⁹. In sloping mountainous terrains, a network of forest roads is a key prerequisite for silviculture and the economically efficient utilisation of forests.

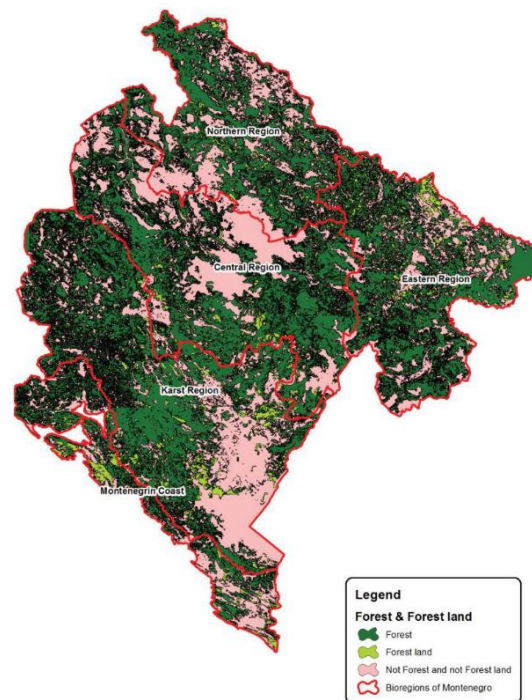


Figure 2: Forest and forest land in Montenegro

28. Unsustainable forest management practices resulted in the deterioration of forest ecosystems. Main threats for forest ecosystems are wildfires, abiotic factors (droughts, floods, frost, snow, high winds, etc.), and pests and diseases. The number of wildfires varies from year to year, with a current (and increasing) average rate of 0.5% total forest area burnt yearly. The State Audit Institution warned about the lack of an efficient fire prevention mechanism, due to lack of data, risk assessments, weak monitoring, coordination issues, inadequate and insufficient equipment and lack of expertise of staff¹³⁰.

29. **Biodiversity.** Montenegro can be divided into two main bio-geographical regions (Mediterranean and alpine) with a variety of ecosystems falling within these two eco-regions. The main ecosystems are: alpine, forest, dry grasslands, freshwater, and marine. Main habitats include: coastal, caves, canyons, and karst as a specific geological formation.¹³¹ The floristic diversity comprises 3,250 plant species, and the index (S/A-species/area) of 0.837 makes Montenegro one of the most important biodiversity centres in Europe, including large carnivores, bats, other mammals, fish, amphibians, reptiles and insects as well as vascular plants and mosses. Although these sanctuaries are protected from human activities such as clearcutting, they are not immune to damaging events such as uncontrolled wildfire or downstream contamination by pollutants from rivers.

30. The National Inventory registers 68 tree species (57 broadleaves and 11 conifers), which indicates a great diversity. Viewed by area, beech dominates with 19.8%, followed by bitter oak with 7.3% and sessile oak with 2.0% of forested areas. Hardwood broadleaves cover 10.4%, softwood broadleaves 2.9%, while share of

¹²⁸ Third Biennial Update Report of Montenegro (2021).

¹²⁹ FAO (2013).

¹³⁰ World Bank (2023). Montenegro Country Economic Memorandum, *Towards a sustainable growth strategy*.

¹³¹ Environmental Protection Agency of Montenegro (EPA) (2023). National Inventory Report 2023 to the UNFCCC

valuable ('noble') broadleaved trees 8.3 %. As for conifers, the most common is spruce with 8.5% , fir with 4.1% and black pine with 1.6%.

31. **Water resources.** Montenegro is famous for its dramatic gorges, fast-flowing rivers, karst scenery, numerous lakes and coastline. Montenegro experiences high river discharge levels, with an average total of 40 l/s/km² and, as such, is in the top 4% of the world's territory in terms of average outflow. Given that 95% of watercourses are formed within the country, it could be said that water is Montenegro's biggest natural resource. 52% of the country (7,251 km²) contains rivers, which eventually find their way to the Danube (to the north), while the remainder of the country's rivers flow to the Adriatic (to the south).¹³² The total mean annual runoff from the territory of Montenegro is around 595 m³/s (the average specific runoff is 43 l/s/km²). However, the karst regime of flow causes a significantly uneven time distribution of water resources throughout the year. In the dry season, discharges are more than a thousand times lower than during the rainy period; even at the end of summer, numerous springs and riverbeds are completely dry.

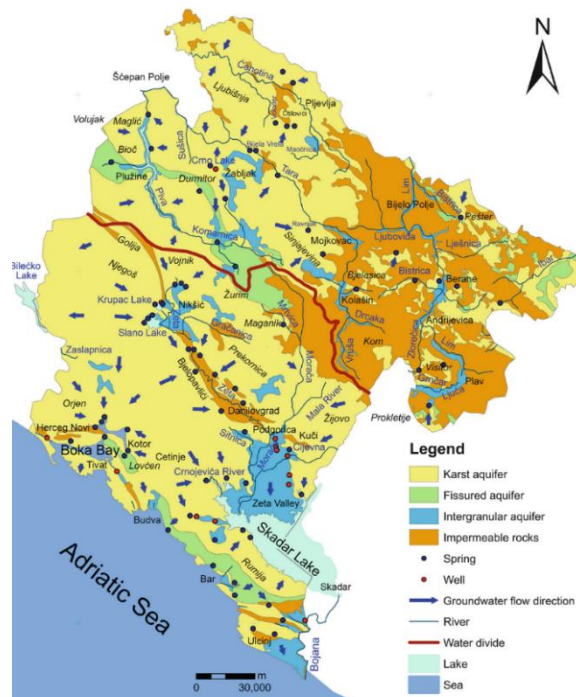


Figure 3: Water resources in Montenegro

32. Hydropower is the country's most important energy resource, and only 17% of the potential resources are being exploited. Increasing use requires careful handling; hydropower should be viewed as only one element in a mixed energy supply scenario.
33. The Water Management Strategy (2017) aims to ensure the protection and conservation of water resources in the country. Only 49 of about 90 springs have designated protection zones. As of November 2021, 47% of the population is serviced with waste water collection and treatment systems¹³³. Construction projects of waste water treatment facilities in several Northern municipalities (Kolašin, Bijelo Polje, Rožaje, Plav and Gusinje) have been delayed due to spatial planning issues, illegal constructions or disagreement within communities, resulting in waste water from domestic and industrial use flowing directly into the rivers, leading to poor microbiological water quality in some hotspots¹³⁴. Construction of water treatment facilities is required for EU accession, but at present insufficient waste dilution waste from population centres in low-water periods have adverse effects on public health, and tourism.

¹³² International Commission on the Protection of the Danube River (ICPDR). <https://www.icpdr.org/danube-basin/countries/montenegro>

¹³³ Balkan Insight (2021).

¹³⁴ Kolarevic et al. (2019).

34. **Agriculture and food systems.** With its 6.5%¹³⁵ share in GDP in 2020, agriculture is important for Montenegro: almost 100,000¹³⁶ people are involved in agricultural activities as farm holders, contracted and paid workers (about 13,600)¹³⁷ or unpaid family members. Agriculture is an important income source, especially in the North, where opportunities are limited in terms of alternative income generation. The total number of cattle, sheep and goats in 2020 were respectively 78,000, 177,000 and 28,000. Together, they produced 180,000 tons of milk. The estimated number of poultry was 600,000 the same year, producing over 113 million eggs. Roughly 26,000 pigs and 4,000 horses are also reared¹³⁸. All livestock production decreased sharply since 1990, more than 50% on average.
35. Intensive farming is practiced only near the capital Podgorica and close to the urban area of Nikšić (second largest city in the country). In almost all regions most farming areas are used extensively and can be regarded as High Nature Value (HNV) farmland. It is comprised mostly of semi-natural grasslands which are the main part of agricultural land. A substantial area is covered by semi-natural vegetation communities. Montenegrin herbaceous pastures range from high-mountain Alpine grasslands, through Mediterranean-montane *Nardus* grasslands, to dry grasslands in the alluvial plains. The latter are now very restricted in area, found for example on Ćemovsko polje, including Karabuško, Tuško and Dinoško polje and the lower part of the canyon of the River Cijevna, but they are significant for stone curlew (*Burhinus oedicephalus*) and tawny pipit (*Anthus campestris*). Some of the most extensive areas of mountain pastures are found in the Durmitor region. There are also some important areas of wet pastures and meadows between Plav and Gusinje.¹³⁹

b. Trends in the northern region

36. The Northern region of Montenegro comprises 13 Municipalities,¹⁴⁰ all of which are classified as predominantly rural.¹⁴¹ The region's economy relies on agriculture and tourism, with the industry sector largely faded and confined to timber exports. Montenegrin mountain landscape is characterized by abundant forest coverage interspersed with pastures. The threat of desertification as a result of land degradation is a concrete environmental issue. Degraded soils and land are unable to retain as much water, leading to increased flooding, and increased pollution and sedimentation in rivers and streams. Excessive logging in mountainous areas is among the causes of increased erosion and flooding¹⁴².
37. The Northern region's food system is emerging and diversifying, as it involves a combination of traditional and modern practices. Elements of rural/traditional food systems, relying on local production and consumption, and informal/expanding food systems, involving informal supply chains and small-scale local markets, coexist with modern and formalized food systems, particularly in cities.
38. Katuns are seasonally accessible communal summer mountain pastures. For centuries, communities moved with livestock, family and belongings from foothills villages to upper grasslands after snowmelt. Customary rules regulated the use and benefit of these pastures, which could only be accessed each year after the *izdig* (transhumance to summer pastures), around May. Each household would maintain

¹³⁵ <https://www.monstat.org/cg/page.php?id=19&pageid=19>

¹³⁶ Monstat 2016, Farm Structure Survey

¹³⁷ Monstat 2022, Employment in Agriculture Survey

¹³⁸ [MONSTAT \(2021\)](#).

¹³⁹ FAO (2015), quoted in EPA (2023). Montenegro - High Nature Value Farming

¹⁴⁰ Andrijevića, Berane, Bijelo Polje, Gusinje, Kolašin, Mojkovac, Plav, Plužine, Petnjica, Pljevlja, Rožaje, Šavnik, Žabljak.

¹⁴¹ MAFWM (2023). Strategy for the Development of Agriculture and Rural Areas 2023-2028.

¹⁴² Environment and Security Initiative (ENVSEC) and UNEP (2012).

and occupy a dwelling, and the right was inherited. Land and/or housing ownership is rarely formalized (the land usually being owned by the state). About 500 katuns are still used today, but with a much smaller number of cattle. As a result, mountain pastures are being maintained and the negative consequences of abandoning pastures is thus reduced.

39. Preservation of mountain pastures and katun's way of cattle breeding is critical to preserve natural and cultural heritage. Katuns are living, evolving systems of human communities in an intricate relationship with their territory, cultural or agricultural landscape or biophysical and wider social environment. Montenegro is seeking the inclusion of katuns in the list of Globally Important Agricultural Heritage Systems (GIAHS)¹⁴³ at the Agricultural Heritage of the Food and Agriculture Organisation of the United Nations (FAO). Younger generations face increasing difficulties to continue this lifestyle, as remote mountain pastures are difficult to access and hardly meet the modern standards¹⁴⁴. As a result, some katuns are progressively abandoned, especially in the Western municipalities¹⁴⁵. However, with over 123,000 hectares in total, katuns are a valuable agricultural asset representing more than 50% of the ruminants' output.
40. A rural development policy was applied in 2012, allocating a payment per livestock unit (LU) that spends a minimum of 3 months in katuns and own a minimum number of heads (initially 10, then lowered to 4 in 2022). In the last 10 years, 1,600 farms per year on average benefited from subsidies for the sustainable use of mountain katuns with a total of 24,486.43 LUs per year on average (with an average of 15.3 LUs per farm). Between 2017-2020, 146 users improved their huts, including water supply or solar panels. Combining agro-tourism and livestock rearing is among the revitalization initiatives.
41. Poverty and unemployment caused severe depopulation of the northern rural areas. Scholars and policy planners acknowledge that to reduce rural migration, it is necessary to optimize the usage of environmental, agricultural and tourist potentials of rural areas through innovations and entrepreneurship.¹⁴⁶ Fostering entrepreneurship in agro-tourism sector should not only create value for the local community, but also contribute to preservation of rural heritage (such as Katuns).

c. Climate change context and trends

42. Montenegro is exposed and vulnerable to climate hazards such as droughts, floods, forest fires, and heatwaves. Projections expect these climate extremes to increase in frequency and magnitude.
43. **Observed changes** in climate are characterized as follows:
 - a. Temperatures: Montenegro experienced considerable warming in past century, with higher increase in the past 50 years. The mean temperature rise in 1901-2020 period shows a recorded average increase of 0.12°. The increase is mainly concentrated between 1971-2020, when the positive trend was of 0.16° per decade. The monthly mean temperature positive rise

¹⁴³ <https://www.fao.org/giahs/background/en/>

¹⁴⁴ Outdated huts, the traditional habitat in katuns, need to be adapted and upgraded to provide decent living standards. Water supply is often an issue for farms and families that use katuns during the summer period, together with access to electricity and refrigeration units (for milk and dairy conservation).

¹⁴⁵ Prof. Dr Milan Markovic, Biotechnical Faculty, University of Montenegro (2013). [Use of pasture resources in Montenegro](#).

¹⁴⁶ Stanovčić, T., Peković, S., Vukčević, J., Perović, D. (2018), "Going Entrepreneurial: Agro-tourism and Rural Development in Northern Montenegro", Business Systems Research, Vol. 9, No. 1, pp. 107-117.

trend was higher during winter months with an impact on snow between 1901-1970.

- b. **Precipitation:** Precipitation is unevenly distributed geographically. The Central and Southern Coastal regions receive an average of 2,000 mm per year while the Northern region around 1,000 mm per year between 1981-2020. A 30-40% increase of intense rainfall events during summer months and reduced precipitation in the Northern region in winter when water is usually stored in form of snow. This shift impacts water availability, decreasing water effectively stored in soil. This gap is increasing ecosystem vulnerability to drought.
 - c. **Droughts:** The trend of the Standardised Precipitation-Evapotranspiration Index (SPEI)¹⁴⁷ for 1981-2020 is negative at national level, indicating an increase in long term droughts. The SPEI for the 18 months' time-step has been negative since 2015.
44. **Projected changes.** Overall, mean annual and extreme temperatures will increase, together with more frequent and longer heat waves, more hot days and nights, fewer days with frost, and fewer cold days and nights. In addition, less precipitation is expected, which may lead to more frequent droughts, as well as an increase in the number of forest fires. It is expected that climate change will increase frequency and severity of extreme weather events; including floods and storms, drought and forest fires. Seasonal patterns may also shift, which leading to greater variability that may affect agriculture.
45. **Climate change vulnerability and impacts.** Climate impacts will be more volatile and will threaten economic stability and productivity. The World Bank estimated that average droughts will impact agriculture production between now and 2050, with cereal yields reductions of 10% a year and an average cost of inaction (if no adaptation measures are taken at the economy level) of up to 7.9% GDP per year.¹⁴⁸ At national level, IFAD's Climate Adaptation in Rural Development Assessment Tool (CARD), estimates a downward trend in production of maize, wheat and sunflowers after 2040. The "managed grass" category referring to pastures (katuns) presents a similar downward trend. For the specific steep terrain in mountain areas, the yield of "managed grass" would decrease by 10% by 2050.
46. Different levels of vulnerability characterize different places and populations. IFAD conducted a vulnerability analysis to prioritize areas to be targeted under the GORA project.¹⁴⁹ This exercise identified 14 mountainous municipalities as most vulnerable to climate change: 13 municipalities of the Northern region: Plužine, Šavnik, Žabljak, Pljevlja, Kolašin, Mojkovac, Bijelo Polje, Berane, Petnjica, Rožaje, Andrijevica, Plav, Gusinje; and the municipality of Nikšić in the Central region. These figures match the analysis made by the World Bank and presented in the vulnerability maps below.¹⁵⁰

¹⁴⁷ SPEI is a multiscalar drought index based on climatic data (precipitation, evapotranspiration) allowing the index to account for the effect of temperature on drought development through a basic water balance calculation.

¹⁴⁸ World Bank (2024). Climate Change and Development Report (CCDR) for Montenegro

¹⁴⁹ Adaptation to Climate Change and Resilience in the Montenegrin mountain areas – Gora Adaptation Fund Project Proposal – Annex 4: Climate Vulnerability Analysis

¹⁵⁰ Average vulnerability is measured as the arithmetic mean of 1-4 scores assigned to each municipality based on the quartiles of the distributions of: 1. population growth/decline from 2000 to 2020, 2. access to markets, 3. average net wage. (WB 2024).

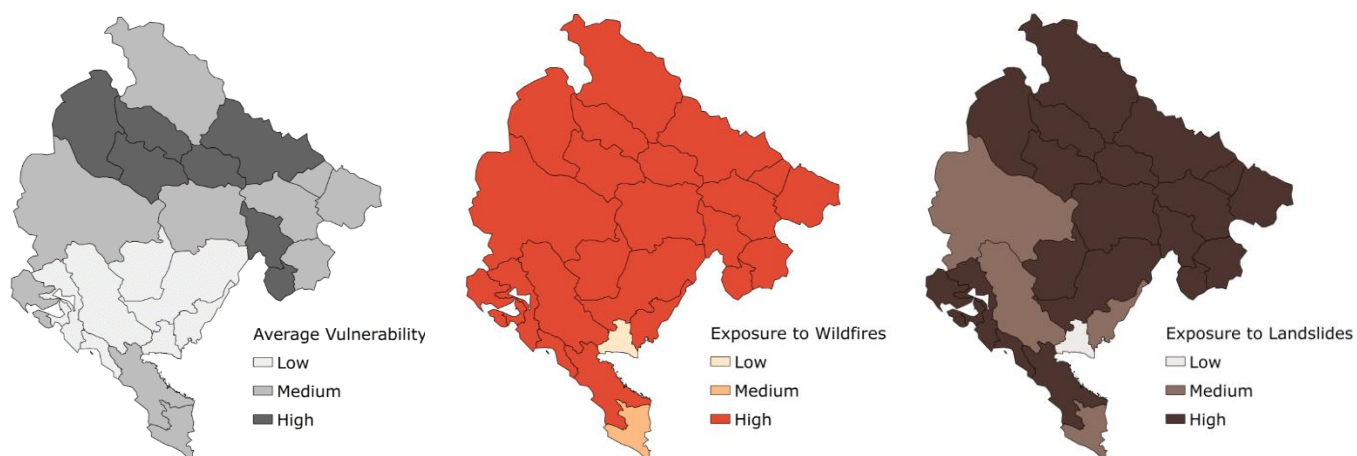


Figure 4: Montenegro Vulnerability Maps

47. Mountain ecosystems provide vital services, including water, forest, carbon storage and cultural values. They are particularly vulnerable to climate change. Accelerated snowmelt in spring translates in a disruption of water flow resulting in flash floods and excess accumulation downstream, while reduced upstream infiltration leads to water deficits in highlands, including katuns or summer pastures with direct impacts on water availability within the watershed throughout the year.
48. Heightened temperatures and intensifying droughts translate in increased vulnerability to forests fires and general natural resources degradation. Fragile soils and burnt areas are in turn more at risk of landslides with the increased water runoff, with impacts on infrastructure. Heat and drought increase, together with the disrupted water flow, make reliable water supply more urgent. Small scale producers are particularly vulnerable to climate shocks as they rarely have the means to anticipate and adapt to these accelerating changes. The multiple impacts of climate change on production systems go beyond drought and heat cycles, and also include hail, late spring frost, and an increase in pests and diseases. Income instability, limited social capital and poor infrastructure (in particular roads) are additional barriers that constrain the adaptive capacity of poorer producers in northern mountainous areas.
49. General climate change risk perception is low. Economic actors have been slow to enact prevention measures to mitigate and adapt to climate change. Only 13% of firms implemented green technologies or measures, compared to 30% of firms in structural peer countries. Strikingly, only 11 % of firms in Montenegro invested in waste minimization or recycling, compared to 50% in peer countries. Low investment in green technologies is related to the lack of green management practices, as almost no firms in Montenegro have a person responsible for climate change actions, unlike in firms in peer countries, resulting in fewer firms set CO² targets and monitor emissions.¹⁵¹

d. Actions required to enhance natural resources management and climate resilience

50. The Strategy for the Development of Agriculture and the Rural Areas 2023-2028 lays out strategic objectives (SO) for the sector's next five years, with specific actions and needs. Priority investments are set in three mutually reinforcing objectives of a) climate change mitigation through reduced emissions and carbon sequestration, b)

¹⁵¹ World Bank (2023). Montenegro Country Economic Memorandum, *Towards a sustainable growth strategy*.

efficient use of natural resources, and c) stopping biodiversity loss. These objectives are aligned with the EU CAP policy, so that action can be sustained over time even in case of Montenegro's access to the EU. Improved forest and water management, substitute food imports with grown products, raise quality of rural infrastructure, strengthen the resilience of agricultural incomes to shocks – including enhancing off-farm economic activities such as agri-tourism are all entry points for IFAD engagement in the sector.

51. The updated Nationally Determined Contribution (NDC) states that while for years the focus of climate change policy has been mitigation, a shift toward adaptation is now present. The Law on Protection against Climate Change (2019) mandates the preparation of the National Adaptation Plan consisting of adaptation measures, with associated financial assessment. Identified mitigation co-benefits of adaptation actions in agriculture are: enhancement of carbon sinks by an increase in resilient species in areas vulnerable to forest fires; development of micro-reservoirs; use of renewable energy for cooling and heating; harvest storage; and changes to food processing. Green-belt barriers prevent soil degradation and reduce land degradation thereby increasing carbon sinks. Strengthening forestry infrastructure and logging monitoring also contribute to increase carbon sinks.
52. The UNCCD National Drought Plan 2030¹⁵² (2020), lays out key actions to prevent, respond to, and better manage present and future droughts. Key actions include: widespread use of early-warning systems; connection of land use planning and drought management; coordination of public and private sector drought impact assessments; improvement of specific legislation. Recommended measures to reduce drought effects are: application of the principles of integrated water management; development of supporting systems for water management and the water sector; irrigation of agricultural land; agro-environmental measures, including establishment and protection of forests.
53. The UNCBD National Biodiversity Strategy and Action Plan (NBSAP) (2016-2020)¹⁵³ lays out 7 strategic targets with results indicators to track progress. Key recommendations for reducing pressure on biodiversity, in the agriculture, forestry and water management sector are: Identify measures for forest fires protection and integrate them in national policies; meet the requirements for Forest Stewardship Council certification (FSC); improve sustainable use of non-timber products; measures for conservation of important natural and semi-natural grassy formations are integrated in policy.

Part 2. Institutions and legal framework

2.1 Institutions

54. The Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development (MERT) is the main national entity responsible for national environmental and climate change policy and the Focal Point to the UNFCCC. The MERT coordinates entities relevant to landscape management and climate risk: the Agency for Nature and Environmental Protection; the Institute of Hydrometeorology and Seismology; the Public Works Administration; the National Parks of Montenegro; and the Chamber of Engineers of Montenegro. At MERT, consultations with the directorate for Industrial and Regional Development would help harmonize approaches to encourage economic development opportunities that do not threaten the sustainable landscape management of rural areas (e.g. discuss safeguards regarding the development of the timber and wood processing industries, mining and

¹⁵² Montenegro National Drought Plan 2020

¹⁵³ National Biodiversity Strategy and Action Plan 2016-2020

- extractive industries, etc.). The three directorates of Tourism Development Policies, Investment in Tourism and Normative Affairs and Administrative Procedure in Tourism are stakeholders to orient the diversification strategies in rural tourism according to legal standards.
55. The National Council for Sustainable Development is a high-level multi-institutional council, under the General Secretariat of the Government of Montenegro chaired by the prime minister of Montenegro. The council's 2013 reform strengthened its mandate in the field of climate change. The NCSDD acts as the coordinating platform to achieve inclusive dialogue between representatives of the academic and scientific community, business and civil society, vulnerable and marginalised groups. Other key institutions responsible for climate change management are: Agency for Nature and Environmental Protection (EPA), Institute of Hydrometeorology and Seismology (IHMS), Environment Protection Fund (Eco Fund), Ministry of Finance (MoF), Ministry of Agriculture, Forestry and Water Management (MoAFWM), Ministry of Capital Investments (MCI), Ministry of Internal Affairs (MIA), Directorate for Emergencies, Mitigation and Adaptation Working Group (MAWG).
 56. The Ministry of Ecology serves as the custodian of Montenegro's natural resources, biodiversity, and space. The Directorate for Nature Protection conducts revision studies of National Parks and provides opinions on Forest Management Programs, Management Plans for National Parks, and Management Programs for National Parks. Environmental protection, the preservation of clean air, water, land, and climate change mitigation, and biodiversity conservation are top priorities.
 57. The Ministry of Human and Minority protects and promotes human rights and freedoms, practices rights of minority people and other national minority communities, enhances protection against discrimination, improves gender equality, interethnic tolerances in Montenegro, intercultural dialogue and strengthening coexistence. The Gender Equality Department's main objectives are to favour women's participation in politics and the economy, and reduce violence against women. The Gender Equality Committee of the Parliament of Montenegro, the Office for Gender Equality, and the institute of the Ombudsman all have mandates over gender equality.
 58. The Ministry of Health is in charge of public health nutrition issues with the technical support of the national Institute of Public Health, which includes the Department of Food and Nutrition.
 59. The Chamber of Economy of Montenegro federates multiple private sector associations. Major industries are represented, such as woodworking, energy & mining, metallurgy, transport and freight, tourism, construction, banking, ICT, SME, trade and agriculture.
 60. Main Research Institutions include the University of Montenegro (public), the Mediterranean University (private), and the Donja Gorica University (private), all located in Podgorica. Bilateral exchange programs exist with China and 6 neighbouring European countries; Montenegro participates in the most important EU research and innovation programs such as Horizon 2020, COST, EUREKA and IPA, with a strategic emphasis on the three following domains: a) Sustainable Agriculture and Food Value Chain; b) Energy and Sustainable Environment; and c) Sustainable Health and Tourism.
 61. The Rural Clustering and Transformation Project (RCTP) by IFAD (2017-2023) responded to the lack of structured small-scale farmers organisations. The successful approach centred on rural farmers' needs and realities should be scaled up during this COSOP.

2.2 Policy and regulatory frameworks

62. Montenegro is party to the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the United Nations' Framework Convention on Climate Change (UNFCCC), which promote a gender-sensitive approaches and encourage countries to mainstream gender into national sustainable development and climate change policies. Montenegro is also a party to the United Nation Convention of the Biological Diversity (UNCBD), United Nation Convention to Combat Desertification (UNCCD), and the Convention on Wetlands (or Ramsar Convention).
63. Rural development is regulated by the Law on Agriculture and Rural Development of 2009. Other key sectoral policies and plans include:
 - a. The Strategy for the Development of Agriculture and Rural Areas (2023-2028) follows the goals set by the new Common Agricultural Policy 2021-2027. It emphasises the sustainable use of natural resources, with emphasis on the production of high quality agricultural and food products using innovative and traditional methods.
 - b. The Pre-accession Assistance for Rural Development Programme (IPARD-III, 2022) aims to increase products' competitiveness and added value; create jobs and improve living conditions in rural areas by connecting them with tourism, improving rural infrastructure, organic production and forest protection.
 - c. The Youth Strategy 2023-2027 aims at establishing a sustainable interdepartmental support system for young people, facilitating their involvement in policy development and implementation, fostering interdepartmental collaboration, and improving the normative-institutional framework. The strategy does not explicitly focus on agriculture, but it indirectly impacts rural youth by improving prospects and services for young people in the country.
 - d. The Roadmap Towards the Circular Economy in Montenegro (2022) identifies key drivers, priority areas, and opportunities to guide the transition to a circular economy. The strategy emphasises systemic thinking and focuses on five interconnected areas: a) food and forest systems, b) the built environment, c) tourism, and d) manufacturing. The strategy introduced concepts like circular food systems and forest systems, ecotourism and ecosystem services.
 - e. A Strategy for the Development of the Northern Region is reportedly under development, but was not yet made available to the IFAD team during the COSOP mission.
64. Montenegro has a legislative framework in place to ensure gender equality and equal access to opportunities. The Constitution of Montenegro (2007) proclaims the equality of all citizens as one of its main principles and provides the opportunity for the introduction of special measures for achieving overall equality, including equality between women and men. The Anti-Discrimination Law (adopted in 2010, amended in 2011, 2014, and 2017), the Law on Gender Equality (adopted in 2007 and amended in 2010, 2011, and 2015), and the Action Plan for Gender Equality (2007–2010, 2011–2016, and 2017– 2021), lay the foundation for legal protection from gender-based discrimination.

65. The Constitution of Montenegro (2007) enshrines the protection of environment in its article 23. Montenegro ratified the Kyoto Protocol (2007) and became a member of the UNFCCC as a non-Annex 1 Party. Its First, Second and Third National Communications were submitted to the UNFCCC in 2010, 2015 and 2020 respectively. On 11 October 2017, the Parliament of Montenegro enacted a law ratifying the Paris Agreement. In 2021 Montenegro endorsed the Glasgow Leaders' Declaration on Forest and Land Use. Montenegro is transposing the European Union *acquis* into national legislation, including in environment and energy sectors, due to its membership to the Energy Community.
66. The Third National Communication (TNC) report to the UNFCCC (2020) is the latest national document identifying climate action priorities, and aligns/draws from the recommendations of previous reports such as the Second Biennial Update Report on Climate Change (2019). Five sectors are identified as particularly vulnerable to climate change, amongst which the following three are relevant to IFAD:
- a. The water sector shows a reduction in the water balance in all river basins in Montenegro. The decrease in rainfall and snowfall will drastically affect surface water availability. By the end of the 21st century a reduction in average annual flow of 27% is expected. Adaptation measures focus on applying an integrated approach to water resources and systems management, and a strengthening of cross-sector planning and activities.
 - b. The forestry sector is affected by climate change not only in the current developmental processes and growth, but often results in cumulative effects that can last for the lifetime of the tree. Adaptation measures for the forestry sector need to focus on promoting sustainable management of forests and strengthening information and monitoring systems.
 - c. The agricultural sector is highly vulnerable to climate change due to its dependence on specific temperature conditions and water availability, and it is also exposed to climate hazards such as droughts or floods. Possible adaptation measures in the agricultural sector include spatial planning and capacity-building measures, while other measures require more technology- and information-oriented responses.
67. Montenegro's NDC has an economy-wide GHG emission reduction target of 35% by 2030 compared to base year (1990) emissions, excluding Land Use, Land use Change and Forestry (LULUCF).¹⁵⁴ Emissions/removals from LULUCF have been estimated in the GHG inventory but are not included in the NDC. This is due to the limited information available, which is planned to be rectified in the next NDC revision. The Law on Protection against Climate Change (2019) mandates the preparation of the National Adaptation Plan and associated financial assessment of adaptation measures.

2.3 Programs and partnerships

68. EU. IPARD 3¹⁵⁵ 2021-2027 (total €81 million) provides funds for Montenegro to close gaps with the European standards within the agriculture sector. IFAD could support small-scale producers that are not eligible for other supports mechanisms, as they do not comply with the required level of assets such as land area or number of livestock. IFAD can build meaningful partnerships with the EU-financed program in which small-holder farmers can register as agricultural households, thus maximizing

¹⁵⁴ Updated Nationally Determined Contribution (NDC) for Montenegro

¹⁵⁵ https://agriculture.ec.europa.eu/international/international-cooperation/enlargement/pre-accession-assistance/apply-funding_en

inclusion and poverty reduction outcomes nationwide. Key areas for partnerships are:

- a. Agri-environment- climate and organic farming measure
 - b. Implementation of local development strategies - LEADER approach
 - c. Investments in rural public infrastructure
 - d. Farm diversification and business development
69. The World Bank. The Montenegro Institutional Development and Agriculture Strengthening (MIDAS) aims to improve the delivery of government assistance for sustainable agriculture and rural development in a manner consistent with the EU's pre-accession requirements. The partnership in the steering committee of the RCTP built synergies among in-country financing institutions, to continue fostering inclusive and transformational rural development.
70. The FAO has a number of capacity building and policy development interventions. An entry point for IFAD is to coordinate the implementation of recommendations¹⁵⁶ to enhance disaster risk reduction (DRR) in the agriculture sector. IFAD could use its existing network of municipalities and partner farmers to increase stakeholders awareness, national and local levels, to reduce flood, drought, fire, and other types of risks. In parallel to the awareness campaign, support the development of local drought risk assessment, and mapping and the formulation of local plans.

Part 3 - Strategic recommendations

3.1 Lessons learnt

71. IFAD engagement in Montenegro started in 2017 with the RCTP project. Yet, many positive outcomes and lessons learnt could be drawn from this first operation¹⁵⁷. These are listed below:
72. The clustering approach includes a set of innovative social engineering methodologies: the multi stakeholder platforms, the agribusiness clusters the inclusive Matching Grant facilities, and channels for stakeholders' feedback loops. These mechanisms proved to be crucial to effectively monitor the performance of the inclusion of marginalized community members into project activities.
73. Ensuring that key technical expertise is recruited early should be part of IFAD due diligence in the first supervision mission. The successful gender and youth (G&Y) action plan included a specific budget for the recruitment of a gender and youth officer, which turned instrumental during implementation.
74. Matching grants generated positive impacts on economic mobility, productive capacity, and market access, suggesting future projects should continue utilizing matching grants to alleviate budget constraints and enhance outcomes. Matching grants also facilitated eligibility for additional support and interventions, leading to increased asset ownership and registration as farmers.
75. The rural clustering approach increased market participation, particularly in the sale of live cattle and milk, reduced transaction costs, and provided new market outlets. Addressing challenges to agricultural product sales remains vital for future projects.
76. RCTP's gender mainstreaming strategies contributed to enhance women's access to productive resources, services, training, and income-generating opportunities, while

¹⁵⁶ FAO. 2024. Comprehensive analysis of disaster risk reduction and management system for agriculture in Montenegro. Second edition.

¹⁵⁷ IFAD (2023). Rural Clustering and Transformation Project. Project Completion Report

promoting their decision-making power and reducing their work effectively. Gender-sensitive scoring methodologies for matching grants triggered positive behavioural implications in empowering women to register themselves as head of the HH, reducing dependency on men for accessing governmental benefits.

77. Income diversification and improved infrastructure played crucial roles in enhancing climate resilience. Supporting multiple value chains encouraged farm diversity, serving as a buffer against climatic and economic shocks. The construction and rehabilitation of rural roads and water systems contributed to increasing resilience in the face of climate change-related challenges.
78. Based on RCTP's experience in implementing SECAP, the country has overall adequate institutional capacities in terms of environmental and social safeguards. At completion, RCTP's performance in implementing SECAP was rated as Satisfactory (5) due to consistent and high compliance with SECAP throughout implementation, timely adherence to supervision recommendations and alignment with national environmental and social laws and regulations, with the development of Environmental Impact Assessments whenever required and the integration of SECAP recommendations and instruments into the AWPB, PIM, procurement and monitoring plans. A formal Grievance Redress Mechanism was also established at the project level, through which the project ensured continuous engagement with the different stakeholders. Moreover, a formal complaints mechanism is available at the ministry level to which the project beneficiaries have continuous access. A thorough assessment of the institutional capacities should however be conducted for the specific projects under this COSOP during their design in order to better address the capacity needs, if any, for the PMUs and other relevant stakeholders to implement the new SECAP 2021 requirements.

3.2 Strategic orientation

79. The COSOP is aligned with and will contribute to the implementation of the main national strategies and commitment of the government of Montenegro to advance environmental, climate, and social sustainability. The main strategies are summarized below:
80. The COSOP targets key objectives of the updated NDC (2021-2030), which focuses mainly on mitigation, but also highlights water, agriculture, tourism and health as adaptation priorities in the National Adaptation Plan, which is being developed with UNDP support.
81. The National Climate Change Strategy (NCCS) to 2030 (2015) establishes the commitment of the GoM to act against climate change in an integrated and multisectoral manner, compliant with international commitments. The vision to 2030 aims to adapt to the adverse climate change effects and promote low-carbon sustainable development. The NCCS provides guidelines for climate mitigation and adaptation actions harmonized with the EU legislative framework. NCCS implementation means are: institutional strengthening and governance, education and training of actors, research on climate change and technological development, and financing.
82. The National Strategy of Sustainable Development to 2030 (NSSD) (2016) defines priority areas such as: a) better management of water resources and demand; b) improved rational use of energy, increased use from renewable sources, and mitigation of adaptation to climate change; c) sustainable mobility through appropriate transport measures; d) sustainable tourism as a leading economic sector; e) sustainable agriculture and rural development; f) sustainable urban

- development; and g) sustainable management of marine, coastal, and marina resources.
83. The National Strategy for Gender Equality 2021–2025 with the Action Plan 2021-2022 aims to improving the implementation of the existing normative framework that strengthen the capacity of institutional mechanisms to implement legal provisions for protection against discrimination, establish more efficient and effective coordination, implementation oversight and reporting.
 84. The Strategy for the Development of Agriculture and Rural Areas 2023-2028 defines targets, priorities and a sustainable path for the development of agriculture and rural areas. The strategic objectives are: a) increase resilience and competitiveness of safe food production and processing; b) ensure efficient management of natural resources and accomplish the green agenda; c) improve quality of life and scope of economic activities in rural areas; d) build a network of knowledge transfer and application of new technologies to increase food safety, competitiveness and protect the environment, and e) efficient and transparent management of agriculture and rural development policies. Key challenges include fragmentation, poor connectivity and increased climate vulnerability.
 85. The Water Management Strategy of Montenegro (2017) aims to ensure the protection and conservation of water resources, especially drinking water. One of the operational objectives is the protection of sources, research, and conservation of water resources used or intended for human consumption in the future. The COSOP aligns with the strategy particularly on the financing of last mile resilient rural infrastructure to enhance farmers competitiveness and resilience to floods and droughts to which Montenegro is increasingly prone due to the effects of climate change.
 86. The National Forestry Strategy 2014-2023 (NFS) (2014) recognizes that forests can contribute to combating, mitigating, and adapting to climate change, as they sequester about 4.6 million tonnes of CO² per year from the atmosphere. The NFS recognizes climate change as an important factor affecting national forest protection. The NFS provides guidelines and actions to protect forests from extreme droughts and fires, forest management plans, to increase resilience of forest ecosystems.
 87. The Green Agenda for the Western Balkans and associated action plan (2020) aligns with IFAD on 2 pillars: pillar 3 – Biodiversity, aiming to protect and restore the natural wealth of the region and pillar 5 Sustainable food systems and rural areas.
 88. Sustainable Development Goals: SDG 1 (No poverty), SDG 2 (Zero hunger), SDG 5 (Gender equality), SDG 8 (Decent work and economic growth), SDG 12 (Responsible consumption and production), and SDG 13 (Climate action) are the key focus of the COSOP.

3.3 Strategic actions and targeting

89. The COSOP should continue targeting the northern region. Given the climate and social situation of the mountains in terms of poverty, lack of access to services and to infrastructure, issues in gender equality and youth employment, programming should build on lessons learned, expand geographically, and upscale new approaches at territorial and policy level. IFAD's contribution to the country's rural transformation should be integrating environmental and social sustainability to create inclusive resilient green jobs in rural Montenegro. Actions and concepts for COSOP consideration are listed below.

90. **Climate change adaptation and mitigation.** Climate change analysis show a drastic reduction in snow cover in recent years. The trend could intensify if nothing is done to protect water resources and improve management. Forests are in danger, with ever bigger forest fires in summer. Pastures are at risk, partly due to abandonment and reduction in livestock numbers. The coastal economy largely depends on the mountains and their ecosystems.
91. Adaptation effort requires action at the landscape level, field level and also at household level where improvement of housing (isolation in particular) is critical in the hard climate of the mountains.
92. Mitigation measures should focus on sustainable forest management and promotion of non-timber forest products; the enhancement of carbon sinks by an increase in resilient species in areas vulnerable to forest fires; sustainable pasture land management, development of micro-reservoirs; the use of renewable energy for cooling and heating; harvest storage; and changes to food processing.
93. Opportunities exist to access environment and climate financing to provide additional resources to help the country build resilience in the agricultural sector. Possibilities include:
 - a. GEF 9. Programs could seek results in Land Degradation and Climate Change focal areas, with options for the Biodiversity focal area if direct partnerships are made for enhanced management effectiveness of protected areas, with smallholder farmers beneficiaries contributing to the sustainable management and protection of buffer zones.
 - b. Green Climate Fund has financed coordination activities in Montenegro, enhancing adaptation and an overall institutional strengthening. IFAD, as GCF accredited entity, could support the government to prepare a GCF proposal to co-finance future IFAD projects.
 - c. Adaptation Fund. Building on the fully-funded GORA project, IFAD could leverage the ongoing investment to mobilize additional grant resources. Priority target should be women and youth-led agri-tourism enterprises with climate adaptation and resilience solutions.
94. **Territorial development.** the COSOP should leverage local actors, traditions and key local products and savoir-faire. Quality products required for ecotourism do not necessarily meet international standards, very costly compared to the small quantities produced, yet accrue benefits locally. Potential niche markets with high value-added should be explored. The COSOP should focus on circular economy, based on a landscape approach and agro-ecological practices. Activities promoted by RCTP should be expanded to new municipalities, involving local SMEs that are a critical link to markets, and exit from a semi-subsistence and low-productive farming.
95. **Agrotourism and ecotourism** are still largely underdeveloped in the mountains, with a huge untapped potential to diversify the tourism offer leveraging the under-considered natural capital that the country offers. This requires partnerships for resilient infrastructure development; investment in human capital to set up nature based and agri-tourism enterprises and attract more financial investments; and market research on potential geographic denominations of certain products, or other certification schemes, which would place other municipalities on the tourism map and underpin the overall destination branding. Investing in maintaining and promoting traditional production practices, agroforestry systems, and overall sustainable landscape management is an asset for tourists escaping the crowded coastal areas looking for a more authentic cultural experience.

96. **Targeting and social approaches.** Focus on women and youth should continue. Government partnership on the gender and youth action plans developed over the past years yielded tangible results in women decision making power, access to matching funds and asset ownership, should be renewed. Interventions should continue the good practice of extending the national youth age to 40 years, and prioritizing women-headed households, factoring for the high out-migration rate of under-35s and incentivize productive community members to remain. Maintaining and extending the matching grants scheme is critical to target the poorest and most marginalized farmers, enabling them to register as legal farmers and meet the MIDAS and IPARD criteria.
97. **Youth employment** should be a key priority of the COSOP; the involvement of the youths in the MSP and agritourism are recognised opportunities for young people as shown in RCTP, aiming to decrease the negative impact on migration and provide opportunities. This could build on IFAD experience in other countries, and in particular in Moldova where a youth project delivered substantial results¹⁵⁸.
98. **Sustainability of IFAD's mainstreaming agenda in project implementation.** Projects and programs developed under this COSOP should ensure that human resources with appropriate expertise in gender, youth, environmental and climate management are recruited as part of the project implementation units (PMU) as early as possible, to meaningfully contribute to the drafting of the first annual workplan and budget. This measure will improve efficiency by mainstreaming social and environmental sustainability in the investment decisions and budget. It will also improve the projects' efficacy in achieving planned results, and minimizing implementation delays often arising from SECAP compliance and associated low capacity. Government counterparts should be meaningfully engaged in the design and implementation, particularly on the mainstreaming themes to ensure ownership.

3.3 Monitoring

99. Monitoring systems with specific indicators for social and environmental conditions will be set up at program level. An M&E budget will be set up for each program. A participatory monitoring process is recommended, including representatives of leadership structures and other influential people at the local level, with representatives of all significant target groups. Issues that pertain to targeting, environmental and climate, social issues, gender inequality, people with disabilities, youth and poor people, and nutrition should be discussed. The inputs from the discussions can be integrated into project management documents to enhance projects performance.
100. A Geographic Information System (GIS) database to integrate social, environmental and climate themes and data layers can form the basis of assessment and evaluations of the baseline environmental conditions of projects and subprojects to which subsequent project-specific impacts will be compared for monitoring. The SECAP will guide qualitative studies to improve understanding of activities' effectiveness and constraints encountered around social and environmental issues.

References

101. References are provided in the footnotes.

¹⁵⁸ Talent Retention for Rural Transformation <https://www.ifad.org/en/web/operations/-/project/2000002242>

COSOP preparation process

1. The present COSOP 2025-2030 was prepared under the joint supervision of the IFAD Country Director for Montenegro and the Government of Montenegro (GoM), represented by the Ministry of Agriculture, Forestry and Water Management (MAFWM). The preparation process was participatory and involved a wide range of stakeholders, including representatives of Government, administration, civil society, development partners and beneficiaries at central and local level, as listed in the table below.
2. The preparation process started on 6 February 2024, when IFAD issued an announcement letter notifying the GoM of its intent to design a COSOP. The GoM subsequently appointed Milan Leković, from the MAFWM's Directorate for Rural Development, as National Focal Point to support the consultation process and ensure government ownership. The IFAD country team fielded a mission to Montenegro from 15 to 26 April, during which it held consultations with key stakeholders in Podgorica as well as in the Municipalities of Bijelo Polje, Berane and Petnjica.
3. A workshop was held on 24 April with key partners and government representatives to present and discuss the content of the COSOP transition annex and the analyses that were carried out to substantiate the underlying criteria. The workshop was chaired by the General Director for Rural Development, and had the purpose to illustrate the COSOP process and receive validation and inputs from stakeholders relative to the trends for the next 6 years (the time frame for the COSOP) for the benchmarks and targets inherent to the three graduation criteria and related indicators.
4. An Aide-Memoire reflecting the main findings and recommendations of the mission was endorsed at a wrap-up meeting in Podgorica on 25 April 2024 chaired by the MAFWM General Director for Rural Development.

Table 1. List of people met

Name	Position/Organization
Vladimir Joković	Minister of Agriculture, Forestry and Water Management, MAFWM
Andrijana Rakočević	General Director, Directorate for Rural Development, MAFWM
Milena Vukotić	Head of Department for International Cooperation and IPA Projects, MAFWM
Sanja Milosević	Advisor at Department for International Cooperation and IPA Projects, MAFWM
Marko Lubarda	Advisor at Department for International Cooperation and IPA Projects, MAFWM
Jovana Suković	FAO national focal point, MAFWM
Marko Radonjić	Directorate for Payments, IPARD Paying Agency, MAFWM
Biljana Pejović	Head of Gender Equality, Ministry of Human and Minority Rights
Nikola Tomašević	Secretary and AF focal point, MERT
Dina Skarep	Advisor, Directorate for Climate Change and Nature Protection, MERT
Bojana Boljević	State Secretary, MIF
Andrijana Ulić Rajović	Acting Director General of the Public Debt Directorate, MIF
Aneta Kankaras	Head of Office for Sustainable Development
Mišela Manojlović	Secretary General, Union of Municipalities
Natasa Vojinović	Adviser for agricultural price statistics, MONSTAT
Anđa Vukčević-Zorić	Regional Coordinator, SWG for Regional Rural Development in SEE
Vladimir Gjorgjiev	UN Resident Coordinator, UNRCO
Ana Zec	Head of Resident Coordinator's Office, UNRCO
Borko Vulikić	Projec Manager, UNDP
Denis Mesihović	Operations Officer, World Bank
Teklu Tesfaye	Senior Agricultural Specialist, World Bank
Nadia Kyuchukova	Project Officer, IPARD, EU Delegation
Liselotte Isaksson	First Councillor, Deputy Head of Cooperation, EU Delegation

Igor Jovanović	Coordinator, RCTP project
Armin Spahić	Value Chain Specialist, RCTP project
Marko Žižić	Value Chain Specialist, RCTP project
Bojana Perunović	Gender and Youth Specialist, RCTP project
Maja Vukašević	Procurement Officer, RCTP project
Petar Smolović	Mayor, Bijelo Polje Municipality
Fahrudin Begović	Manager, Bijelo Polje Municipality
Kemal Alic	Secretariat for agriculture, Bijelo Polje Municipality
Vladan Rudić	Secretariat for agriculture, Bijelo Polje Municipality
Sakib Cindrak	Producer and milk collection center manager, Bijelo Polje rural cluster
Vuko Todorović	Mayor, Berane Municipality
Milutin Micović	Mayors office, Berane Municipality
Bozo Premović	Secretariat for agriculture, Berane Municipality
Rajo Lutovac	Producer, Berane Rural Cluster
Selvudin Sabotić	Vice Mayor, Petnjica Municipality
Adis Licina	Secretariat for agriculture, Petnjica Municipality
Sabaheta Novalić	Producer, Petnjica rural cluster
Mejra Novalić	Producer, Petnjica rural cluster
Amar Muratović	Producer, Petnjica rural cluster

Financial management issues summary

COUNTRY	Montenegro	COSOP PERIOD	2025-2030
A. COUNTRY FM ANALYSIS			
<i>Country Disbursement Ratio (rolling-year)</i>	39.6 %		
<i>Unjustified Obligations:</i>	0.0		
<i>PBAS Available allocation (current cycle) :</i>	0.0		
<i>BRAM access</i>	No allocation available for IFAD 12		
<i>Country income category</i>	UMIC		
<p>Montenegro's country risk is rated as Moderate, according to Transparency International's Corruption Perception Index, which slightly improved in 2023 with a score of 46/100 compared to the 45/100 of 2022, placing Montenegro at the 63th position worldwide.</p> <p>The World Bank performed the last Public Expenditure and Financial Accountability Assessment (PEFA) in Montenegro in 2019. The report shows substantial improvements in Public Financial Management (PFM) systems compared to the previous assessment of 2013 with 11 indicators out of 28 registering improved scores, and only two indicators showing deteriorated scores assessments. In particular, budget classification is rated with an A as it is in overall alignment with COFOG standards and in most parts with GFS 2014, however budget preparation is rated with a C due to recurrent delays in the budget preparation and approval process. Internal controls on non-salary expenditure are rated with a B with a solid segregation of duties mechanism for expenditure approval, but with a fairly low effectiveness of controls put in place by the Treasury Directorate. The internal audit function is rated with a B+ with all central government revenue and expenditure covered by the IA function, an appropriate focus in the controls and 90% of the programmed audits in 2018 actually completed.</p> <p>When it comes to External Audit, the SAI is assessed to be independent and its audit coverage and standards (ISSAI) are acceptable. In fact, The Law on Auditing No. 001 of 2017 requires all mandatory audits to be conducted in accordance with ISA as issued by the IAASB. Moreover, According to the EU Progress Report 2020 and 2021, the SAI has improved its institutional capacity in terms of management and auditing staff. The main challenges relate to the capacities of the SAI which, in terms of number of staff, are insufficient for complying with its comprehensive mandate, covering all public financial operations.</p> <p>In 2015, the Government of Montenegro adopted the Strategy for transition of the public sector to accrual accounting and the new Law on Public Sector Accounting was adopted in November 2019 and provides the legal basis for accounting in the public sector. It defines the transition from cash to accrual accounting, to be implemented from January 1st, 2022. The Law is broadly compliant with accrual based IPSAS with some differences (mainly issues that are not applicable in Montenegro). It regulates financial reporting, and introduces the profession of public sector accountant with certification requirements. However, the most significant challenge for the transition to accrual accounting is still represented by the need for upgrading the Accounting IT system.</p> <p>In terms of financial reporting, The Law on Accounting No. 052 of 2016 requires that all legal entities prepare financial statements in accordance with IAS/IFRS as issued by the IASB and adopted and published by the designated competent authority. In this case, the Ministry of</p>			

Finance delegated this to the Institute of Certified Accountants of Montenegro. The latest translation of IFRS Accounting Standards officially applied in Montenegro is IFRS Accounting Standards as issued in 2020; however, application of some standards is delayed. IFRS 9 and 15 will be effective in 2024 and IFRS 14, 16, and 22 were effective as of 2021.

Montenegro's main macroeconomic indicators are captured by the latest IMF Article IV mission in February 2024. The mission observes that the economy of Montenegro grew strongly in 2023, at an estimated 6 percent, as tourism surpassed 2019 levels. However, overall economic growth is expected to moderate to 3.7 percent in 2024. Inflation has come down from its 2022 peak of 17.2 percent to 4.3 in December 2023, thereby significantly reducing the differential with Euro Area inflation. The fall of public debt from the 2020 peak of 107 percent of GDP to an estimated 62 percent in 2023 was aided by the post-pandemic economic recovery, high inflation, as well as the use of deposits that were accumulated through large debt issuance in 2020. As these tailwinds are abating, in the absence of additional measures to lower fiscal deficits, debt is expected to rise gradually in the coming years.

B. PORTFOLIO – LESSONS {Strengths and Weaknesses}

Existing Portfolio:

Project	Project Status	%Disbursed of all financing instruments	Project FM inherent risk rating	Performance Score: Quality of Financial Management	Performance Score: Quality & Timeliness of Audit	Performance Score: Disbursement Rate	Performance Score: Counterpart funds	Completion date
RCTP	Completed	96.97	Low	Highly Satisfactory	Highly satisfactory	Satisfactory	Highly Satisfactory	29/06/2023
GORA	Signed		Low	Not Specified	Not Specified	Not Specified	Not Specified	30/12/2029

The current IFAD portfolio is composed of RCTP, which reached its closing date in December 2023, and GORA, an Adaptation Fund funded project which is currently in its start-up phase.

RCTP has been for long time one of the best performing project in IFAD global portfolio, including for financial management related aspects. RCTP financial risk was assessed to be low and no major risk factors were identified during implementation. Also the late approval of the national budget did not significantly affected project implementation.

Projects FM arrangements and use of country systems: RCTP PMU was mostly composed of seconded staff from the MoA. In order to comply with IFAD reporting requirements, the PMU had procured and set-up a standalone accounting software, but its activities were nevertheless fully embedded within the national system of expenditure approval and internal controls through the use of the SAP Payment Module of the Treasury System. Similarly, the project annual budget was approved following IFAD procedures, but at the same time was embedded into the overall MoA budget approved by the parliament. This caused several instances of delays for the project due to the late approval of the national budget, without seriously jeopardizing its implementation. While IFAD and ASAP funds were channelled through bank accounts opened in commercial banks and managed by the MoF, counterpart contributions were made available to the project using the government single treasury account. The project adopted IPSAS cash basis accounting standards and relied for external audits on accredited private audit firms.

Given the excellent performance of RCTP, the same implementation and financial management arrangements have been replicated for the project GORA.

Lessons learned from RCTP and the new lessons that will derive from the implementation of GORA should guide the design of future IFAD funded projects in Montenegro. A specific focus for the next designs should be on the possibility of relying on the SAI for project external audits, using IFMIS and on the impact of the ongoing reforms on accounting standards that may impact both future and ongoing projects with a shift toward accrual basis accounting under IPSAS standards.

Prepared by: Federico Rossetti

Date: 14/05/2024

Procurement Risk Matrix – Part A Country Level

OECD Pillar 1. Legal, regulatory and policy framework						
1.1. The public procurement legal framework achieves the agreed principles and complies with applicable obligations						
Indicator # and Sub-Indicator #	Sub-indicator Description ¹⁵⁹	Assessment criteria	Findings regarding possible non-compliance with IFAD PPF Main findings	Inherent risk of non-compliance with Project Objectives and IFAD PPF high-H substantial-S medium-M or low-L	Proposed Mitigation measure/s	Net Risk H, S, M, or L
1.1. (a)	Scope of application and coverage of the legal and regulatory framework	The legal and regulatory body of norms complies with the following conditions: (a) Is adequately recorded and organized hierarchically (laws, decrees, regulations, procedures), and precedence is clearly established. (b) It covers goods, works, and services, including consulting services for all procurement using public funds. (c) PPPs, including concessions, are regulated. (d) Current laws, regulations and policies are published and easily accessible to the public at no cost.	The Public Procurement Law (PPL) defines the rules and procedures for procurement in the public sector PPL ("Official Gazette of Montenegro", No. 074/19 dated 30.12.2019, 003/23 dated 10.01.2023, 011/23 dated 27.01.2023) The laws, regulations and by laws that are in effect are published on the portal (only in Montenegrin language): https://ujn.gov.me/zakon-o-javnim-nabavkama-sluzbeni-list-crne-gore-br-074-19-od-30-12-2019-003-23-od-10-01-2023-011-23-od-27-01-2023-preciscen-tekst/ PPL applies to goods, works, and services, including consulting services for all procurement using public funds. Public Procurement Directorate was established by the Decree on changes and amendments to the Decree on organization and manner of work of the state administration. The ESJN system, electronic system has been functioning since September 2010 and it is managed by the Public Procurement Directorate, Ministry of Finance. It covers most of the stages of the Bidding/Tendering cycle. ESJN platform www.cejn.gov.me is publicly accessible for documentation and registers of customers and bidders. 2019, the Parliament of Montenegro adopted the Law on Public Private Partnership (the PPP Law). Law on Concessions ("Official Gazette of Montenegro No. 008/09 dated 04.02.2009, 073/19 dated 27.12.2019)	M	Elaborate the PIM to mitigate for the absence of national PP manual and resolve the contradictions between national and the revised IFAD Handbook to eliminate any ambiguity	M
1.1.(b)	Procurement methods	The legal framework meets the following conditions: (a) Procurement methods are established unambiguously at	The PPL provides following procurement methods: 1) open procedure; 2) restricted procedure; 3) competitive procedure with negotiations;	S	Upgrade the PIM to cover all inconsistent areas.	S

¹⁵⁹ The Indicators and Sub-Indicators are extracted from OECD-MAPS II of 2017 in order to harmonise with other MDBs and to save time and effort in conducting Part A assessments in case a recent MAPS II assessment has been conducted for the borrower's country system. The criteria to be applied in assessing each Sub-Indicator are those of OECD-MAPS II.

		<p>an appropriate hierarchical level, along with the associated conditions under which each method may be used.</p> <p>(b) The procurement methods prescribed include competitive and less competitive procurement procedures and provide an appropriate range of options that ensure value for money, fairness, transparency, proportionality and integrity.</p> <p>(c) Fractioning of contracts to limit competition is prohibited.</p> <p>(d) Appropriate standards for competitive procedures are specified.</p>	<p>4) negotiation procedure without prior announcement of invitation to tender;</p> <p>5) partnership for innovation; 6) competitive dialogue; 7) shopping and direct method</p> <p>The open tender procedure is the default method of procurement. The PPL includes the conditions for the use of the other methods. Fractioning of contracts to limit competition is prohibited.</p> <p>Consulting services: there is no mention of methods such as QCBS, QBS, CQS, FBS, LCS, etc.</p>		<p>For consultancies IFADs procurement procedures should be applied.</p>	
1.1.(c)	Advertising rules and time limits	<p>The legal framework meets the following conditions:</p> <p>(a) The legal framework requires that procurement opportunities are publicly advertised, unless the restriction of procurement opportunities is explicitly justified (refer to indicator 1(b)).</p> <p>(b) Publication of opportunities provides sufficient time, consistent with the method, nature and complexity of procurement, for potential bidders to obtain documents and respond to the advertisement. The minimum time frames for submission of bids/proposals are defined for each procurement method, and these time frames are extended when international competition is solicited.</p> <p>(c) Publication of open tenders is mandated in at least a newspaper of wide national circulation or on a unique Internet official site where all public procurement opportunities are posted. This</p>	<p>Public tenders for goods, services, and works must be announced on the website of the Public Procurement Directorate and a daily newspaper in Montenegro, as the Law and standard forms require. The deadline for bids/proposals depends on the value:</p> <p>at least 15 days for goods and services up to EUR 150,000 and works up to EUR 500,000</p> <p>at least 30 days for goods and services over EUR 150,000 and works over EUR 500,000</p> <p>The notice must have information about the client, the procedure, the subject, the estimated value, the participation conditions, the bid/proposal submission and opening dates, and other relevant details of bidders on the subject and procedure of public procurement.</p>	M	<p>The project will publish bidding opportunities on the Ministry's website, and in addition to the publication of the international bidding on UNDB through IFAD.</p>	M

		should be easily accessible at no cost and should not involve other barriers (e.g. technological barriers). (d) The content published includes enough information to allow potential bidders to determine whether they are able to submit a bid and are interested in submitting one.				
1.1.(d)	Rules on participation	The legal framework meets the following conditions: (a) It establishes that participation of interested parties is fair and based on qualification and in accordance with rules on eligibility and exclusions. (b) It ensures that there are no barriers to participation in the public procurement market. (c) It details the eligibility requirements and provides for exclusions for criminal or corrupt activities, and for administrative debarment under the law, subject to due process or prohibition of commercial relations. (d) It establishes rules for the participation of state-owned enterprises that promote fair competition. (e) It details the procedures that can be used to determine a bidder's eligibility and ability to perform a specific contract.	PP Art. 99 states the Participation is for qualified bidders only. 1) has no legal convictions and neither does its director for any criminal offenses such as: a) criminal association; b) creating a criminal organization; c) giving a bribe; h) receiving a bribe; é) business bribes; d) accepting business bribes; d) tax and contribution evasion; f) fraud; e) terrorism; f) terrorism financing; g) terrorist association; h) joining foreign armed groups; i) money laundering; j) human trafficking; k) adoption of minors through trafficking; l) slavery; 2) has paid all taxes and contributions for pension and health insurance, recorded by the tax revenue authority or the state authority where the bidder is based. The Client can also ask the bidder to meet conditions related to: 1) activity performance, 2) economic and financial abilities, and/or 3) professional and technical skills. A procuring entity specifies the qualification details for each procurement.	L	In addition, reference shall be made to the World Bank Debarment System.	L
1.1.(e)	Procurement documentation and specifications	The legal framework meets the following conditions: (a) It establishes the minimum content of the procurement documents and requires that content is relevant and sufficient for suppliers to respond to the requirement. (b) It requires the use of neutral specifications, citing	The PPA portal provides access to all legal acts, bylaws, and standard bidding documents. It sets out the minimum content of the procurement documents. According to PPL Art. 87: The client must ensure equal access for all bidders in the procurement process to the technical specification without limiting market competition. The technical specification describes the name, essential characteristics (quality, size, shape, safety, performance, label, expiry date, unit of measure, quantity, etc.) and requirements of the procurement object as a whole, by lot and by item, including the	M	If there are major differences between national SBDs and IFADs in key areas, use a combination of methods where either the national SBDs are revised to align with IFAD's or vice versa. Since the problem	M

		<p>international norms when possible, and provides for the use of functional specifications where appropriate.</p> <p>(c) It requires recognition of standards that are equivalent, when neutral specifications are not available.</p> <p>(d) Potential bidders are allowed to request a clarification of the procurement document, and the procuring entity is required to respond in a timely fashion and communicate the clarification to all potential bidders (in writing)</p>	<p>requirements for environmental protection, energy efficiency, social protection and/or intellectual property rights protection and transfer, that are necessary for preparing the offer and executing the contract. The client cannot reject the bid because the offered works, goods or services do not match the technical specification, if the bidder proves with quality evidence (test report, certificate, etc.) that the bid meets the requirements in the technical specification equivalently.</p> <p>The bidder can request the clarification of the tender documentation from the client in writing, at least ten days before the deadline for submitting the bids.</p>		<p>identified (difficulty in using BD's and procedures other than National) needs a careful adaptation of standard documents and procedures to meet IFAD's; this should be reflected in PIM.</p>	
1.1.(f)	Evaluation and Award Criteria	<p>The legal framework mandates that:</p> <p>(a) The evaluation criteria are objective, relevant to the subject matter of the contract, and precisely specified in advance in the procurement documents, so that the award decision is made solely based on the criteria stipulated in the documents,</p> <p>(b) The use of price and non-price attributes and/or the consideration of life cycle cost is permitted as appropriate to ensure objective and value-for-money decisions.</p> <p>(c) Quality is a major consideration in evaluating proposals for consulting services, and clear procedures and methodologies for assessment of technical capacity are defined.</p> <p>(d) The way evaluation criteria are combined, and their relative weight determined should be clearly defined in the procurement documents.</p> <p>(e) During the period of the evaluation, information on the</p>	<p>Each procurement method does not have specific evaluation criteria and rules, but the PPL Art 117 states that an evaluation criterion can be: 1) price, 2) price-quality ratio or 3) life cycle cost. The criterion must be defined, assigned points, related to the procurement subject and must not be unfair.</p> <p>The parameters of the criterion for choosing the best bid and the methodology for evaluating bids must be set in a way that ensures a fair and precise presentation of the number of points and the ranking of bids.</p> <p>PPL Art 118: The price-quality ratio is based on parameters that may include:</p> <p>1) quality, such as technical and functional features, availability of solutions for all users, social, environmental, and innovative aspects of trade and trading conditions;</p> <p>2) the organization, qualifications and experience of the person who will be responsible for carrying out the procurement subject, when the person's experience can have a significant influence on the success level of carrying out the procurement subject or</p> <p>3) after-sales service and technical support, terms of delivery, such as delivery time, delivery method, delivery date or completion date.</p> <p>The contracting authority must define and determine the methodology for evaluating bids in the tender documentation.</p> <p>During the evaluation period, information on the examination, clarification and evaluation of bids/proposals is not revealed to participants or anyone else who is not officially involved in the evaluation process. The committee must review and evaluate the bids, without the authorized representatives of the bidders being present.</p>	M	<p>Project evaluation committees need to receive training on how to assess contractor current workload and contractor suggested factors for price adjustment. Bid documents should specify the assessment method of these two aspects.</p>	M

		examination, clarification and evaluation of bids/proposals is not disclosed to participants or to others not officially involved in the evaluation process.				
1.1.(g)	Submission, receipt and opening of tenders	The legal framework provides for the following provisions: (a) Opening of tenders in a defined and regulated proceeding, immediately following the closing date for bid submission. (b) Records of proceedings for bid openings are retained and available for review. (c) Security and confidentiality of bids is maintained prior to bid opening and until after the award of contracts. (d) The disclosure of specific sensitive information is prohibited, as regulated in the legal framework. (e) The modality of submitting tenders and receipt by the government is well defined, to avoid unnecessary rejection of tenders.	The bids are opened by the ESJN (electronic system of public procurement) at the time when the deadline for submitting bids passes, without the attendance of the authorized representatives of the bidders. The client is not required to conduct a public bid opening, because the ESJN allows the automatic bid opening at the same time as the submission deadline ends, and the generation of opening minutes and its automatic delivery to all bidders who participated in the bidding. Communication, exchange and storage of information and data in the public procurement procedure is done in a way that ensures the security and privacy of data from qualification applications, offers, plans, and projects.	H	To follow IFAD guidelines for Submitting, receiving and opening bids	H
1.1.(h)	Right to challenge and appeal	The legal framework provides for the following: (a) Participants in procurement proceedings have the right to challenge decisions or actions taken by the procuring entity. (b) Provisions make it possible to respond to a challenge with administrative review by another body, independent of the procuring entity that has the authority to suspend the award decision and grant remedies, and also establish the right for judicial review. (c) Rules establish the matters that are subject to review. (d) Rules establish time frames for the submission of	After the launch of ESJN, The bidder can file an e-complaint through the EJN in electronic form to the Commission for the Protection of Rights (the Commission's office), which will handle it according to the Law. The complaint must be submitted to the contracting authority within 10 days from the day the decision was made public. The complainant must provide proof of payment of the fee for starting the complaint process, which is 1% of the estimated value of the public procurement, along with the complaint or by the deadline for the complaint. The fee cannot be more than 20,000 euros. If the complainant wins the appeal, the Commission for the Protection of Rights must refund the amount of the fee paid for the appeal process to the complainant, within 15 days from the date of the decision on the appeal. The Commission for the Protection of Rights must publish the decision it makes on the EJN and on its website, within three days from the date it makes it. An administrative dispute can be brought against the decision of the Commission for the Protection of Rights. A lawsuit against the decision of the Commission for the Protection of Rights does not stop the signing of the procurement contract.	M	The project must follow the Debriefing, Protest and Appeal methods of IFAD Procurement Handbook with required standstill period and quick complaint settlement before award.	M

		<p>challenges and appeals and for issuance of decisions by the institution in charge of the review and the independent appeals body.</p> <p>(e) Applications for appeal and decisions are published in easily accessible places and within specified time frames, in line with legislation protecting sensitive information.</p> <p>(f) Decisions by the independent appeals body can be subject to higher-level review (judicial review).</p>				
1.1.(i)	Contract management	<p>The legal framework provides for the following:</p> <p>(a) Functions for undertaking contract management are defined and responsibilities are clearly assigned,</p> <p>(b) Conditions for contract amendments are defined, ensure economy and do not arbitrarily limit competition.</p> <p>(c) There are efficient and fair processes to resolve disputes promptly during the performance of the contract.</p> <p>(d) The final outcome of a dispute resolution process is enforceable.</p>	<p>Absence of contract management manual.</p> <p>The PMU must appoint a person in charge of carrying out the contract on public procurement.</p> <p>The contract can be changed during its term without running a new public procurement procedure.</p> <p>Conditions for contract changes are set, ensure efficiency, and do not unfairly restrict competition.</p> <p>Financial protection of the contract can be:</p> <p>1) guarantee for the proper performance of the contract, if the contract was ended due to non-compliance with contractual obligations caused by the bidder's actions or failures;</p> <p>2) advance guarantee, if advance payment is planned;</p> <p>3) guarantee for the removal of defects within the warranty period, if the chosen bidder does not meet the obligations that the guarantee covers within the warranty period;</p> <p>4) professional liability insurance policy, as required by the law;</p> <p>5) other kinds of guarantees as required by the law. The guarantee is fixed at an amount that cannot go over 10% of the value of the contract.</p>	S	<p>Develop comprehensive rules, guidance and training material on contract management enforcing contractual performance and full transparency on the use of funds; and complement it with the necessary training on the following: i) functions and responsibilities for managing contracts; ii) methods to review, issue and publish contract amendments in a timely manner; and iii) dispute resolution procedures that provide for an efficient and fair process to resolve disputes during the performance of the contract.</p>	S
1.1.(j)	Electronic procurement (e-Procurement)	<p>The legal framework meets the following conditions:</p> <p>(a) The legal framework allows or mandates e-Procurement solutions covering the public procurement cycle, whether entirely or partially.</p>	<p>The public procurement system went online on January 1, 2021.</p> <p>To register, complete the registration form and sign up at http://cejn.gov.me.</p> <p>The ESJN data is managed, shared, and posted electronically following the laws that govern electronic administration, electronic identification and signature, electronic document, electronic commerce, and information security.</p>	H	<p>Bids should be kept safely and available for inspection if audits are required.</p>	H

		<p>(b) The legal framework ensures the use of tools and standards that provide unrestricted and full access to the system, taking into consideration privacy, security of data and authentication.</p> <p>(c) The legal framework requires that interested parties be informed which parts of the processes will be managed electronically.</p>	No proof Bid documents are stored securely or open to the public.			
1.1.(k)	Norms for safekeeping of records, documents, and electronic data	<p>The legal framework provides for the following:</p> <p>(a) A comprehensive list is established of the procurement records and documents related to transactions including contract management. This should be kept at the operational level. It should outline what is available for public inspection including conditions for access.</p> <p>(b) There is a document retention policy that is both compatible with the statute of limitations in the country for investigating and prosecuting cases of fraud and corruption and compatible with the audit cycles.</p> <p>(c) There are established security protocols to protect records (physical and/or electronic).</p>	<p>Article 181: The contracting authority shall keep the complete documentation created in public procurement procedures carried out in accordance with this Law.</p> <p>The contracting authority shall keep the documentation for at least (04) years from the date of execution of the public procurement contract or framework agreement.</p> <p>The documentation which is recorded in the EPPS, is kept for at least five years from the conclusion of the public procurement contract or framework agreement in a way that allows preserving the integrity of the data.</p>	H	<p>It is recommended to established security protocols to protect records (physical and/or electronic)</p> <p>The IFAD General Conditions for Agricultural Development Financing require that borrowers/recipients retain documents and records for IFAD review at any time within 10 years of bid or contract completion.</p>	H
1.1.(l)	Public procurement principles in specialized legislation	<p>The legal and regulatory body of norms complies with the following conditions:</p> <p>(a) Public procurement principles and/or the legal framework apply in any specialized legislation that governs procurement by entities operating in specific sectors, as appropriate.</p> <p>(b) Public procurement principles and/or laws apply to</p>	<p>Criterion (a). The present Law sets forth general legal, organizational, and economic principles for conducting state procurement.</p> <p>Criterion (b) (c) – Not relevant to GORA</p>	L		L

		the selection and contracting of public private partnerships (PPP), including concessions as appropriate. (c) Responsibilities for developing policies and supporting the implementation of PPPs, including concessions, are clearly assigned.				
1.2. Implementing regulations and tools support the legal framework						
1.2.(a)	Implementing regulations to define processes and procedures	(a) There are regulations that supplement and detail the provisions of the procurement law, and do not contradict the law. (b) The regulations are clear, comprehensive and consolidated as a set of regulations readily available in a single accessible place. (c) Responsibility for maintenance of the regulations is clearly established, and the regulations are updated regularly.	As required by the Law, the following institutions have been set up in the public procurement system with these roles: • The authority that is in charge and the authority that oversees the enforcement of laws and regulations based on the Law - the Ministry of Finance and Social Welfare; • Authority that carries out inspection supervision over the enforcement of the Law - Directorate for Inspection affairs; • Authority that is responsible for the protection of rights in public procurement procedures and contract award procedures - Commission for the Protection of Rights in Public Procurement Procedures (Commission for the Protection of Rights).	L		L
1.2.(b)	Model procurement documents for goods, works and services	a) There are model procurement documents provided for use for a wide range of goods, works and services, including consulting services procured by public entities. (b) At a minimum, there is a standard and mandatory set of clauses or templates that reflect the legal framework. These clauses can be used in documents prepared for competitive tendering/bidding. (c) The documents are kept up to date, with responsibility for preparation and updating clearly assigned.	The Rulebook on Forms for the Implementation of Public Procurement Procedures defines the forms and content of tender documents, but it may not include all the data that the bidder needs to know all the possible costs related to the public procurement subject. The contracting authority modifies the tender documentation forms according to the specific public procurement procedure, depending on the type of procurement subject and the participation conditions.	H	Use IFAD Handbook and SBDs for the project.	H
1.2.(c)	Standard contract conditions	((a) There are standard contract conditions for the most common types of contracts, and their use is mandatory.	There are no standard contracts in public procurement that enforce the use of standard bidding documents with fixed terms and conditions.	H	Establish and implement clear rules for the development and application of	H

		(b) The content of the standard contract conditions is generally consistent with internationally accepted practice. (c) Standard contract conditions are an integral part of the procurement documents and made available to participants in procurement proceedings			different forms of contracts and contract management. The project should follow IFAD Handbook and SBDs.	
1.2.(d)	User guide or manual for procuring entities (insert link to manual if possible)	(a) There is (a) comprehensive procurement manual(s) detailing all procedures for the correct implementation of procurement regulations and laws. (b) Responsibility for maintenance of the manual is clearly established, and the manual is updated regularly.	The Manuals are available online https://ujn.gov.me/nova-podzakonska-regulativa-zakona-o-javnim-nabavkama-sluzbeni-list-crne-gore-br-074-19-od-30-12-2019-003-23-od-10-01-2023-011-23-od-27-01-2023/ However, there might be inconsistencies in selecting procurement methods and related documents.	M	Use the IFAD procurement handbook and the project's PIM.	M
1.3. The legal and policy frameworks support the sustainable development of the country and the implementation of international obligations						
1.3.(a)	Sustainable Public Procurement (SPP)	(a) The country has a policy/strategy in place to implement SPP in support of broader national policy objectives. (b) The SPP implementation plan is based on an in-depth assessment; systems and tools are in place to operationalize, facilitate and monitor the application of SPP. (c) The legal and regulatory frameworks allow for sustainability (i.e. economic, environmental and social criteria) to be incorporated at all stages of the procurement cycle. (d) The legal provisions require a well-balanced application of sustainability criteria to ensure value for money.	PP Art 11: The PMU must make sure that all bidders follow the legal and international obligations for environmental, social and labor issues, including collective agreements. The PMU must buy goods, services, or works that reduce energy use, that is, follow energy efficiency principles. Also, the PMU can add "SECAP" elements to the technical specifications of the goods, services or works they buy. PMU should explain clearly and in detail the ecological principles and rules they refer to in the technical specification, and how the requested item is different from the ones in a regular public procurement procedure. And they must state the minimum environmental standard they will accept for the offers with such items, however, No Specific SECAP terms related to each category.	S	The project should adhere to all the SECAP standards in purchasing IFAD to provide training about SECAP implication in procurement	S
1.3.(b)	Obligations deriving from international agreements	Public procurement-related obligations deriving from binding international agreements are: (a) clearly established	To comply with relevant EU regulations and meet the criteria for joining the EU through negotiations on chapter 5, public procurement, the following secondary sources of European law were aligned: • Directive 2014/24/EU of the European Parliament and of the Council	L		L

		(b) consistently adopted in laws and regulations and reflected in procurement policies.	of 26 February 2014 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts and repealing Directive 2004/18/EC, • Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC, • Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007 amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts, • Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.			
1.4. Consolidated results for pillar 1.		<p>Prescriptive and standardized rules, methods, documentation, and systems following National Legislation. Montenegro has a functioning procurement framework and Electronic tendering system despite absence of methods dedicated to consulting services.</p> <p>The National PPL have some variances from minimum IFAD requirements notably related to procurement methods, SBD, absence or strategy and contract management manual.</p>		S	Elaborate the PIM to mitigate for the absence of national PP manual and inconsistencies between national and IFADs procedures. For consultancies IFADs procurement procedures should be used	S
Pillar 2. Institutional framework and management capacity						
2.1. The public procurement system is mainstreamed and well-integrated with the public financial management system						
2.1.4 (a)	Procurement planning and the budget cycle	<p>The legal and regulatory framework, financial procedures and systems provide for the following:</p> <p>(a) Annual or multi-annual procurement plans are prepared, to facilitate the budget planning and formulation process and to contribute to multi-year planning.</p> <p>(b) Budget funds are committed or appropriated in a timely manner and cover the full amount of the contract (or at least the amount necessary to cover the portion of the contract</p>	<p>The contracting authority must create and send a public procurement plan to the Ministry by January 31 of the current fiscal year, for posting on the ESJN.</p> <p>The contracting authority can only initiate the procurement procedure for procurements that are specified by the public procurement plan for the current year and for which the budget or other legal means provide financial resources.</p> <p>If the procurement lasts for several years, financial resources for the subsequent years are secured according to the law regulating the budget, that is, the rule governing the financial operations of economic entities.</p> <p>As part of the oversight, the Ministry - Directorate for Public Procurement Policy prepares a Report for the Government, by</p>	M	Projects will strictly adhere to AWPB and PP preparation according to IFAD templates and requirements.	M

		performed within the budget period). (c) A feedback mechanism reporting on budget execution is in place, in particular regarding the completion of major contracts.	tracking public procurement procedures on a semiannual basis, with detailed information on the procedure			
2.1.4.(b)	Financial procedures and the procurement cycle	The legal and regulatory framework, financial procedures and systems should ensure that: (a) No solicitation of tenders/proposals takes place without certification of the availability of funds. (b) The national regulations/procedures for processing of invoices and authorization of payments are followed, publicly available and clear to potential bidders.	The contracting authority can only initiate the procurement procedure for procurements that are included in the public procurement plan for the current year and that have financial resources secured by the budget or by other legal means. If the procurement lasts for several years, financial resources for the subsequent years are secured in accordance with the law that regulates the budget, that is, the regulation that governs the financial activities of economic entities. No Clear rules regarding the national regulations/procedures for processing of invoices and authorization of payments are followed, publicly available and clear to potential bidders. In the previous RCTP project Funded by IFAD the payment/processing of invoices follows the provisions of the contract. The payment terms are specified in the clauses of the contract.	S	The project should develop and continuously monitoring and update of financial procedure in line with procurement plan.	S
2.2. The country has an institution responsible for the normative/regulatory function						
2.2.5.(a)	Status and legal basis of the normative/regulatory function	(a) The legal and regulatory framework specifies the normative/regulatory function and assigns appropriate authorities formal powers to enable the institution to function effectively, or the normative/regulatory functions are clearly assigned to various units within the government.	The Directorate for Public Procurement Policy, under the Ministry of Finance, has responsibilities set by Article 44 of the PPL. It works with other authorities to draft and propose laws, regulations, strategies, and measures related to public procurement, and monitors how the law is followed. The Ministry's website has: annual report on public procurement, expert opinions and guidelines, strategic documents, information on corruption and conflict prevention, lists of clients, bidders, and officials involved in public procurement, regulations (national and EU), publications, notices, instructions for clients and bidders, training and exam information, and individual reports of those who must apply the Law on public procurement.	L		L
2.2.5.(b)	Responsibilities of the normative/regulatory function	The following functions are clearly assigned to one or several agencies without creating gaps or overlaps in responsibility: (a) providing advice to procuring entities (b) drafting procurement policies (c)proposing changes/drafting amendments to the legal and regulatory framework	The Directorate for Public Procurement oversees administrative and professional tasks related to the public procurement system, based on the Law. These include: 1.monitoring; 2.giving professional guidance on applying this law; 3.ensuring compliance of public procurement regulations with EU regulations; 4.giving an opinion to the contracting parties on the conditions for using the negotiation procedure without prior publication of the call for tenders, according to this law; 5.providing advisory help to clients and business entities upon request; 6.organizing and implementing professional training and	M	Development of role descriptions, competency profiles and accreditation and certification schemes for the profession to be supported by Capacity building in procurement skills and for procurement professionals.	M

		<p>(d) monitoring public procurement</p> <p>(e) providing procurement information</p> <p>(f) managing statistical databases</p> <p>(g) preparing reports on procurement to other parts of government</p> <p>(h) developing and supporting implementation of initiatives for improvements of the public procurement system</p> <p>(i) providing tools and documents, including integrity training programmes, to support training and capacity development of the staff responsible for implementing procurement</p> <p>(j) supporting the professionalization of the procurement function (e.g. development of role descriptions, competency profiles and accreditation and certification schemes for the profession)</p> <p>(k) designing and managing centralized online platforms and other e-Procurement systems, as appropriate.</p>	<p>development for the staff of the clients and other people involved in public procurement;</p> <p>7.organizing a professional exam for public procurement tasks and issuing certificates for public procurement work;</p> <p>8.setting up, maintaining, and managing ESJN and monitoring its use;</p> <p>9.setting up and maintaining records of registered bidders in the ESJN; 10. publishing procurement plans, tender documents, decisions, and other documents of the contracting authorities in the public procurement procedure, as well as their changes, contracts and framework agreements on public procurement, contract amendments and notices of complaints submitted to the EJN;</p> <p>11. enabling the ordering party to receive qualification applications, bids, projects and solutions;</p> <p>12. compiling, publishing, and updating the list of purchasers and the list of public procurement officials;</p> <p>13. preparing and publishing a common dictionary of public procurement on its website, following EU regulations;</p> <p>14. cooperating and exchanging information with international organizations, institutions, the European Commission, and experts in public procurement;</p> <p>15. cooperating and exchanging information with competent authorities of other countries and organizations within its scope;</p> <p>16. informing inspection and other competent authorities about irregularities in public procurement procedures;</p> <p>17. preparing and submitting reports to the Government according to this law.</p>		<p>IFAD can provide additional procurement accreditation through BuildProc training program, OPEN end to end System training and a short-term consultant to work on procurement processing.</p>	
2.2.5.(c)	<p>Organization, funding, staffing and level of independence and authority</p>	<p>(a) The normative/regulatory function (or the institutions entrusted with responsibilities for the regulatory function if there is not a single institution) and the head of the institution have a high-level and authoritative standing in government.</p> <p>(b) Financing is secured by the legal/regulatory framework, to ensure the function's independence and proper staffing.</p> <p>(c) The institution's internal organization, authority and</p>	<p>The Directorate for Public Procurement Policy with responsibilities established by Article 44 of the PPL.</p> <p>Financing is secured by the legal/regulatory framework, to ensure the function's independence and proper staffing.</p> <p>The institution's internal organization, authority and staffing are sufficient and consistent with its responsibilities.</p>	L		L

		staffing are sufficient and consistent with its responsibilities.				
2.2.5.(d)	Avoid Conflicts of Interest	(a) The normative/regulatory institution has a system in place to avoid conflicts of interest	PPL Art 40. The contracting authority must take suitable measures to effectively avoid, detect and resolve conflicts of interest related to the public procurement procedure. The president and member of the Commission for the Protection of Rights cannot perform any other public function, or function in a political party. The president and member of the Commission for the Protection of Rights will not participate in the procedure for the protection of rights if there are grounds that raise questions about their impartiality under the law. The ordering party will disqualify the bidder from the procurement procedure if it finds out that there is a conflict of interest.	M	Project staff to be acquainted with the revised IFAD policy on combatting corruption; all committee members will sign and comply with the declaration on impartiality and confidentiality	M
2.3. Procuring entities and their mandates are clearly defined						
2.3.6.(a)	Definition, responsibilities, and formal powers of procuring entities	The legal framework provides for the following: (a) Procuring entities are clearly defined. (b) Responsibilities and competencies of procuring entities are clearly defined. (c) Procuring entities are required to establish a designated, specialized procurement function with the necessary management structure, capacity and capability.* (d) Decision-making authority is delegated to the lowest competent levels consistent with the risks associated and the monetary sums involved. (e) Accountability for decisions is precisely defined.	The GORA project will be carried out by the ministry of agriculture. The Ministry will set up a Project management Unit (PMU) to oversee the regular management and execution of the project. The PMU will be aided by additional technical assistance and short-term hired staff if needed, specifically, the PMU will take charge of creating the AWPBs to be sent to IFAD for no objection. Also, the PMU will be in charge of the procurement of civil works, goods, and services. Since the PMU will be intentionally small, it will be essential to ensure proper management of the delegation of non-core tasks to competent services providers.	M	Promote empowerment of project staff and decentralization of decision making based on thresholds.	M
2.3.6.(b)	Centralized procurement body	(a) The country has considered the benefits of establishing a centralized procurement function in charge of consolidated procurement, framework agreements or specialized procurement. (b) In case a centralized procurement body exists, the	PPL Art 74. Public procurement for the needs of state administration bodies and public services founded by the state can be carried out by the contracting authority determined by the Government's regulation. Public procurement for the needs of local government bodies and public services, whose founder is the local self-government, can be carried out by the contracting authority determined by the regulation of the competent local self-government body. The implementation of centralized public procurement is prescribed by the Government, i.e., the competent authority of the local self-government unit.	L		L

		<p>legal and regulatory framework provides for the following:</p> <ul style="list-style-type: none"> • Legal status, funding, responsibilities, and decision-making powers are clearly defined. • Accountability for decisions is precisely defined. • The body and the head of the body have a high-level and authoritative standing in government. <p>(c) The centralized procurement body's internal organization and staffing are sufficient and consistent with its responsibilities.</p>	<p>Not applicable considering that the contracts will be managed by PMU independently.</p>			
2.4. Public procurement is embedded in an effective information system						
2.4.7.(a)	Publication of public procurement information supported by information technology	<p>The country has a system that meets the following requirements:</p> <p>(a) Information on procurement is easily accessible in media of wide circulation and availability. Information is relevant, timely and complete and helpful to interested parties to understand the procurement processes and requirements and to monitor outcomes, results, and performance.</p> <p>(b) There is an integrated information system (centralized online portal) that provides up-to-date information and is easily accessible to all interested parties at no cost.</p> <p>(c) The information system provides for the publication of:</p> <ul style="list-style-type: none"> • procurement plans • information related to specific procurements, at a minimum, advertisements, or notices of procurement opportunities, procurement method, contract awards and contract 	<p>The ESJN system, electronic system has been operating since September 2010 and it is managed by the Public Procurement Directorate, Ministry of Finance. It covers most of the stages of the procurement cycle. Any person has access to information on ESJN on www.cejn.gov.me ESJN is based on the following modules:</p> <ul style="list-style-type: none"> • e-Publication – electronic preparation and publication of all notices in public procurement procedure, • e-Access – electronic access to tender documentation, • e-Submission – electronic submission of bids/applications for qualification • e-Evaluation – electronic process of bid evaluation • e-Complaint – electronic submission and resolution of complaints 	M	All IFAD opportunities shall be published in a GPN as per the requirements of the Handbook. Such publication as well as all other notices shall be posted online on a dedicated website.	M

		<p>implementation, including amendments, payments and appeals decisions</p> <ul style="list-style-type: none"> • linkages to rules and regulations and other information relevant for promoting competition and transparency. <p>(d) In support of the concept of open contracting, more comprehensive information is published on the online portal in each phase of the procurement process, including the full set of bidding documents, evaluation reports, full contract documents including technical specification and implementation details (in accordance with legal and regulatory framework).</p> <p>(e) Information is published in an open and structured machine-readable format, using identifiers and classifications (Open data format).</p> <p>(f) Responsibility for the management and operation of the system is clearly defined.</p>				
2.4.7.(b)	Use of e-procurement	<p>(a) e-Procurement is widely used or progressively implemented in the country at all levels of government.</p> <p>(b) Government officials have the capacity to plan, develop and manage e-Procurement systems.</p> <p>(c) Procurement staff is adequately skilled to use e-Procurement systems reliably and efficiently.</p> <p>(d) Suppliers (including micro, small and medium-sized enterprises) participate in a public procurement market</p>	<p>The level of transparency of the e-platform is accepted by not fully transparent.</p> <p>The records of registered bidders in the State Public Service Agency contain consolidated data on bidders with whom procurement contracts were signed.</p> <p>The Ministry officials have the capacity to plan, develop and manage e-Procurement systems</p>	M	All IFAD opportunities shall be published in a GPN as per the requirements of the Handbook. Such publication as well as all other notices shall be posted online on a dedicated website.	M

		increasingly dominated by digital technology. (e) If e-Procurement has not yet been introduced, the government has adopted an e-Procurement roadmap based on an e-Procurement readiness assessment.				
2.4.7.(c)	Strategies to manage procurement data	(a) A system is in operation for collecting data on the procurement of goods, works and services, including consulting services, supported by e-Procurement or other information technology. (b) The system manages data for the entire procurement process and allows for analysis of trends, levels of participation, efficiency and economy of procurement and compliance with requirements. (c) The reliability of the information is high (verified by audits). (d) Analysis of information is routinely carried out, published, and fed back into the system	In the public procurement process, all communication, transfer and storage of information and data must ensure the data integrity and confidentiality of applications for qualification, bids, plans, and projects. PPL Art 181 The contracting authority must maintain complete documentation that is generated in the procurement processes. The contracting authority must keep the documentation for at least four years from the date of completing the procurement contract. The documentation that is stored in the ESJN must be kept for at least five years from the date of signing the procurement contract in a way that preserves the data integrity.	M	The use of OPEN and CMT is mandatory; the project will be required to report in detail on procurement and collect procurement data as necessary.	M
2.5. The public procurement system has a strong capacity to develop and improve						
2.5.8.(a)	Training, advice, and assistance	There are systems in place that provide for: (a) substantive permanent training programmes of suitable quality and content for the needs of the system. (b) routine evaluation and periodic adjustment of training programmes based on feedback and need. (c) advisory service or help desk function to resolve questions by procuring entities, suppliers, and the public. (d) a strategy well-integrated with other measures for developing the capacity of key	The Directorate of public procurement, as required by the Law, carries out administrative and related expert tasks in the field of the public procurement system, such as: -provides professional guidance on how to apply this law; offers consultancy help to clients and business entities when they ask for it; -organizes and conducts professional training and development for the staff of the clients and other people who do public procurement works; -organizes a professional exam for doing tasks in the area of public procurement and issues certificates for working in public procurement; https://ujin.gov.me/category/termini-odrzavanja-obuka/	M	To enhance technical skills and development, it might be advisable to recruit an intern who would assist procurement officers. This would generate the opportunity for new and young professionals in this area.	M

		actors involved in public procurement.				
2.5.8.(b)	Recognition of procurement as a profession	The country's public service recognizes procurement as a profession: (a) Procurement is recognized as a specific function, with procurement positions defined at different professional levels, and job descriptions and the requisite qualifications and competencies specified. (b) Appointments and promotion are competitive and based on qualifications and professional certification. (c) Staff performance is evaluated on a regular and consistent basis, and staff development and adequate training is provided.	The PMU must appoint at least one staff member as a public procurement officer, or hire someone for that role under the law. The officer helps with the public procurement plan, gives secret information from the tender documents to interested businesses according to the law, keeps records and reports of public procurement procedures, does administrative work in public procurement, and other tasks under this law and its regulations. The PMU must send the Ministry a decision on naming a public procurement officer. The officer needs to pass an exam for procurement. A separate commission administers the exam.	M	Procurement officer JD and responsibility will be defined in PIM Plan a capacity building program, particularly in BUILDPROC	M
2.5.8.(c)	Monitoring performance to improve the system	(a) The country has established and consistently applies a performance measurement system that focuses on both quantitative and qualitative aspects. (b) The information is used to support strategic policy making on procurement. (c) Strategic plans, including results frameworks, are in place and used to improve the system. (d) Responsibilities are clearly defined.	The Directorate of public procurement, performs administrative and related professional tasks in the area of the public procurement system i.e., monitors and informs inspection and other competent authorities about observed irregularities in procedures public procurement, prepares and submits reports to the Government in accordance with this law.	M	Systematize the collection and use of aggregated data on public procurement performance. Plan supervision missions for the specific monitoring of the project	M
2.6. Consolidated results for pillar 2.			The country has a strong institutional structure but weak data gathering/processing mechanisms that are not fully aligned with the IFAD framework.	M	Projects should follow IFAD procedures and regulations when providing training to ensure proper execution of planned activities. They will comply with AWPB and PP preparation based on IFAD	M

					templates and requirements. OPEN and CMT are compulsory; Establishing security protocols to safeguard records (physical and/or electronic) is advisable.	
Pillar 3. Public Procurement Operations and Market Practices						
3.1. Public procurement practices achieve stated objectives.						
3.1.9.(a)	Planning	(a) Needs analysis and market research guide a proactive identification of optimal procurement strategies. (b) The requirements and desired outcomes of contracts are clearly defined. (c) Sustainability criteria, if any, are used in a balanced manner and in accordance with national priorities, to ensure value for money	Absence of procurement strategy to identify the risks, the operational and economical context Sustainability criteria's are not defined Procuring entities are limited to submit an approved procurement plan, tied to their respective budget allocation, at the start of the fiscal year.	S	Projects will strictly adhere to Strategy, AWPB and PP preparation according to IFAD templates and requirements.	S
3.1.9.(b)	Selection and contracting	(a) Multi-stage procedures are used in complex procurements to ensure that only qualified and eligible participants are included in the competitive process. (b) Clear and integrated procurement documents, standardized where possible and proportionate to the need, are used to encourage broad participation from potential competitors. (c) Procurement methods are chosen, documented, and justified in accordance with the purpose and in compliance with the legal framework. (d) Procedures for bid submission, receipt and opening are clearly described in	PPL Art 134 After opening the bids, the committee is obliged to review and evaluate the bids, without the presence of the authorized representatives of the bidders, no clear pre/post qualification process to ensure that only qualified and eligible participants are included in the competitive process. Procurement documents are not categorized to each procurement method/category Absence of Procurement methods for consultancy services No specific techniques applied to determine best value for money	S	The project shall fully comply with IFAD selection and contracting methods and regulations	S

		<p>the procurement documents and complied with. This means, for instance, allowing bidders or their representatives to attend bid openings, and allowing civil society to monitor bid submission, receipt and opening, as prescribed.</p> <p>(e) Throughout the bid evaluation and award process, confidentiality is ensured.</p> <p>(f) Appropriate techniques are applied, to determine best value for money based on the criteria stated in the procurement documents and to award the contract.</p> <p>(g) Contract awards are announced as prescribed.</p> <p>(h) Contract clauses include sustainability considerations, where appropriate.</p> <p>(i) Contract clauses provide incentives for exceeding defined performance levels and disincentives for poor performance.</p> <p>(j) The selection and award process is carried out effectively, efficiently and in a transparent way.</p>				
3.1.9.(c)	Contract management in practice	<p>(a) Contracts are implemented in a timely manner.</p> <p>(b) Inspection, quality control, supervision of work and final acceptance of products is carried out.</p> <p>(c) Invoices are examined, time limits for payments comply with good international practices, and payments are processed as stipulated in the contract.</p> <p>(d) Contract amendments are reviewed, issued, and published in a timely manner.</p>	<p>Criteria (a); (b); (c) and (d) are satisfied. (Based on the previous project experience)</p> <p>RCTP project used IFADs Contract monitoring tool</p> <p>The PPL provisions an extensive set of articles on contract management; in practice, this varies from one project and another based on their procurement and technical competence.</p>	L		L

		(e) Procurement statistics are available and a system is in place to measure and improve procurement practices. (f) Opportunities for direct involvement of relevant external stakeholders in public procurement are utilized. (g) The records are complete and accurate, and easily accessible in a single file				
3.2. The public procurement market is fully functional						
3.2.10.(a)	Dialogue and partnerships between public and private sectors	(a) The government encourages open dialogue with the private sector. Several established and formal mechanisms are available for open dialogue through associations or other means, including a transparent and consultative process when formulating changes to the public procurement system. The dialogue follows the applicable ethics and integrity rules of the government. (b) The government has programmes to help build capacity among private companies, including for small businesses and training to help new entries into the public procurement marketplace.	Private sector in Montenegro is organized and functional. It comprises large, medium, and small contractors, suppliers of goods and consulting services. The Government has a good partnership with the private sector. The Ministry- Directorate for Public Procurement Policy, also arranges trainings for the private sector.	M	The project should develop and continuously monitor and update a Procurement Strategy in line with IFAD requirements.	M
3.2.10.(b)	Private sector's organization and access to the public procurement market	(a) The private sector is competitive, well-organized, willing, and able to participate in the competition for public procurement contracts. (b) There are no major systemic constraints inhibiting private sector access to the public procurement market	The private sector has the capacity to bid for goods, works and services contracts.	M	The project will publish bidding opportunities on own or ministry of agriculture website, and in addition – in order to increase visibility, publish on widely known platforms like job.ge in addition to the publication of the international bidding on UNDB through IFAD.	M
3.2.10.(c)	Key sectors and sector strategies	(a) Key sectors associated with the public procurement market	No risks assessed by government associated with certain sectors and opportunities to influence sector markets.	S	To evaluate the Risks related to specific	S

		are identified by the government. (b) Risks associated with certain sectors and opportunities to influence sector markets are assessed by the government, and sector market participants are engaged in support of procurement policy objectives.	As a follow-up to the previous project RCTP, the Ministry of Agriculture is among the Key Sectors that have worked with the chamber of Economy to create platforms and improve the sectors that benefit from significant donor support for rural development activities, such as promoting some crops, increasing climate resilience, strengthening irrigation, etc.		sectors and opportunities to shape sector markets with the government, and involve sector market players in advancing procurement policy goals.	
3.3. Consolidated results for pillar 3.			The procurement market is operational, but it lacks strategic planning and clear assignments of roles within and outside the organization.	S	The project should enhance its abilities in strategic planning and market involvement, along with widespread GPN communication and strong staff management. The project should publish online compulsorily, follow AWPB, PP in the project; provide ongoing training and certification and prepare the PIM.	S
Pillar 4. Accountability, integrity, and transparency of the public procurement system						
4.1. Transparency and civil society engagement strengthen integrity in public procurement						
4.1.11.(a)	An enabling environment for public consultation and monitoring	(a) A transparent and consultative process is followed when formulating changes to the public procurement system. (b) Programs are in place to build the capacity of relevant stakeholders to understand, monitor and improve public procurement. (c) There is sample evidence that the government takes into account the input, comments and feedback received from civil society	No Specific terms, legal framework or transparent and consistent practice in public consultations enabling environment for public consultation and monitoring The ministry is assigned and authorized for the accurate implementation of the principles, procedures and acts specified in the Public Procurement Law Lack of information about evidences that the government takes into account the input, comments and feedback received from civil society	H	public consultation and monitoring shall fully adapt IFAD regulations	H
4.1.11.(b)	Adequate and timely access to	(a) Requirements in combination with actual practices ensure that all	The procurement site ESJN at www.cejn.gov.me publishes and provides public and timely access to information on public procurement.	M	Project shall re enforce publication of GPN and tenders in UN websites	M

	information by the public	stakeholders have adequate and timely access to information as a precondition for effective participation.				
4.1.1.(c)	Direct engagement of civil society	<p>(a) The legal/regulatory and policy framework allows citizens to participate in the following phases of a procurement process, as appropriate:</p> <ul style="list-style-type: none"> • the planning phase (consultation) • bid/proposal opening (observation) • evaluation and contract award (observation), when appropriate, according to local law • contract management and completion (monitoring). <p>(b) There is Sample evidence for direct participation of citizens in procurement processes through consultation, observation and monitoring.</p>	Even though the e-platform ESJN is open to the public, its transparency still needs to be evaluated since the legal/regulatory and policy framework does not let citizens take part in the procurement process, when relevant: the planning phase (consultation) and bid/proposal opening (observation).	S	Increase the level of transparency by making all procurement related information easily accessible and free of charge through electronic platforms. Mandatory publication of outcomes and results	S
4.2. The country has effective control and audit systems						
4.2.12.(a)	Legal framework, organization and procedures of the control system	<p>The system in the country provides for:</p> <p>(a) laws and regulations that establish a comprehensive control framework, including internal controls, internal audits, external audits and oversight by legal bodies</p> <p>(b) internal control/audit mechanisms and functions that ensure appropriate oversight of procurement, including reporting to management on compliance, effectiveness, and efficiency of procurement operations</p> <p>(c) internal control mechanisms that ensure a proper balance</p>	<p>The Directorate for Inspection Affairs is an independent body that inspects various areas. It has a public procurement inspection that oversees the compliance with the Law and its regulations.</p> <p>Besides that, we should also note institutions that are somewhat related to public procurement, such as:</p> <ul style="list-style-type: none"> • State auditing institution; • Agency for Prevention of Corruption of Montenegro; • Administrative Court of Montenegro; • Misdemeanor Court; • Police Department; • Judicial Council; • Supreme State Prosecutor's Office. <p>For RCTP external audits was appointed in line with IFAD requirements.</p>	M	Current IFAD legal standards for auditing and reviewing will remain in effect.	M

		<p>between timely and efficient decision-making and adequate risk mitigation</p> <p>(d) independent external audits provided by the country's Supreme Audit Institution (SAI) that ensure appropriate oversight of the procurement function based on periodic risk assessments and controls tailored to risk management</p> <p>(e) review of audit reports provided by the SAI and determination of appropriate actions by the legislature (or other body responsible for public finance governance)</p> <p>(f) clear mechanisms to ensure that there is follow-up on the respective findings.</p>				
4.2.12.(b)	Co-ordination of controls and audits of public procurement	<p>(a) There are written procedures that state requirements for internal controls, ideally in an internal control manual.</p> <p>(b) There are written standards and procedures (e.g. a manual) for conducting procurement audits (both on compliance and performance) to facilitate coordinated and mutually reinforcing auditing.</p> <p>(c) There are evidence that internal or external audits are carried out at least annually and that other established written standards are complied with.</p> <p>(d) Clear and reliable reporting lines to relevant oversight bodies exist</p>	No specific information available to define the Co-ordination of controls and audits of public procurement.	H	Current IFAD legal standards for auditing and reviewing will remain in effect for GORA project	H
4.2.12.(c)	Enforcement and follow-up on findings and recommendations	<p>(a) Recommendations are responded to and implemented within the time frames established in the law.</p> <p>(b) There are systems in place to follow up on the</p>	No specific information available there are systems in place to follow up on the implementation/enforcement of the audit recommendations.	H	Same as above	H

		implementation/enforcement of the audit recommendations.				
4.2.12.(d)	Qualification and training to conduct procurement audits	<p>(a) There is an established programme to train internal and external auditors to ensure that they are qualified to conduct high-quality procurement audits, including performance audits.</p> <p>(a) The selection of auditors requires that they have adequate knowledge of the subject as a condition for carrying out procurement audits; if auditors lack procurement knowledge, they are routinely supported by procurement specialists or consultants.</p> <p>(a) Auditors are selected in a fair and transparent way and are fully independent</p>	<p>The internal control framework comprises the auditors in the Directorate for Inspection Affairs</p> <p>These internal auditors regularly audit procurement. There is no manual for audit of public procurement.</p>	H	Auditors and controllers shall undergo regular formal training and on-the-job trainings to meet the required qualifications. The project will rely on seasoned IFAD consultants to prevent errors and procurement risks.	H
4.3. Procurement appeals mechanisms are effective and efficient						
4.3.13.(a)	Process for challenges and appeals	<p>(a) Decisions are rendered on the basis of available evidence submitted by the parties.</p> <p>(b) The first review of the evidence is carried out by the entity specified in the law.</p> <p>(c) The body or authority (appeals body) in charge of reviewing decisions of the specified first review body issues final, enforceable decisions. *</p> <p>(d) The time frames specified for the submission and review of challenges and for appeals and issuing of decisions do not unduly delay the procurement process or make an appeal unrealistic</p>	<p>The rights of participants in procurement procedures are protected by the Commission for the Protection of Rights in Procurement Procedures, according to PPL Art 185 to Art 190.</p> <p>If an appeal is filed on time and the fee for the procedure is paid, the contracting authority has to stop further actions in the public procurement procedure until the appeal is resolved, except in urgent cases of negotiation without a prior call for tenders.</p> <p>The appellant must submit proof of paying the fee for starting the appeal, which is 1% of the estimated value of the procurement, with the appeal or by the end of the deadline for the appeal. The fee cannot be more than 20,000 euros.</p>	M	The time frames specified for the submission and review of challenges and for appeals and issuing of decisions shall not unduly delay the procurement process or make an appeal unrealistic	M
4.3.13.(b)	Appellate body independence and capacity	<p>The appeals body:</p> <p>(a) is not involved in any capacity in procurement transactions or in the process</p>	Commission for the Protection of Rights (CPR) composed of number of experts with legal background and consultant managing procedures for submission and resolution of complaints defined in accordance with PPL Art 185 to Art 190	M	Project procurement plan to consider issues/delay that might happen within the time frame specified in the	M

		<p>leading to contract award decisions</p> <p>(b) does not charge fees that inhibit access by concerned parties</p> <p>(c) follows procedures for submission and resolution of complaints that are clearly defined and publicly available</p> <p>(d) exercises its legal authority to suspend procurement proceedings and impose remedies</p> <p>(e) issues decisions within the time frame specified in the law/regulations</p> <p>(f) issues decisions that are binding on all parties</p> <p>(g) is adequately resourced and staffed to fulfil its functions.</p>	<p>Due to insufficient resources and staff, the CPR hires consultants to handle the appeals, which may cause problems or delays within the legal time frame.</p>		<p>law/regulations to mitigate delay risks</p>	
4.3.13.(c)	Decisions of the appeals body	<p>Procedures governing the decision-making process of the appeals body provide that decisions are:</p> <p>(a) based on information relevant to the case.</p> <p>(b) balanced and unbiased in consideration of the relevant information</p> <p>(c) result in remedies, if required, that are necessary to correcting the implementation of the process or procedures.</p> <p>(d) decisions are published on the centralised government online portal within specified timelines and as stipulated in the law.</p>	<p>The Commission for the Protection of Rights is obliged to publish the decision in the EJN and on its website, within three days from the date of adoption, unless the decision was decided on an appeal against the decision on the exclusion of the applicant from the procurement procedure, which it is obliged to deliver to the complainant and to the customer, within three days from the date of adoption.</p> <p>On the day of publication of the decision in the EJN, it is considered that the decision has been duly delivered to the parties in the proceedings.</p> <p>Until the day of the establishment of the EJN, it is considered that the decision has been duly delivered to the parties in the proceedings when it has been published on the Public Procurement Portal and the website of the Commission for the Protection of Rights.</p>	L		L
4.4. The country has ethics and anti-corruption measures in place						
4.4.14.(a)	Legal definition of prohibited practices, conflicts of interest, and associated responsibilities, accountabilities, and penalties	<p>The legal/regulatory framework provides for the following:</p> <p>(a) definitions of fraud, corruption, and other prohibited practices in procurement, consistent with obligations deriving from legally binding</p>	<p>PPL Art 39 A person who works in public procurement and knows about any corruption in procurement must promptly inform the relevant person of the contracting authority, the Ministry, the authority in charge of preventing corruption and the state prosecutor's office, depending on who the knowledge concerns.</p> <p>PPL Art 40 The contracting authority must implement suitable</p>	M	<p>IFAD Policies shall apply in all procurement activities (anti-corruption, anti-harassment, anti-money laundering). Reporting hotlines to feature in all</p>	M

		<p>international anti-corruption agreements.</p> <p>(b) definitions of the individual responsibilities, accountability, and penalties for government employees and private firms or individuals found guilty of fraud, corruption, or other prohibited practices in procurement, without prejudice of other provisions in the criminal law.</p> <p>(c) definitions and provisions concerning conflict of interest, including a cooling-off period for former public officials</p>	<p>measures to prevent, identify and resolve any conflicts of interest related to the public procurement procedure effectively.</p>		<p>procurement documents.</p>	
4.4.14.(b)	<p>Provisions on prohibited practices in procurement documents</p>	<p>(a) The legal/regulatory framework specifies this mandatory requirement and gives precise instructions on how to incorporate the matter in procurement and contract documents.</p> <p>(b) Procurement and contract documents include provisions on fraud, corruption, and other prohibited practices, as specified in the legal/regulatory framework.</p>	<p>The administrative specifications do not include clauses or provisions prohibiting practices of fraud, corruption, and other prohibited practices.</p>	M	<p>Use of required IFAD policy accepted by borrower. The project should ensure integration in all bidding documents of provisions of "IFAD's Policy on Preventing Fraud and Corruption in its Activities and Operations", IFAD's Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse" and "IFAD's Anti-Money Laundering and Countering the Financing of Terrorism Policy".</p> <p>Specify clearly in the bidding documents the contact details for reporting on corruption and abuse (Anticorruption Hotline: Email: anticorruption@ifad.org Phone: +39 0654592888 Fax: +39 0654597888)</p>	M

4.4.14.(c)	Effective sanctions and enforcement systems	<p>(a) Procuring entities are required to report allegations of fraud, corruption, and other prohibited practices to law enforcement authorities, and there is a clear procedure in place for doing this.</p> <p>(b) There is evidence that this system is systematically applied and reports are consistently followed up by law enforcement authorities.</p> <p>(c) There is a system for suspension/debarment that ensures due process and is consistently applied.</p> <p>(d) There is evidence that the laws on fraud, corruption and other prohibited practices are being enforced in the country by application of stated penalties.</p>	<p>PPL Art 39 A person working in public procurement, who knows about corruption in procurement, must report it promptly to the authorized person of the contracting authority, the Ministry, the body in charge of preventing corruption and the relevant state prosecutor, depending on who the knowledge concerns. Agency for Prevention of Corruption https://www.antikorupcija.me/me/korisnicki-servisi/prijava-korupcije/</p> <p>There is no information available to verify criterion (b) and (d).</p>	S	Same as above	S
4.4.14.(d)	Anti-corruption framework and integrity training	<p>(a) The country has in place a comprehensive anti-corruption framework to prevent, detect and penalize corruption in government that involves the appropriate agencies of government with a level of responsibility and capacity to enable its responsibilities to be carried out.</p> <p>(b) As part of the anti-corruption framework, a mechanism is in place and is used for systematically identifying corruption risks and for mitigating these risks in the public procurement cycle.</p> <p>(c) As part of the anti-corruption framework, statistics on corruption-related legal proceedings and convictions are compiled and reports are published annually.</p> <p>(d) Special measures are in place for the detection and</p>	<p>The Ministry prescribes the way of management, the content of records on conflicts of interest, i.e. the violation of anti-corruption rules and the methodology of risk analysis in the exercise of control in public procurement procedures, for the purpose of proactive action in the prevention and early detection of corrupt acts and other acts characterized by corruption.</p> <p>Agency for prevention of corruption the authority responsible for preventing corruption about observed violations of anti-corruption rules and violations of conflict-of-interest rules https://www.antikorupcija.me/me/korisnicki-servisi/prijava-korupcije/</p> <p>There is no information available to verify criterion (b) (c) (d) and (e).</p>	M	Same as above	M

		prevention of corruption associated with procurement. (e) Special integrity training programs are offered and the procurement workforce regularly participates in this training.				
4.4.14.(e)	Stakeholder support to strengthen integrity in procurement	(a) There are strong and credible civil society organizations that exercise social audit and control. (b) There is an enabling environment for civil society organizations to have a meaningful role as third-party monitors, including clear channels for engagement and feedback that are promoted by the government. (c) There is evidence that civil society contributes to shape and improve integrity of public procurement. (d) Suppliers and business associations actively support integrity and ethical behavior in public procurement, e.g. through internal compliance measures	Tere is no information available to verify criterion (a) (b)	H	Same as above	H
4.4.14.(f)	Secure mechanisms for reporting prohibited practices or unethical behavior	(a) There are secure, accessible and confidential channels for reporting cases of fraud, corruption or other prohibited practices or unethical behaviour. (b) There are legal provisions to protect whistle-blowers, and these are considered effective. (c) There is a functioning system that serves to follow up on disclosures	The whistleblower has the right to stay anonymous, unless he asks for his information to be publicly disclosed, in which case the law that protects the secrecy of information applies to how his information is dealt with. (Articles 44, 45, 47 and 56 of the Law on Prevention of Corruption) The Agency checks the claims from the submitted report, and forms a view on whether there is a danger to the public interest that indicates corruption, and gives a suggestion if that danger has happened. The Agency can start a process to find out whether there is a danger to the public interest on its own initiative (Articles 51, 52 and 54 of the Law on Prevention of Corruption).	H	IFAD's contact details for reporting corruption, harassment, fraud, etc. will be included in all bidding documents. The project shall immediately notify IFAD of any such allegations.	H
4.4.14.(g)	Codes of conduct/codes of ethics and financial disclosure rules	(a) There is a code of conduct or ethics for government officials, with particular provisions for those involved in public financial management, including procurement.	Code of conduct No. 050/18 dated 20/07/2018 This code of ethics applies to state officials and officers.	H	IFAD's contact details for reporting corruption, harassment, fraud, etc. will be included in all bidding documents. The project shall	H

		<p>(a) The code defines accountability for decision making, and subjects decision makers to specific financial disclosure requirements.</p> <p>(a) The code is of mandatory, and the consequences of any failure to comply are administrative or criminal.</p> <p>(a) Regular training programmes are offered to ensure sustained awareness and implementation of measures.</p> <p>(a) Conflict of interest statements, financial disclosure forms and information on beneficial ownership are systematically filed, accessible and utilised by decision makers to prevent corruption risks throughout the public procurement cycle</p>			<p>immediately notify IFAD of any such allegations.</p>	
<p>4.5. Consolidated results for pillar 4.</p>		<p>Overall, institutional setup for enhancing integrity is weak. The administrative regulations do not include clauses or provisions prohibiting practices of fraud, corruption, and other prohibited practices</p>	<p>S</p>	<p>IFAD policies, reporting hotlines, and self-certification shall be complied with IFAD Handbook and guidelines shall be adopted and applied. Audit shall be secured through an independent entity.</p>	<p>S</p>	
<p>Consolidated findings at country level “Substantial”</p>		<p>Overall Inherent risk is “S” provided Montenegro has a functioning procurement system supported by a structured institutional and legal framework, the use of e-tenders, and the Law of procurement, audit, and complaints bodies. The procurement risks relate mainly to:</p> <ul style="list-style-type: none"> -The inconsistencies in the procurement methods notably related to consulting and the Non consulting services. -The absence of strategic planning and key role allocations internally and externally. -The absence of SECAP requirements in the Public Procurement Law <p>*Mitigation measures for shortcomings found on the national Procurement system vs. IFAD’s procurement framework include procurement policies, procedure SBD, Methods, evaluation, selection, reporting hotlines, and self-certification shall be complied with IFAD Handbook and guidelines shall be adopted and applied; audit shall be secured through an independent entity; Projects will strictly adhere to AWPB and PP preparation according to IFAD templates and requirements.</p> <p>*The procurement plan as well as No Objection requests will be submitted electronically via the OPEN- Project Procurement End-to End System introduced by IFAD. This system will cover the entire procurement cycle.</p>				

	*All risk mitigation measures shall be incorporated to the Procurement Implementation Manual (PIM) to secure compliance with IFAD procurement regulations.
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Integrated Country Risk Matrix

Integrated Country Risk Matrix (ICRM)			
Risk Type	Inherent risk	Residual risk	Mitigation measures
Country context Widening divide between rural areas in the North and thriving coastal and central regions, leading to internal and external migration	M	M	IFAD will complement the EU priority measures with immediate support to rural development in the Northern region. The present COSOP will contribute to transforming the rural economy into a dynamic sector, based on more competitive and climate-resilient farms and efficient market driven multi-stakeholders set-ups.
Political commitment Changes in Government reduce commitment for rural and agricultural development in the poorest areas, localities and sectors, slowing down implementation	M	M	The Government of Montenegro exhibits a strong commitment to rural and agricultural development, which is enshrined in EU pre-accession negotiations, notably through IPARD. The recent approval of a new Strategy for the Development of Agriculture and Rural Areas 2023-2028, and the ongoing development of a Strategy for the Development of the Northern Region, further strengthen the prospects of continued political commitment. The risk of reduced commitment to programme implementation during times of transition will be mitigated by ensuring continued engagement with new Ministries and Municipalities, both at programme and project level. The RCTP PCU played a key role in sustaining such engagement; key personnel will be maintained in Gora to further mitigate this risk at project level.
Governance Weak governance related to political instability and polarization	L	L	IFAD will support on-going efforts, both at central and municipality levels, to improve governance (capacity development on procurement, close supervision of beneficiary selection, etc.), aligned with the new project implementation manual.
Macroeconomic Exchange rate between Euro and Dollar evolves unfavourably thus reducing available budget for implementation	L	L	The exchange rate retained for the Gora project is in line with forecasts for the next two years, and price contingencies (inflation) have been included in the budget; the same approach will be adopted in all upcoming projects.
Fragility and security International instability related to the protracted war in Ukraine leads to shortage of goods and high inflation	M	M	The country programme focuses on promoting resilience of local farms and value chains and of the landscape they exist in. By supporting territorial development and income diversification, the programme will contribute to build resilience of beneficiaries to external shocks including those related to the Ukraine war.
Sector strategies and policies Lack of experience in supporting farmers in climate change adaptation	M	L	The country programme will ensure that strategies and mechanisms for mountain adaptation are prepared in a participatory manner, involving in particular the smallholder farmers at individual and possibly collective levels

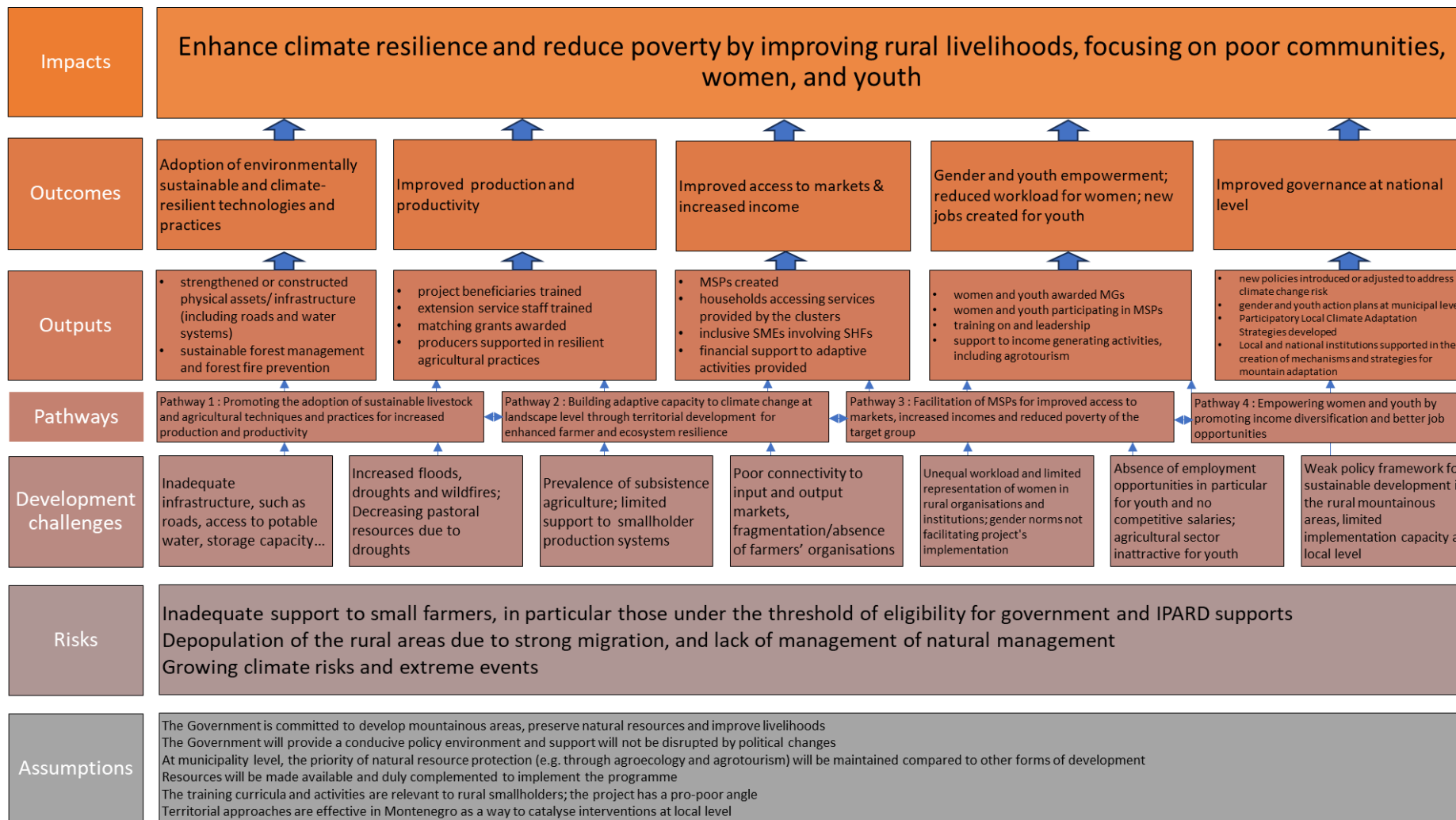
Integrated Country Risk Matrix (ICRM)			
Risk Type	Inherent risk	Residual risk	Mitigation measures
Policy alignment Country's strategies and policies governing the rural and agricultural sector are not sufficiently pro-poor and/or aligned with IFAD priorities	L	L	The country recently adopted the Strategy for the Development of Agriculture and Rural Areas 2023-2028, which is aligned with IFAD's priorities and the present COSOP strategic objectives, and is developing a specific Strategy for the Development of the Northern Region. To ensure continued alignment of subsequent strategic frameworks, IFAD will build the capacity of a Working Group (WG) on Mountainous Areas under the NCSO to enhance the participation of IFAD target groups and their institutions in policy processes. Synergies with IPARD will also be sought to strengthen alignment with this key policy instrument.
Policy development and implementation Country strategies and policies governing the rural and agricultural sector are not adequately resourced	L	L	The Strategy for the Development of Agriculture and Rural Areas 2023-2028 was developed based on sound evidence and will be funded through the national budget as well as EU funds (IPARD-III). IFAD will further contribute to fill funding gaps, particularly in terms of investments in smallholder agriculture, through Gora and subsequent projects implemented under the present COSOP.
Environmental, social and climate context Increased occurrence of extreme weather events, especially droughts. These shocks can have a direct impact on crop and livestock production	H	M	The country programme will build the resilience of smallholders and the ecosystems they depend on in an integrated manner, providing them with the tools to stabilize their income, enhance the resilience of their production systems, and address water related issues at landscape level.
Financial management <i>The risk that COSOP activities are not carried out in accordance with the provisions of IFAD's financial regulations and that funding is not used for the intended purpose with due regard for economy, efficiency and effectiveness.</i> Montenegro's country risk is rated as Moderate, according to Transparency International's Corruption Perception Index, which slightly improved in 2023 with a score of 46/100 compared to the 45/100 of 2022, placing Montenegro at the 63th position worldwide.	M	M	The country programme will adopt the same financial management and flow of funds architecture tested by RCTP, based on the excellent performance of the project.

Integrated Country Risk Matrix (ICRM)			
Risk Type	Inherent risk	Residual risk	Mitigation measures
<p>Organization and staffing <i>The risk that the level of development of the accountancy profession in the country is low and so causing a short supply of professionally qualified and well-trained personnel that can be engaged during project implementation.</i></p> <p>The Law on Accounting No. 052 of 2016 establishes initial professional development (IPD) requirements for Certified Accountants and authorizes the Ministry of Finance to oversee the certification of Certified Accountants, a responsibility that has been delegated to ICAM in accordance with the same Law and the Decree No. 33/10. ICAM was established in 2006 as a professional association of accountants and auditors. ICAM's membership is mandatory for Certified Auditors and for Certified Accountants and voluntary for Authorized Accountants and Bookkeepers.</p>	L	L	Qualified financial management staff to be hired to manage IFAD funded project.
<p>Budgeting <i>The risk that national budget approval cycle is inefficient affecting prompt availability of resources to externally funded projects.</i></p> <p>As per the last PEFA report budget classification is rated with an A as it is in overall alignment with COFOG standards and in most parts with GFS 2014, however budget preparation is rated with a C due to recurrent delays in the budget preparation and approval process.</p>	M	M	Although the delay in approving the budget did not significantly impact the implementation of RCTP, IFAD will follow-up closely with its government counterparts to ensure that any delay in the approval of the national budget do not affect negatively projects implementation.
<p>Funds flow/disbursement arrangements <i>The risk that funds from multiple financiers disburse with delay due to cumbersome treasury arrangements or are diverted to finance fiscal deficit or economic shocks</i></p> <p>The current arrangements at country level foresee that IFAD managed funds are channelled through bank accounts opened in commercial banks and managed by the MoF; counterpart contributions were made available to the project using the government single treasury account.</p>	L	L	For Gora, one designated account will be opened at a commercial bank to receive proceeds exclusively from the Adaptation Fund grant and will follow the revolving fund mechanism. Withdrawal and disbursement from grant account will be based on a six-month cash forecast which will be included in the project's quarterly Interim Financial Reports (IFRs). A template of the IFRs will be included in the PIM and will constitute the basis for project disbursement.
<p>Country internal controls <i>The risk that country systems, such as internal audit, are not adequate and may not provide appropriate control over IFAD resources leading to the inefficient or inappropriate use of project resources.</i></p> <p>As per the most recent PEFA Internal controls on non-salary expenditure are rated with a B with a solid segregation of duties mechanism for expenditure approval, but with a fairly low effectiveness of controls put in place by the Treasury Directorate. The internal audit function is rated with a B+ with all central government revenue and expenditure covered by the IA function, an appropriate focus in the controls and 90% of the programmed audits in 2018 completed.</p>	M	L	The internal control system put in place at national level through its expenditures approval process and internal audit function will be integrated with IFAD specific requirements such as a project implementation manual. Fiduciary assurance will be strengthened with IFAD supervision missions and external audit .
<p>Accounting and financial reporting <i>The risk that country accounting and reporting systems are not adequate leading to inaccurate or non-timely submission of financial information for decision-making</i></p>	M	L	IFAD will assess the possibility on relying fully on the IFMIS for new projects for accounting and financial reporting. If not possible, the current arrangements, which foresee the utilisation of standalone accounting software will be maintained.

Integrated Country Risk Matrix (ICRM)			
Risk Type	Inherent risk	Residual risk	Mitigation measures
<p>A new Law on Public Sector Accounting was adopted in November 2019 and defines the transition from cash to accrual accounting. The Law is broadly compliant with accrual based IPSAS with some differences (mainly issues that are not applicable in Montenegro). It regulates financial reporting and introduces the profession of public sector accountant with certification requirements. However, the most significant challenge for the transition to accrual accounting is still represented by the need for upgrading the Accounting IT system. The effective application of the law is expected to take place in 2024.</p>			
<p>External audit <i>The risk that the supreme audit institution is not independent, capacitated or able to timely perform and submit the audit of IFAD-financed operations, leading to possible misrepresentation of the financial results or lack of proper oversight.</i></p> <p>The SAI is assessed to be independent, and its audit coverage and standards (ISSAI) are acceptable. In fact, The Law on Auditing No. 001 of 2017 requires all mandatory audits to be conducted in accordance with ISA as issued by the IAASB. Moreover, according to the EU Progress Report 2020 and 2021, the SAI has improved its institutional capacity in terms of management and auditing staff. The main challenges relate to the capacities of the SAI which, in terms of number of staff, are insufficient for complying with its comprehensive mandate, covering all public financial operations.</p>	M	L	<p>IFAD will assess the possibility of using the SAI to conduct the external audit for new projects external audits. If not feasible, the current arrangements, which foresee the utilisation of private audit firms, will be maintained.</p>
<p>Procurement issues Montenegro has a functioning procurement system supported by a structured institutional and legal framework, the use of e-tenders, and the Law of procurement, audit, and complaints bodies.</p> <p>The procurement risks relate mainly to:</p> <ul style="list-style-type: none"> -The inconsistencies in the procurement methods notably related to consulting and non-consulting services. -The absence of strategic planning and key role allocations internally and externally. -The absence of SECAP requirements in the Public Procurement Law. 	S	S	<p>Procurement policies, procedure SBD, Methods, evaluation, selection, reporting hotlines, and self-certification shall be complied with IFAD Handbook and guidelines shall be adopted and applied; audit shall be secured through an independent entity; Projects will strictly adhere to AWPB and PP preparation according to IFAD templates and requirements. The procurement plan as well as No Objection requests will be submitted electronically via the OPEN- Project Procurement End-to End System introduced by IFAD. This system will cover the entire procurement cycle. All risk mitigation measures shall be incorporated to the Procurement Implementation Manual (PIM) to secure compliance with IFAD procurement regulations.</p>

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Risk Type	Inherent risk	Residual risk	Mitigation measures
<p>Pillar I. Legal, regulatory and policy framework</p> <p>Prescriptive and standardized rules, methods, documentation, and systems following National Legislation. Montenegro has a functioning procurement framework and electronic tendering system despite absence of methods dedicated to consulting services.</p> <p>The National PPL have some variances from minimum IFAD requirements notably related to procurement methods, SBD, the absence or strategy and contract management manual.</p>	S	S	<p>Elaborate the PIM to mitigate for the absence of national PP manual and inconsistencies between national and IFADs procedures.</p> <p>For consultancies IFADs procurement procedures should be used</p>
<p>Pillar II. Institutional framework and management capacity</p> <p>The country has a strong institutional structure but weak data gathering/processing mechanisms that are not fully aligned with the IFAD framework.</p>	M	M	<p>Projects should follow IFAD procedures and regulations when providing training to ensure proper execution of planned activities. They will comply with AWPB and PP preparation based on IFAD templates and requirements. OPEN and CMT are compulsory; Establishing security protocols to safeguard records (physical and/or electronic) is advisable.</p>
<p>Pillar III. Public procurement operations and market practices</p> <p>The procurement market is operational, but it lacks strategic planning and clear assignments of roles within and outside the organization.</p>	S	S	<p>Projects should enhance its abilities in strategic planning and market involvement, along with widespread GPN communication and strong staff management. Projects should publish online compulsorily, follow AWPB, PP in the project; provide ongoing training and certification and prepare the PIM.</p>
<p>Pillar IV. Accountability, integrity and transparency of the public procurement system</p> <p>Overall, institutional setup for enhancing integrity is weak. The administrative regulations do not include clauses or provisions prohibiting practices of fraud, corruption, and other prohibited practices</p>	S	S	<p>IFAD policies, reporting hotlines, and self-certification shall be complied with IFAD Handbook and guidelines shall be adopted and applied. Audit shall be secured through an independent entity.</p>

Theory of Change



5. The COSOP in Montenegro aims to enhance climate resilience and reduce poverty by improving rural livelihoods, with a specific focus on poor communities, women, and youth. These two strategic goals seek to transform the agricultural landscape by fostering sustainable development and inclusive rural transformation in the poorest areas of Montenegro, thus contributing to local public goods.

6. The country program will address a number of development challenges such as widespread subsistence agriculture prevalence and limited smallholder support systems; inadequate rural infrastructure, such as roads and water access; poor market connectivity; environmental challenges like floods, droughts, and resources scarcity; social barriers related to existing gender norms leading to unequal workload and limited representation of women in rural organizations and institutions; absence of employment opportunities and competitive salaries, unattractiveness of the agricultural sector, particularly for youth. Weak policy frameworks for sustainable development in the rural mountainous areas and limited implementation capacity at local level are also factors that impede sustainable development in the targeted areas.

7. A number of risks hinder Montenegro rural development in the mountainous areas, notably: insufficient support for smallholder farmers, particularly those at the bottom of the income distribution; rural depopulation due to out-migration; and escalating climate risks and extreme weather events.

8. The country programme thus aims to improve agricultural production and productivity in a sustainable way by offering training and capacity building on climate resilient measures and agroecological practices (such as soil fertility management and vermi-composting, sustainable water management, drought resistant crops, adapted local breeds of livestock) to beneficiaries and extension service staff, as well as by providing matching grants and helping producers to adopt resilient agricultural practices and improve food quality and safety, thus contributing to sustainable and healthy food systems.

9. Through the development of adaptation plans at landscape level, the programme will support the widespread adoption of environmentally sustainable and climate- resilient technologies and practices, the enhancement of physical assets and infrastructure (including roads and water systems), and sustainable forest management and forest fire prevention.

10. The creation of MSPs will facilitate the processing and marketing of local products that are at the core of mountainous farming systems (dairy, meat, berries, honey, NTFP, aromatic and medicinal plants...), as well as the provision of financial support to rural smallholders for adaptive activities, and the facilitation of their involvement in inclusive small and medium enterprises (SMEs). Better market linkages that improve income opportunities for smallholders and rural entrepreneurs will be established by fostering collaboration with the private sector through local SMEs that are involved in MSPs.

11. Through the provision of matching grants to women and youth as well as training on income generating activities and leadership skills, and the promotion of their participation in MSPs, new employment opportunities increasing their economic involvement in sectors such as agrotourism, livestock and dairy value chains, transformation and processing will be generated. Women's workload will also be reduced and improved decision making will be fostered.

12. In terms of policy development and institutional support, the country program will introduce new policies for managing climate risk at national level, and aid the development of gender and youth action plans at municipal level, which will lead to

strengthened national and municipal governance. Enhanced governance mechanisms that support effective climate adaptation and sustainable development strategies will be encouraged.

13. The Country strategy will have four main causal pathways which will jointly lead to the overall impact goal of reducing poverty and enhancing resilience:

- (i) Promoting the adoption of sustainable livestock and agricultural techniques and practices for increased production and productivity, which can ultimately enhance resilience of households and ecosystems.
- (ii) Building adaptive capacity to climate change at landscape level through territorial development which can ultimately enhance farmers and ecosystems resilience.
- (iii) Facilitation of Multi Stakeholder Platforms as effective mechanisms to promote local products processing and marketing as well as economic inclusion of rural smallholders, leading to improved access to markets, increased income, and reduced poverty of the target group.
- (iv) Empowering women and youth through matching grants and ad-hoc capacity building efforts can lead to income diversification and better job opportunities in the rural areas.

14. The 4 pathways will interact in a synergistic manner primarily through the "adoption outcome" (of the various COSOP activities/components - which are distinct but complementary), which will lead to better job prospects and increased income for women and youth, increased productivity and access to markets for rural smallholders as a whole, thus ultimately contributing to the shared impacts of enhanced resilience to shocks and reduced poverty.

15. The following underlying assumptions underpin the success of this theory of change. Government commitment to developing mountainous areas and preserving natural resources is essential to the implementation of effective and timely interventions, as well as a stable policy environment supportive of natural resource protection priorities. Adequate availability of resources to implement the programme effectively will have to be sought and deployed in a timely manner to ensure overall effectiveness. The development package (for instance trainings curricula are pertinent), e.g. the lending and non-lending activities identified by the country program strategy are relevant and most appropriate for rural smallholders and have a pro-poor angle. Last, territorial approaches are an effective methodology to catalyse local-level interventions and bring about rural transformation in the Montenegrin mountainous context.