

EXECUTIVE SUMMARY

Public investment is expected to play a significant role in the post-pandemic economic recovery in Montenegro. Due to the importance of the tourism sector, the pandemic has had a deep economic impact. In addition, as government debt already exceeds one hundred percent of GDP, fiscal space to increase public investment is limited. Nevertheless, the completion of the first phase of the Bar-Boljare Highway (BBH), by the end of 2021, should free up public resources within the budget constraint, that could be used for public investments. In this context, a strengthened public investment management (PIM) framework would contribute to maximize its impact on economic growth.

Recent trends in capital expenditures and capital stock signal that there is room for improving the efficiency of public investments in Montenegro. Despite the relatively high average annual public investment rate of 6.8 percent of GDP between 2012 and 2019, public capital stock only increased 4.4 percent of GDP in that same period.¹ A significant portion of this investment was allocated to the Bar-Boljare Highway, which, although important, does not appear to have a major impact on the country's capital stock.

The Bar-Boljare Highway is considered the most complex project in Montenegro's history. It will connect the coastal region of Montenegro with the Serbian road network, cutting across one of the least developed regions in the country and through challenging terrain. Its initial cost of almost 20 percent of GDP has had a substantial impact on the country's public finances, adding pressure on debt growth and crowding-out investments in other key areas of the economy. This project has raised concerns about the ability of the country's PIM framework to ensure that capital investment resources are allocated efficiently across projects.

The authorities have introduced several reforms in recent years to strengthen the PIM framework. New laws on budget and fiscal responsibility—and subsequent amendments, public procurement, and public-private partnerships (PPP) have been introduced to support competition, transparency, and sustainability of public finances. Guidelines and bylaws, such as the Decision on Capital Budget Preparation, have also been adopted to ensure a better preparation of public investment projects and that project funding requests follow standardized templates to make them comparable across sectors. There have also been efforts to create a single project pipeline of appraised projects from which investment projects should be chosen, but now this is limited to a list of priority projects.

Through these reform efforts, Montenegro has developed a stronger PIM framework but there is still room for improvement.² The framework incorporates good practices across

¹ IMF estimates based on country data.

² The countries used as comparators for this exercise were: Albania, Bosnia and Herzegovina, Bulgaria, Estonia, Lithuania, Moldova, North Macedonia, Romania, and Serbia.

project planning, allocation, and implementation. Montenegro outperforms its comparators, particularly in (i) the allocation of public investments in multi-year budgeting; and (ii) implementation of projects with strong cash management and implementation management practices. The framework guiding project appraisal and budgeting for maintenance should be strengthened to better capture risks and future costs from operating the assets to be built.

Notwithstanding these efforts, there is significant room to strengthen public investment management in Montenegro. IMF estimates indicate that there is an efficiency gap of 35 percent (see Chapter II). This gap is slightly larger than for peer countries and lower than the average for emerging market economies (EMEs). Although the multiple reforms undertaken have strengthened the institutional design of the PIM framework, leading to assessment scores similar to those of emerging markets and developing countries, the effectiveness of the overall PIM framework is limited, with scores similar to those of low-income countries. This implies that good practices included in the framework are not being fully adhered to, undermining the impact of public investments. An example of this is the repeated breaching of fiscal targets and rules, which suggests these are not providing guidance to ensure that major investment projects are consistent with fiscal sustainability.

Public investment could better support the economic recovery if specific actions are taken to improve the PIM framework.

- *Planning:* Better coordination within strategic planning documents, improved project appraisal and more detailed review processes should ensure that public investments do not increase fiscal risks or undermine fiscal sustainability. For example, key projects should be identified early in the country's multiple planning documents, and procedures and templates designed to guide project preparation should be adjusted to properly address key issues such as project-related risks.
- *Allocation:* Improving project selection, coupled with improved budgeting practices, should lead to increased transparency, better coverage of the budget and more credible medium-term plans. Efforts to further developing the single project pipeline should be a priority.
- *Implementation:* Project and portfolio management should be strengthened to ensure that timely corrective actions are taken by implementing and policy making entities to keep project execution aligned with plans, minimizing cost overruns and delays.

Table 1.1 presents a summary of the overall PIM assessment.

Table 1.1. Montenegro: Summary Assessment

Phase/Institution		Strength	Effectiveness	Rec. #	Reform Priority	
A. Planning	1	Fiscal principles or rules	High: Multiple fiscal rules adopted in 2014. Current and capital spending presented in MTFE.	Low: Debt rule not met since 2015 and budget process does not closely follow the framework established by the MTFE.		Medium
	2	National and sectoral plans	Medium: Strategic framework structure follows a logical hierarchy but does not include investment-specific information or reliable costs.	Low: Limited guidance of investment priorities due to fragmented strategic planning and 89 sectoral strategies and limited link to budget envelope.	1	High
	3	Coordination between entities	Medium: Formal institutional mechanisms support coordination. Limited reporting of contingent liabilities to central government.	Medium: Major SNGs projects funded from the state budget. Government guarantees to major investment projects reported quarterly.	2, 6	Medium
	4	Project appraisal	Low: There is no methodology or central support guiding project appraisal.	Low: Few feasibility studies, most completed by lenders' request.	3, 4, 5	High
	5	Alternative infrastructure financing	Low: PPP Law adopted but policy and methodology not in place. Some market competition and consolidated PC reports not published.	Medium: Limited competition in markets for infrastructure provision. Some economic regulators were established. PPPs not fully integrated in the PIM process.	6	Medium
B. Allocation	6	Multi-year budgeting	Medium: Formal multi-year capital budget process in place (three-year ceilings), but only the first binding. Multi-year projections by programs, sub-programs, and projects.	Low: Fragmented strategic budgeting as multi-year ceilings and annual capital budget appropriations are for implementing administrations, not for policy ministries.	7	Medium
	7	Budget comprehensiveness and unity	High: No capital projects financed by extra-budgetary units. MoF prepares current and capital budgets in one document, including all central government projects.	Medium: Convolution presentation of spending ministries' investment plans and overall capital expenditures. Capital projects undertaken by SOEs are not shown.	8, 9	Medium
	8	Budgeting for investment	Medium: Budgeting process for multi-year commitments not in place. Legislation prohibits virements from capital to current budgets.	Medium: Reasonable protection for on-going projects, and high compliance of virement prohibition. Total costs for projects have been included in the 2021 budget.		
	9	Maintenance funding	Low: Some methodologies exist for estimating maintenance needs, but not used for current and capital maintenance budgets.	Medium: Budget outturns have been stable over last four years, exceeding budget allocations.	10	High
	10	Project selection	Medium: No input from an independent expert. Published selection criteria but key parameters missing. Two project pipelines, one for IPAC and one for the Capital Budget.	Medium: Project reviews done with weak information hinders the selection process. Some projects have been selected without following the criteria.	11, 12	High
C. Implementation	11	Procurement	High: Transparent and competitive procurement framework is aligned with the EU acquis. E-procurement system in place.	Medium: The e-procurement system is in early stage of implementation and no major capital project tendered electronically.		
	12	Availability of funding	High: Monthly cash planning and timely cash release. Ceilings set for fiscal year, and donor accounts integrated in the TSA.	High: Timely cash releases have avoided project disruptions. Cash forecasts are done on monthly basis.		
	13	Portfolio management and oversight	Medium: Progress and cost monitoring of major projects done, but no central oversight or ex-post project reviews conducted. Fund re-allocation allowed and well-managed.	Low: Fragmented monitoring, with limited portfolio perspective or risk coverage. Weak reporting undermines decision-making. Policies not adjusted from lesson learned.	13, 14, 15	High
	14	Project implementation	Medium: Project are monitored, but reporting is inadequate. Cost adjustments allowed by law. Ex-post auditing of projects done, reported to Parliament, and published.	Medium: Lack of detailed progress reports. Project cost adjustment done according to law, but exceptions exist. No comprehensive implementation plans.	14, 15	Medium
	15	Management of public assets	Medium: Legal requirements to survey and report assets but not to provide information on assets in government accounts.	Low: The centralized register does not exist; value of the fixed assets is not set, and depreciation is not estimated.		

To address these weaknesses, the recommendations in this report prioritize 16 recommendations at the key stages of the project cycle. A summary of the recommendations is provided in Table 1.2 and a proposed action plan is provided in Appendix 1.

Table 1.2. Montenegro: Summary of Recommendations

Recommendation	Inst
A. Planning Sustainable Levels of Investment	
1. Streamline the strategic framework to ensure coordination and alignment between documents for these to guide the allocation of capital investment resources.	2
2. Improve management of contingent liabilities from capital projects (i) sponsored by subnational governments and state-owned enterprises and (ii) procured through public-private partnerships.	3
3. Develop appraisal methodologies for project preparation and provide centralized guidance on their implementation to increase quality of project proposals.	4
4. Strengthen central support provided to implementing ministries and agencies by creating a central team of professionals focused on project appraisal and review.	4
5. Adjust regulation to require that projects meeting certain criteria be subject to an independent review by external experts.	4
6. Develop guidelines and gateway procedures for the central review and assessment of PPP projects and capital investment plans of SOEs.	3, 5
B. Allocating Investments	
7. Improve the credibility of medium-term capital budget ceilings and forward projections and incorporate the calculation of life-cycle costs in medium-term budget plans.	6
8. Improve the transparency of total public investment by including information on all sources of financing for public sector investments in the budget documents.	7
9. Ensure responsibility for setting capital budget ceilings and determining budget appropriations, and thereby accountability to Parliament for these resources, is provided to the relevant sector ministries, instead of to the implementing Administrations, as currently.	7
10. Introduce a more systematized approach to maintenance planning for both the capital and current budgets.	9
11. Develop a single project pipeline independent of funding sources, which should incorporate additional criteria to inform project selection.	10
12. Improve existing criteria for project selection incorporating those aspect that are not been considered but are of key importance, including at least economic indicators, risk assessment and project maturity.	10
C. Implementing Investments	
13. Consolidate and review the portfolio of major projects to enable government to have an overview on the performance of all major projects.	13
14. Develop procedures for ensuring ex-post evaluations and auditing of major capital projects that is completed and results shared with relevant stakeholders.	13, 14
15. Develop a framework for reporting on major capital projects to ensure appropriate monitoring by implementing Agencies, MoF, and Line Ministries.	13, 14
D. Cross-Cutting Issues	
16. Increase capacity by optimizing use of current staff and providing training. Improve IT support by greater interoperability and development of new systems.	

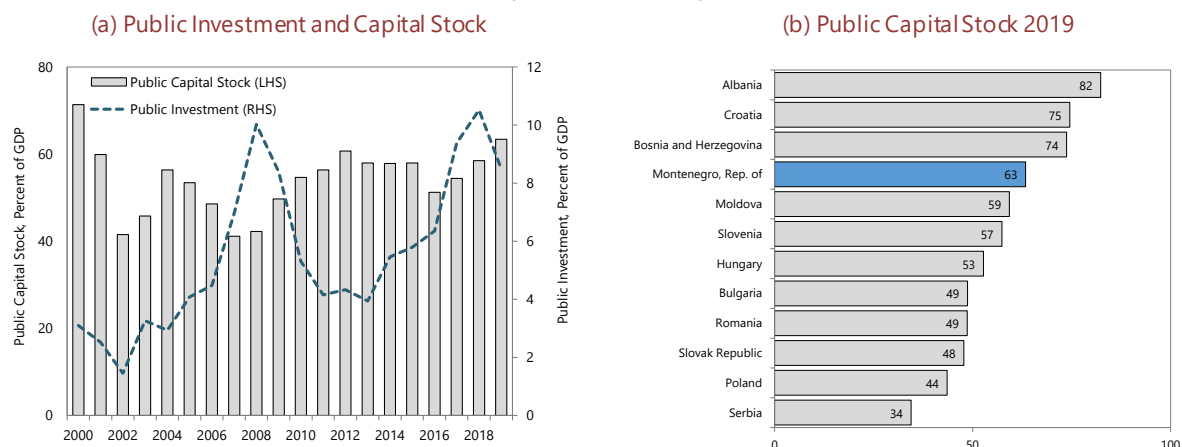
I. PUBLIC INVESTMENT IN MONTENEGRO

A. Public Investment and Stock of Capital

1. Public capital stock in Montenegro has increased in recent years and has reached its highest level in over a decade. The capital stock in the early 2000's was driven particularly by road infrastructure projects. As in other countries in the region, the 2007 Global Financial Crisis (GFC) had impacts in 2009 that led to a sharp decline in public investment and a decline in the stock of capital. Since 2015, Montenegro's public investment has returned to the pre-crisis levels, at about 7 percent of GDP per year, driven in great measure by the first phase of the BBH-project, estimated to cost close to 20 percent of GDP and should improve connection between Montenegro's Adriatic coast and Serbia. The increase in public investment has allowed for the country's capital stock to remain one of the highest among comparator countries (Figure 1.1).

2. The impact of increased public investment on capital stock appears to be lower than in the past. Between 2007 and 2011, annual public investment averaged 7 percent of GDP, driving capital stock to a peak of 56 percent of GDP, up by 37 percent from the 2007 level. However, between 2012 and 2019, while annual public investment averaged 6.8 percent of GDP, public capital stock has only increased by 4.4 percent. The slower increase in capital stock could be explained by the concentration of investment in one sector and one project that is yet to be completed, which is likely to have crowded out other investments.

Figure 1.1. Capital Stock in Montenegro
(Percent of GDP)



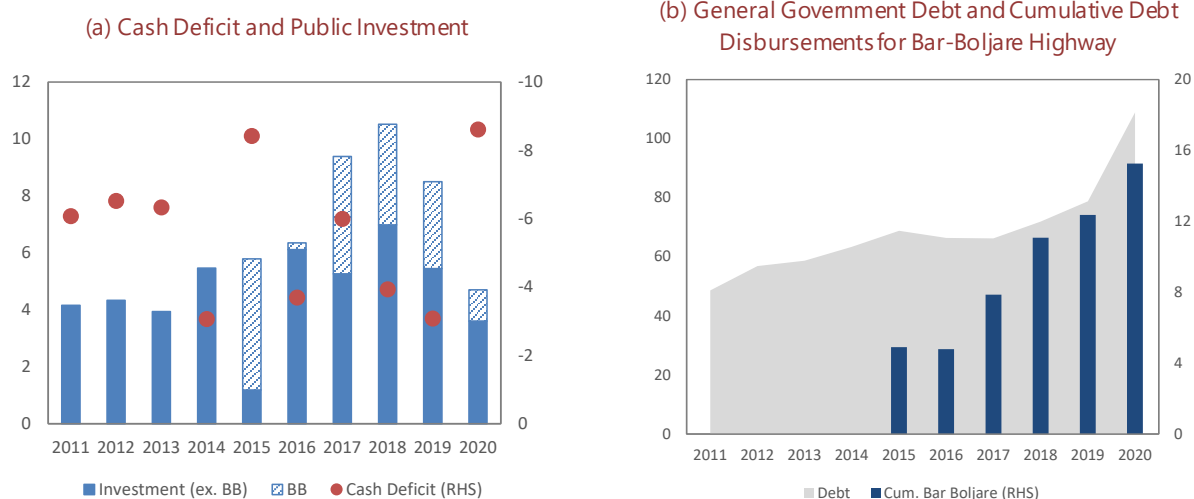
Source: IMF estimate based on official data

3. The high levels of public investment have taken a toll on Montenegro's fiscal sustainability. The central government's cash deficit has remained above the 3 percent target defined in the Law on Budget and Fiscal Responsibility (LBFR) since its adoption in 2014. High public investment played a key role in pushing the deficit beyond the target in most years

between 2011 and 2019. A key driver of this trend has been the BBH project. Without this investment, the cash deficit would have been closer to the target, assuming some but not all of the resources would have been used to fund other initiatives (Figure 1.2.a). Moreover, the weak fiscal scenario was put under stress in 2020 by the COVID-19 pandemic, which had an important impact on Montenegro’s economy due to the importance of tourism for the economy.

4. Public investment has been an important contributing factor to the evolution of General Government debt over the last half decade. As with other EMEs, Montenegro relies on external funding to finance public investments. The 2019 General Government Debt report shows EUR 186 million were disbursed exclusively for the implementation of projects; of these EUR 143 million were directed to BBH, behavior also seen in previous years. 2020 represented a break from this trend as the government reached out to lenders for resources to counter the impact of the pandemic. However, project-related disbursements represented almost 2 percent of GDP, those of BBH being the highest - approximately 0.5 percent of GDP (Figure 1.2.b).

Figure 1.2. Deficit, Debt and Public Investment
(Percent of GDP)



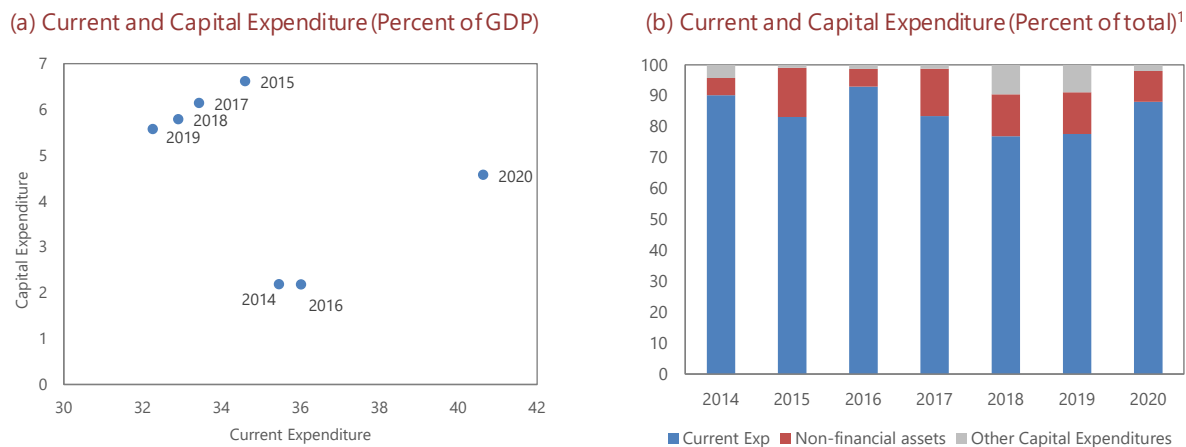
Source: WEO, Government Final Accounts and staff Estimates

5. Until the start of the pandemic, the increase in capital expenditures had been partially offset through lower current expenditures. The Government achieved savings in current expenditures, though not enough to cover the increased investment; capital expenditures increased 4 percent of GDP between 2014 and 2019, but current expenditures only fell by 3.2 percent of GDP in 2019, when they reached the lowest level.³ This effort was upended—hopefully temporarily—by the impact of the pandemic, which led the authorities to increase current expenditures to address the health crisis and provide economic support to sectors most

³ Numbers are compared through 2019, because in 2020, current expenditures increased to 40.6 percent of GDP due to the impact of the COVID-19 pandemic.

impacted by the pandemic. The share of capital expenditures in the overall budget has also increased in recent years, as mentioned before, driven by the BBH project (Figure 1.3).

Figure 1.3. Current and Capital Expenditures



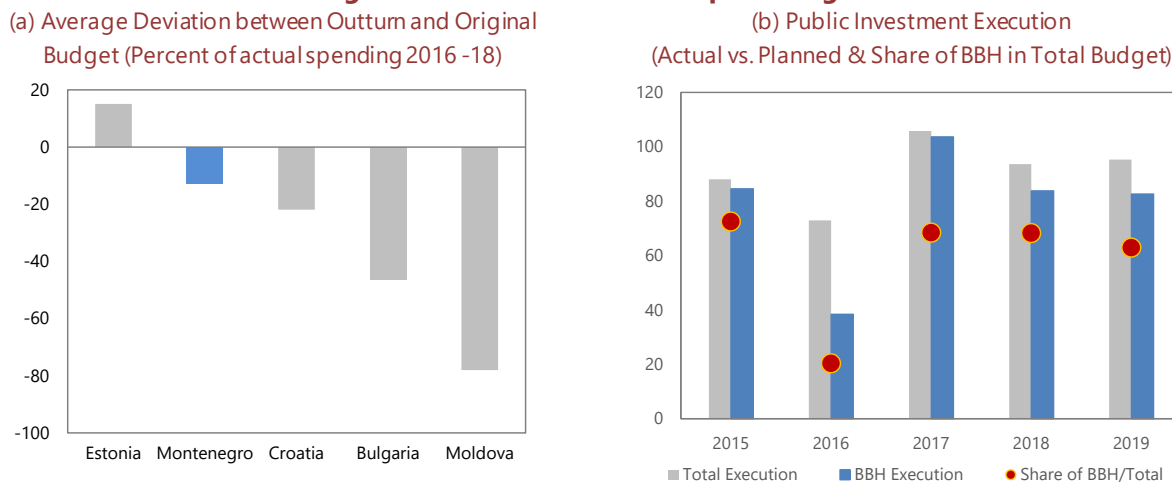
Source: government final accounts

1/ Economic classification codes 4411, 4412, 4413, 4414, 4416 were used for estimating the value of non-financial assets. Codes 4415, 4417, 4118 and 4419 are within "Other capital expenditures".

6. The execution rate of the capital budget in Montenegro seems better than in neighboring countries, but it is greatly influenced by the performance of the BBH project.

It is common for countries to face challenges in the implementation of capital projects that can lead to substantial swings in the execution of their budgets. In Montenegro, the average deviation between the budget forecast and the final outturn for the years 2016–18 was an under-execution of 13 percent, lower than the average seen in other European countries. The higher execution rate is explained by the large share of BBH in the overall capital budget between 2015 and 2019—close to 70 percent except in 2016 (Figure 1.4).

Figure 1.4. Execution of the Capital Budget



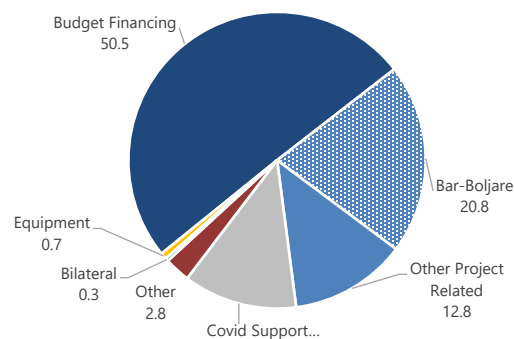
Source: Budget execution reports, staff estimates

Source: Final accounts, staff estimates

B. Composition and Financing of Public Investments

7. External financing is an important source of funds for public investment in Montenegro and shapes its public investment management. Based on the General Government debt reports, the mission concluded that approximately 35 percent of outstanding debt is related to implementation of public investments.⁴ Approximately a third (62 percent) of this amount was contracted through bilateral agreements with other governments, particularly for the BBH project, which is financed by the Ex-Im Bank of China. Multiple financial partners also provide resources for project implementation, primarily in the sectors of water, energy, and roads, which benefit from concessional rates.⁵ The absorption of external financing is again driven by the BBH, which was responsible for most of the project-related disbursements between 2015 and 2020. The relevance of external financing is evidenced by the existence of a project pipeline to identify, early on, projects eligible for IPA, and other available funding, to ensure project preparation met EC requirements (Figure 1.5).

Figure 1.5. Foreign Debt Stock Composition
(Percent of total)¹



Source: General Government Debt Reports 2016 – 2020 and IMF staff estimates

1/ Classification of debt was done as per the information available in the debt reports and lenders online data available. Projects might include loans to finance activities other than the acquisition of non-financial assets but information available did not allow further differentiation.

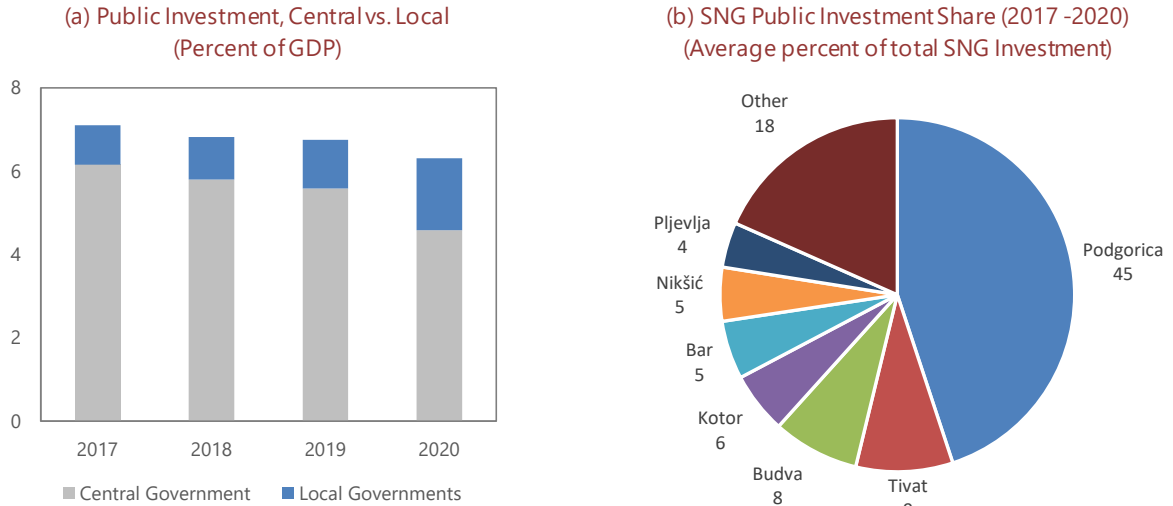
8. Local governments have undertaken a larger share of public investments in recent years, though most of the expenditure continues to be the responsibility of the central government. Public investment in subnational governments (SNG) was on average 1.0 percent of GDP between 2017 and 2019, with an increase in 2020 to 1.7 percent, led by spend in the capital city of Podgorica. Out of 24 SNG, seven are responsible for 80 percent of SNGs' capital

⁴ This estimate is made using information on the stock of foreign debt for the period 2017-2020 presented in the General Government Debt Reports. It excludes the pre-financing transactions used by the government to cover future maturities that increase the stock of debt at the end of each fiscal year but increases the available deposits to cover future payments.

⁵ Information on grants for public investments was not available to the mission. The significance of bilateral financing for investment projects could be lower if this information was available.

investment, led by the capital, which undertakes 44 percent of the SNGs' investment. These seven municipalities also account for 77 percent of the outstanding SNGs' total debt (Figure 1.6).

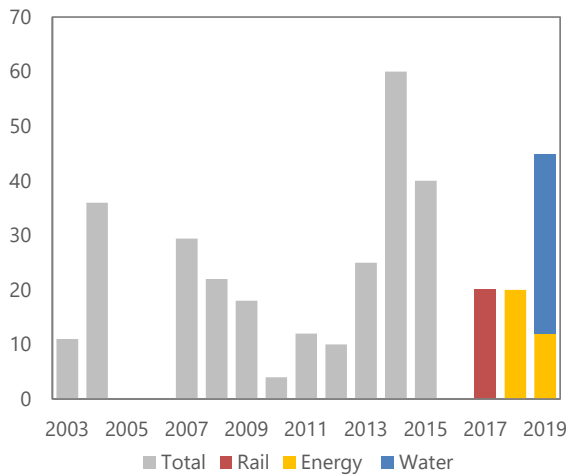
Figure 1.6. Public Investment



Source: Government final accounts and municipalities' execution reports

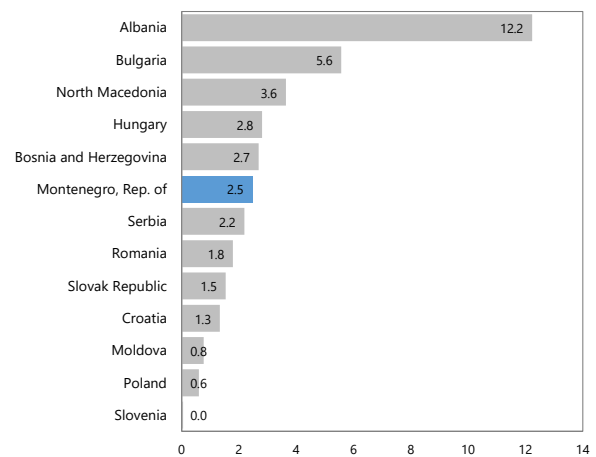
9. The government provides guarantees to State-Owned Enterprises (SOE) to undertake capital investments in some key sectors of the economy. SOE participation in the provision of infrastructure is concentrated in energy, water, and transportation. As of 2020, the loan guarantees to SOEs for a contracted amount of EUR 307 million to support financing of investment projects had been extended, with about a third of that still outstanding (Figure 1.7).

Figure 1.7. Guarantees Extended to SOEs for Investment Projects (EUR million)



Source: Government Annual Debt Reports and IMF staff estimates

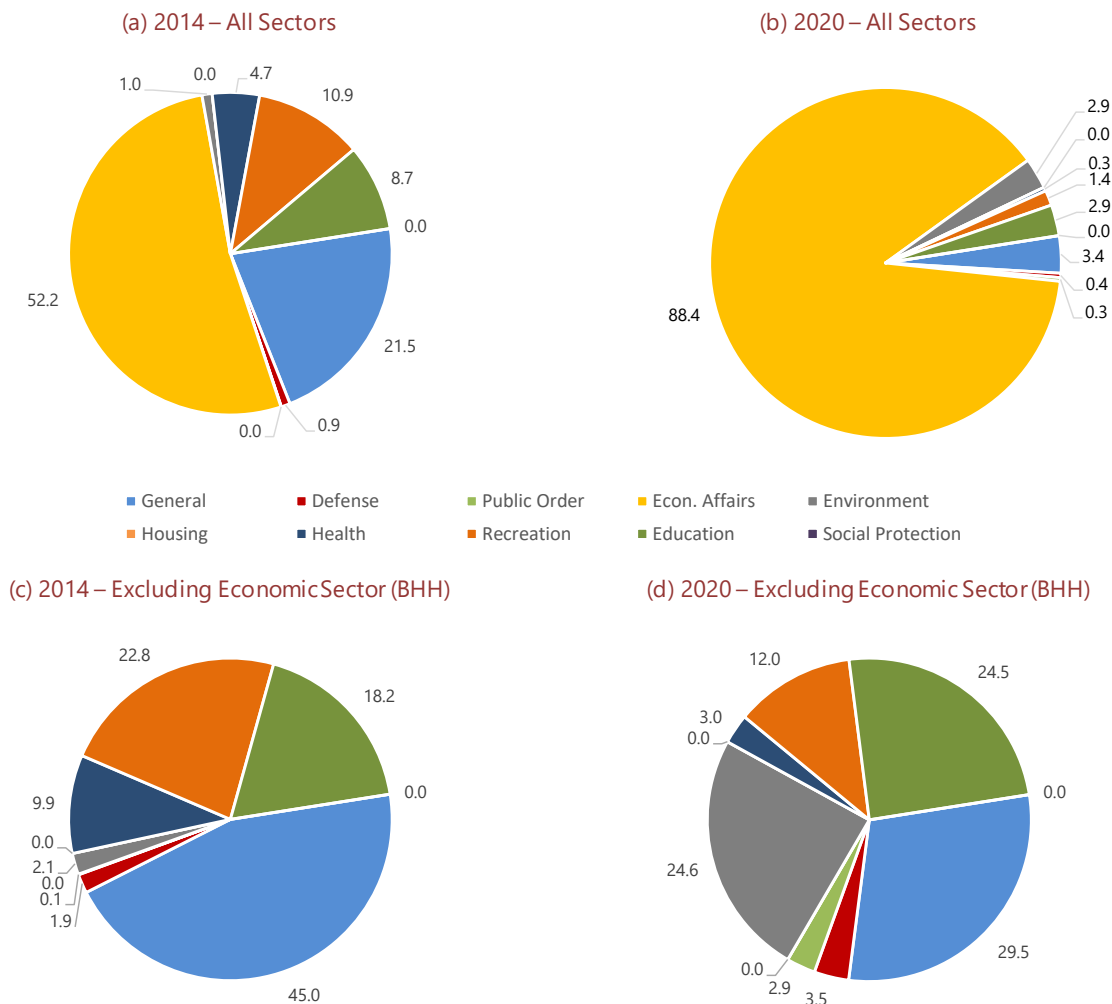
Figure 1.8. PPP Capital Stock (2019) (Percent of GDP)



Source: IMF and World Bank estimates

10. PPPs are yet to play a significant role in the provision of public infrastructure in Montenegro. At 2.5 percent of GDP the capital stock is similar to those of neighboring countries but below the average for emerging economies of 5.4 percent of GDP.⁶ The experience with PPPs has been limited given the small size of the domestic market and an inadequate framework that was recently revised. With the approval of a new PPP law, the authorities expect to be able to procure more public investment projects through this mechanism (Figure 1.8).

Figure 1.9. Public Investment by Function
(Percent of total)



Source: Government Final Accounts

11. The implementation of major infrastructure projects in Montenegro has skewed the functional allocation of resources towards the economic sector. The construction of the BBH project is registered within this sector and helps explain much of this trend. On average, this project has absorbed more than half of the annual investment budget since 2015. Because the second largest program during this period is also within the economic sector, and in roads, the

⁶ Data based on IMF estimations as detailed information on PPPs was not available to the mission.

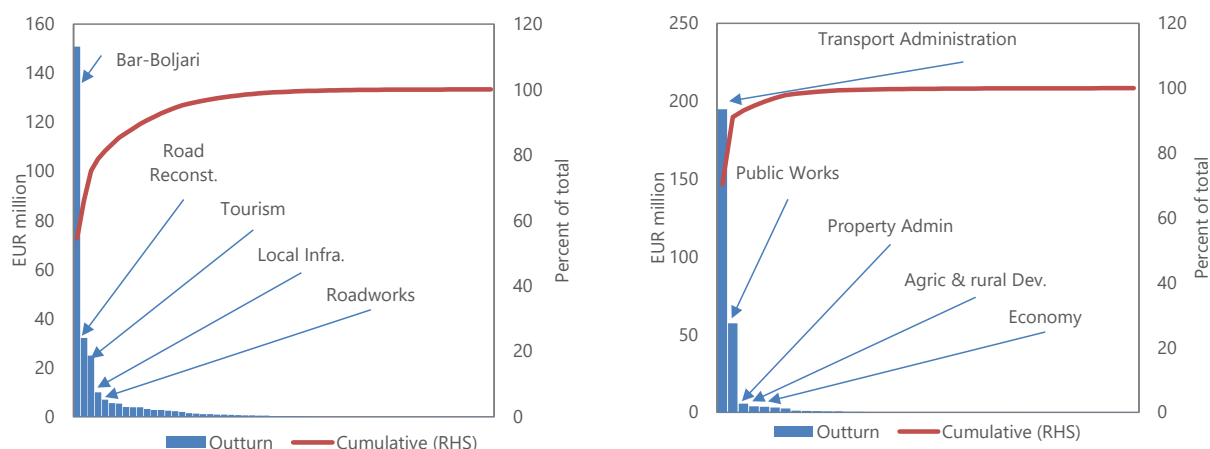
allocation of resources towards this sector has been, on average, more than 20 times the amount allocated to the second largest sector. Sectors other than economic affairs have maintained their relative shares within the investment budget, with the biggest gains between 2014 and 2020 being in environment and education (Figure 1.9).

12. Investment projects are concentrated in a few programs which are mostly implemented by two administrations. The Directorate for Transport (DT) and Public Works Administration (PWA) are responsible for implementing capital projects in Montenegro; the former covers transportation projects while the latter covers all other capital-related projects. These two administrations were responsible for 91 percent of capital investments in 2019. The program for the construction of BHH was the responsibility of the DT and absorbed most of the investment resources in 2019, 55 percent, and was 4.6 times larger than the second-largest project, which was also in the road sector (Figure 1.10).

Figure 1.10. Public Investment per Program and Implementing Entity

(a) Per Investment Program

(b) Per Implementing Entity



Source: Government Final Accounts

C. Bar-Boljare Highway

13. The Bar-Boljare Highway is an extremely complex project in many ways. It is designed through approximately 170 km of complex terrain, requiring advanced engineering capacities not available in Montenegro, and it had to be split into five sections that are planned to be completed in four phases⁷. The completion of the highway is expected to have a significant impact on the country's economy: it will connect the port of Bar to the Serbian network, improve

⁷ The Detailed Spatial Plan for the Bar-Boljare highway (2008) identified the following phases for the construction of the highway: Phase I: Smokovac-Mateševo; Phase II: Mateševo-Andrijevica and Smokovac-Farmac; Phase III: Andrijevica-Boljare and Phase IV: Podgorica-Đurmani.

connectivity of the country's underdeveloped northern region and provide a link to the Trans-European Transport Network.

14. The cost to build the BBH has raised concerns from the start. The first phase of the highway was estimated to cost 23 percent of the country's GDP at the time of contract signing, which led to an average cost per kilometer of EUR 19.7 million; the road would be one of the most expensive in the world. It is being financed through a loan that was equivalent to 20 percent of the country's GDP in 2014, when debt stood at 63 percent of GDP, already above the 60 percent limit approved in the LBFR that year.

15. In addition to high costs, BBH also posed other significant challenges to the government related to fiscal risks, tax revenues, and project delays. A Law on the Highway Bar–Boljare was enacted in 2014 providing important benefits to the project, such as tax exemption for civil works, labor, and highway-related imports for construction costs. Additional works were approved early in the contract's execution for activities that would be expected to be included in the original design, such as electricity supply; these were done within the contract's guidelines, which allowed for up to 10 percent increase in the cost due to additional works. The country also assumed a substantial exchange rate risk by agreeing to secure financing for the project in US dollars, a risk that materialized. The highway is also said to have a major environmental impact in an area that is protected by UNESCO. Finally, the completion of the highway was delayed from 2019 to 2021, which is about 40 percent more time than planned.

16. The BBH project is a good example to illustrate how the existing PIM framework should be used to manage a major project. The current PIM framework was not in place when BBH was planned and selected for implementation. The following comments are some issues that could have been identified when approving this project had the existing framework been in place in 2014 and some learnings from the project's implementation:

- **Fiscal rules or principles:** with debt above 60 percent of GDP and an average primary deficit of 3.8 percent of GDP between 2011 and 2014, fiscal space was limited to undertake a major project generating substantial fiscal risks. A similar project today should only be approved if convergence towards the limits in the rules is feasible.
- **National and sector plans:** although the project had been in the country's plans for several decades, strategic plans did not include a cost estimate, even though these existed. Regular update of plans should identify major initiatives and provide a high-level cost estimate.
- **Project appraisal:** Two appraisal exercises completed in 2009 and 2012 concluded the project was not viable. The third feasibility study, supporting the project, was prepared by the implementing company, and was not published. Mitigation measures for the exchange rate risk arising from the loan being in US dollars were not adopted. Major projects should have full feasibility studies completed and ideally published before being selected.

- **Multi-year budgeting:** information on multi-year budget commitments as a result of the contract has not been published along budget documents to better estimate the available fiscal space for new public investment and to inform society on the project's commitments.
- **Maintenance funding:** the maintenance costs of this highway have not yet been estimated or incorporated into the medium-term fiscal outlook, though expected to be substantial given the number of bridges and tunnels.
- **Project selection:** the existing criteria for project selection were not followed—a positive project appraisal—or an independent review of the project.
- **Procurement:** Law on Public Procurement allowed the project to follow an alternate process.
- **Portfolio management and project implementation:** close monitoring of the project is done primarily by the Ministry of Capital Investments, though information is rarely published.

17. The completion of the BBH by the end of 2021 is an opportunity for Montenegro because it should free resources in the capital investment budget. Pressure on debt should abate, as 93 percent of the loan had been disbursed as of end 2020. The project's completion should reduce capital and current expenditures by approximately 2.8 and 0.2 percent of GDP, respectively, which could support investments in other sectors or saved to improve the country's fiscal position. A strong PIM framework in Montenegro is of key importance to ensure capital investments provide the highest return to the country. The following sections of this report provide an overview of the strengths, weaknesses, and opportunities for PIM in Montenegro.

II. EFFICIENCY OF PUBLIC INVESTMENT IN MONTENEGRO

18. The quantity of services generated by Montenegro's infrastructure appears to have fallen behind that of peer countries in recent years. Based on an IMF methodology, the physical output of infrastructure is measured by four indicators in the education, energy, health, and water sectors.⁸ The output of Montenegro's infrastructure is lower than peer European countries for two of the four indicators, education, and health, though it is at least the same as the average of emerging economies (Figure 2.1). However, the indicators for electricity and health have deteriorated slightly over the last few years, which suggests that investments in these sectors are being crowded out by the Bar-Boljare project.

19. The quality of Montenegro's infrastructure has also deteriorated between 2012 and 2017.⁹ The quality of infrastructure, as measured by the survey of infrastructure quality

⁸ "Making Public Investment More Efficient", June 2015, IMF.

⁹ 2017 was the latest information available to the mission.

undertaken by the World Economic Forum (2nd Pillar of Global Competitiveness Reports), is perceived lower in Montenegro’s infrastructure than in peer countries (Figure 2.2).

Figure 2.1. Measures of Infrastructure Access¹
(Most recent year)

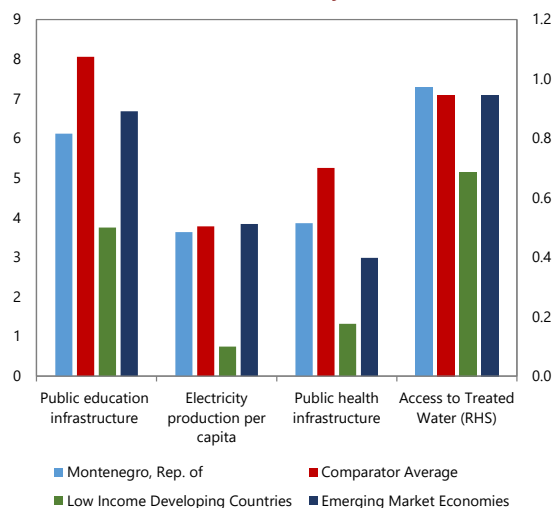
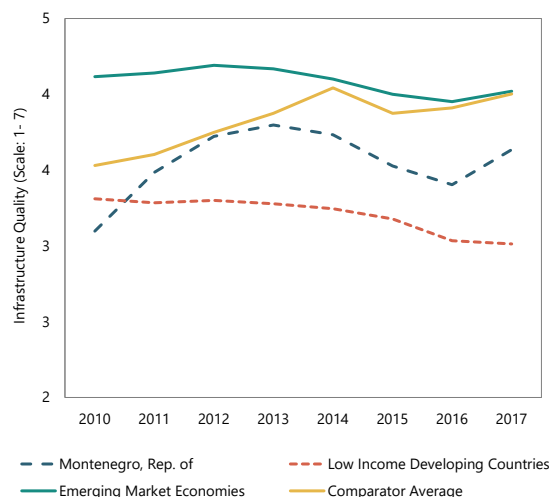


Figure 2.2. Perception of Infrastructure Quality



Source: World Bank development indicators database.

1/ Public education infrastructure” shows number of secondary school teachers per 1,000 persons; “electricity production per capita” is as hundreds of kWh per person; “public health infrastructure” shows number of hospital beds per 1000 persons; and “access to treated water” is measured by percentage of dwellings equipped with water pipes. Country data are derived from the World Bank development indicators database.

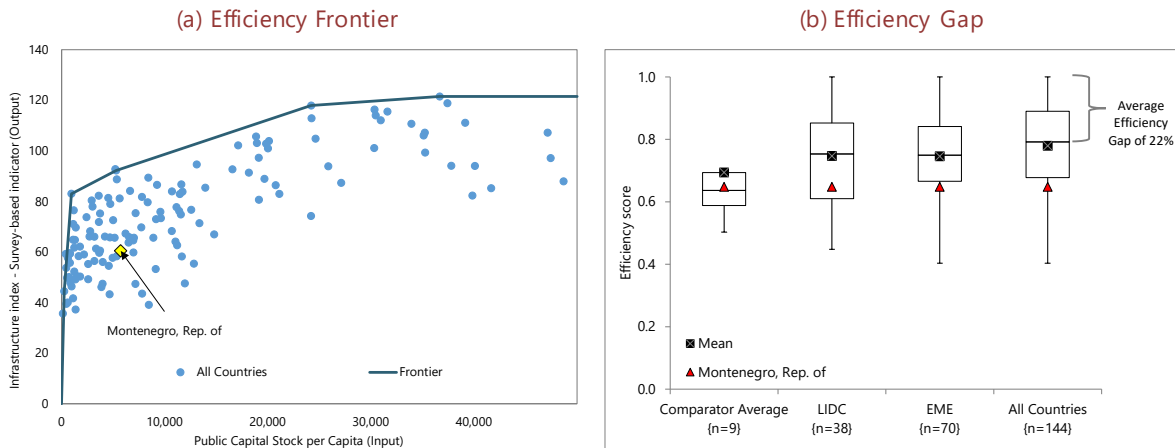
20. The BBH project is likely to be having a negative impact on the public investment efficiency estimate for Montenegro, though it might provide other benefits in other sectors in the long-term. The substantial number of resources invested in this project—3 percent of GDP per year, on average—are directed to a single sector of the economy and in a specific region of the country, limiting its impact on the overall perception of the quality of infrastructure. The “crowding out” effect that this investment is likely to have on initiatives in other sectors would be expected to result in limiting better service delivery in those areas. Furthermore, the delays in its completion also affect the opportunity for users to benefit from this investment.

Box 2.1. Definition of Public Investment Efficiency Frontier and Gap

The public investment efficiency frontier follows the path of the countries that deliver the highest level of infrastructure outputs for the lowest amount of infrastructure investment over time; calculated by using the public capital stock per capita and the quality and quantity (e.g., physical output) indicators. Where a country sits relative to that frontier provides a measure of its efficiency in converting infrastructure spending into infrastructure outcomes. The vertical distance below the frontier represents the efficiency gap.

Source: IMF staff

Figure 2.3. Efficiency Frontier and Gap – Quality Output Indicators



Source: IMF Staff estimates

Source: IMF Staff estimates

III. PUBLIC INVESTMENT MANAGEMENT INSTITUTIONS

A. The PIMA Framework

21. The IMF has developed the Public Investment Management Assessment (PIMA) framework to assess the quality of the public investment management of a country. It identifies the strengths and weaknesses of institutions and is accompanied by practical recommendations to strengthen them and increase the efficiency of public investment.

22. The tool evaluates 15 "institutions" involved in the three major stages of the public investment cycle (Figure 3.1). These are: (i) planning of investment levels for all public-sector entities to ensure sustainable levels of public investment; (ii) allocation of investments to appropriate sectors and projects, and (iii) delivering productive and durable public assets.

23. For these 15 institutions, three indicators are analyzed and scored, according to a scale that determines whether the criterion is met in full, in part, or not met (Appendix 2). Each dimension is scored on three aspects: institutional design, effectiveness, and reform priority:

- Institutional design refers to the objective facts indicating that appropriate organizations, policies, rules, and procedures are in place. The average score of the institutional design of three dimensions provides the score for the institution, which may be high, medium, or low.
- Effectiveness refers to the degree to which the intended purpose is being achieved or there is a clear useful impact. The average score of the effectiveness of the three dimensions provides the effectiveness score for the institution, which may be high, medium, or low.

- Reform priority refers to whether the issues contained within the institution are important to be improved in the specific conditions faced by Montenegro.

Figure 3.1. PIMA Framework Diagram¹



Sources: Public Investment Management Assessment: Review and Update, April 2018, IMF.

1/<http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/05/10/pp042518public-investment-management-assessment-review-and-update>

B. Overall Assessment

24. The assessment of Montenegro’s infrastructure institutions is stronger for institutional design than for effectiveness. This is common in economies in the early stages of implementing good practices across multiple PFM topics. Recent regulatory changes to improve PIM in Montenegro, could explain the higher scores relative to peers (Box 3.1).

Box 3.1. Regulatory Improvements in PIM

Several laws and regulations to strengthen PIM recently adopted are:

- i. a fiscal responsibility law, which introduced fiscal rules, in 2014.
- ii. regulation on project appraisal and selection that should lead to more mature projects and increased transparency in the selection of initiatives.
- iii. a new PPP law that should help develop a market for private investment in public assets; and
- iv. a new procurement law that ensures transparency and competitiveness in public contracting.

Source: IMF staff

25. The impact of recent regulatory changes is yet to be reflected in the effectiveness of public investment management. Bylaws for the implementation of the PPP law were adopted in 2020, but no project has been contracted since then. A PPP policy document, that will include priority projects that could be implemented through this mechanism is expected to be completed by mid-2022. Project preparation capacity and capability need to be enhanced to ensure that processes and evaluation committees exercise a challenge function and not just collect information. The challenges of implementing new policies and guidelines are combined with weak practices in other areas, such as strategic planning, which is not providing appropriate guidance to public investment, or budget practices that require a high degree of coordination that currently does not exist, reducing the efficiency of project implementation.

26. The following sections provide a detailed assessment of Montenegro’s public investment management institutions. Each institution is given an aggregate score for institutional design and for effectiveness as shown in Figure 3.2 and 3.3. The following three sections of this chapter provide a detailed assessment with supporting evidence for these ratings.

Figure 3.2. Institutional Design of Public Investment Management Institutions

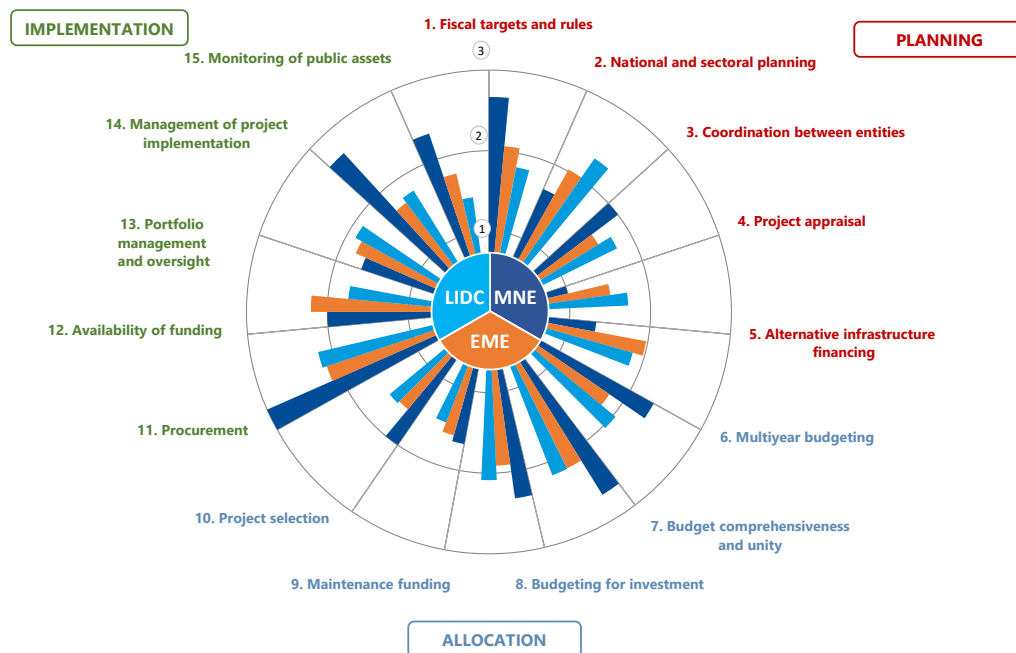
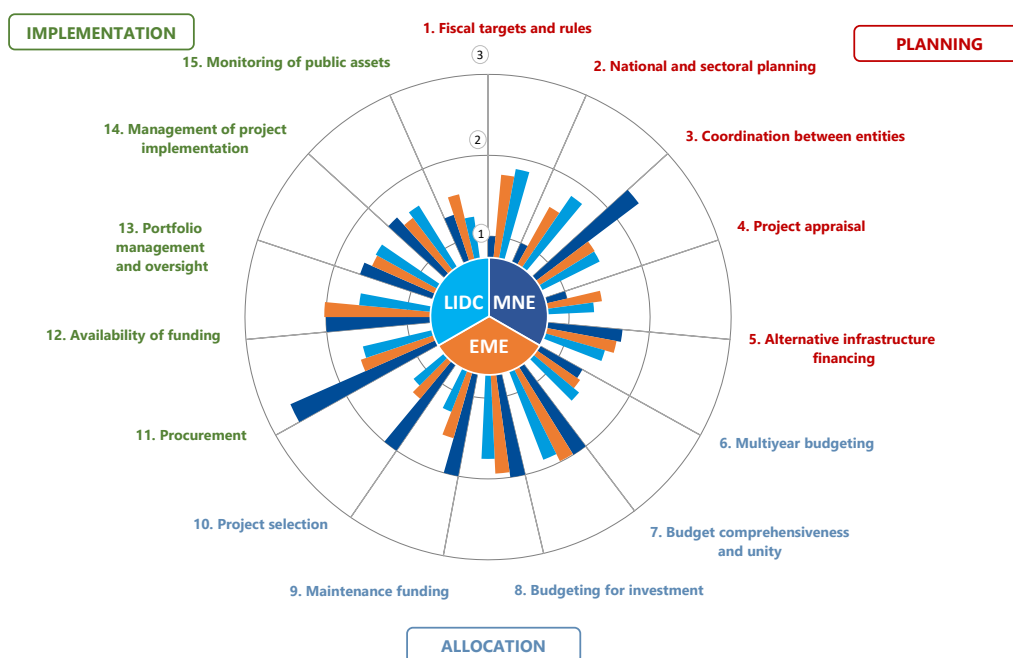


Figure 3.3. Effectiveness of Public Investment Management Institutions



Note: MNE = Montenegro; LIDC = Low Income Developing Countries; EME: Emerging Market Economies

C. Investment Planning

1. Fiscal Principles or Rules (Design— High; Effectiveness—Low)

27. Montenegro has several fiscal rules aimed at providing a firm and stable anchor for the medium-term budgetary framework. These rules were adopted with the approval of the LBFR in 2014. The framework attempts to ensure fiscal sustainability by complementing the constraints for government debt and deficit, with limits on government spending and contingent liabilities. The framework is applicable to the general government, though the limits from the rules are mostly on the central government. The LBFR also includes rules at the general government level. Table 3.1 presents a summary of the rules in the LBFR and the most recent outcome.

28. The Fiscal Policy Guidelines (FPG) is a rolling medium-term fiscal framework that is prepared annually and informs the budget process. The FPG covers the budget year plus two forward years and is adopted each year by the Government by the end of April. The FPG presents the medium-term objectives of economic policy, projections of macroeconomic indicators and fiscal aggregates according to the economic classification. It also distinguishes between current and capital budgets but not between ongoing and new projects. Finally, the FPG shows fiscal aggregates of economic and fiscal policy against the fiscal rules.

Table 3.1. Fiscal Rules in Montenegro

Criteria***	Indicator	Most Recent Outturn*	Article in Law
Primary Fiscal Balance	Positive	-6.65%	Article 19
Current Expenditures and transfers	Lower than revenues and grants	EUR -236.6m	Article 19
Budget deficit	Less than 3% of GDP	-8.9%	Article 20
Public Debt	Less than 60% of GDP	105%	Article 20
Growth rate of current budget ceilings and state funds	Less than real GDP growth forecast	NA ⁺	Article 22
Growth of capital budget and reserve	Less than nominal GDP growth forecast	NA ⁺	Article 22
Total guarantees	Less than 15% of GDP	5.1%**	Article 53
Local government deficit	Less than 10% of local revenues	NA ⁺	Article 27

Source: IMF Staff estimates based on the 2020 Final Accounts

Notes:

*All numbers refer to 2020 final accounts unless stated otherwise.

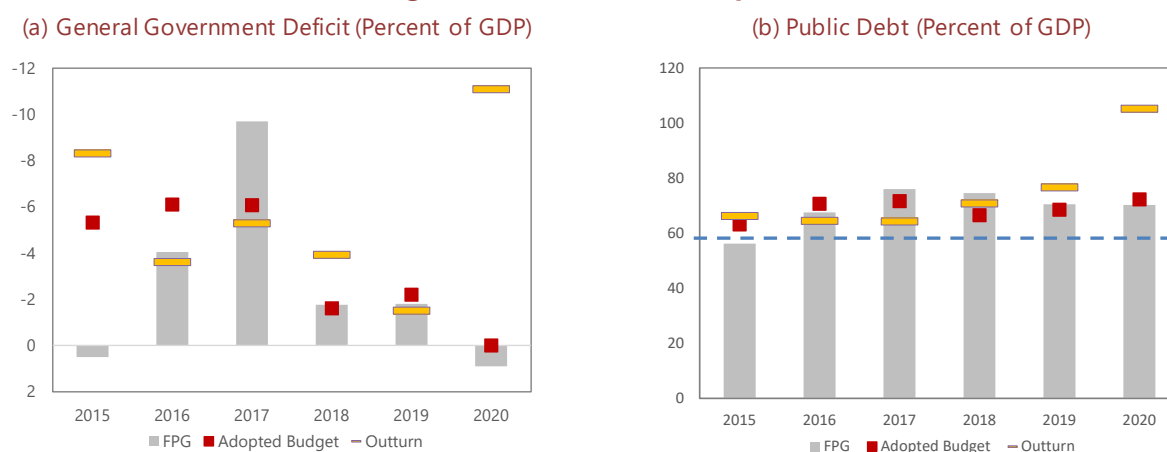
**Outstanding government guarantees issued by the Government of Montenegro on foreign and domestic loans as reported on the General Government Debt for the year 2020.

***All criteria refer to Central Government with the exception of the Local government deficit.

+Information not available to the mission.

29. While the legal framework on fiscal rules exists and the FPG is regularly prepared and adopted, its effectiveness is questionable as compliance seems limited. The debt level has exceeded the target of 60 percent of GDP since the adoption of the fiscal rules in 2014 and maintained an increasing trend for the last three years, from 64 to 105 percent of GDP. The government's plans to adjust the budget towards compliance with the fiscal rules were not successful. Additionally, the LBFR does not have escape clauses that allow the government to breach the rules in case of certain predetermined events. The FPG does not provide information on previous years' compliance of fiscal rules, which are only monitored ex-post by the State Audit Institution (SAI). The average deviation between the FPG and approved budget deficit is about 1.6 percent of GDP, since 2018, while the average budget balance outturn deviates from the fiscal rule (3 percent) by about 1.9 percent of GDP (Figure 3.4).

Figure 3.4. Fiscal Rules Compliance



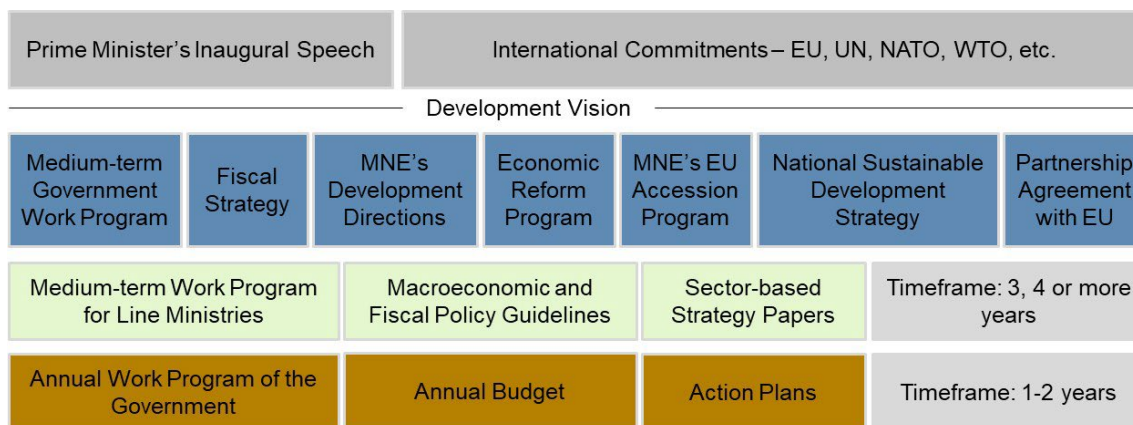
Source: Ministry of Finance and Social Welfare

30. The government is reviewing options to strengthen the enforcement of fiscal rules. Amendments to the LBFR would aim at increasing the effectiveness of fiscal rules by strengthening ex-ante monitoring and ensure these are followed. Among the options being analyzed is the creation of a fiscal council to assess if fiscal plans are consistent with existing rules, which could help assess whether major projects are consistent with fiscal sustainability.

2. National and Sectoral Plans (Design—Medium; Effectiveness—Low)

31. Montenegro’s formal strategic framework is based on a hierarchy of documents flowing from the government’s political vision and international commitments (Figure 3.5). The government’s overarching national vision and strategic objectives are contained in the “Development Directions” document¹⁰, which sets out policy objectives for a four-year period and is independent of the government’s mandate timeframe. The Government’s Medium-Term Work Program and the Fiscal Strategy is prepared by each new government, setting out policy objectives for its four-year term in office. Strategies related to EU accession, including the Economic Reform Program (ERP), also contribute to the high-level strategic priorities. Beneath this level, the strategies produced by infrastructure-focused spending units are accompanied by two-year action plans which include details of investment-related activities, their expected costs, performance indicators and targets (mainly, outputs, and, in limited cases, also outcomes) over the medium term.

Figure 3.5. Policy Planning System in Montenegro



Source: Secretariat-General's Office of the Government of Montenegro

¹⁰ The most recent is “Development Directions, 2018-2021”, Government of Montenegro, 2017. <https://www.gov.me/dokumenta/2dd9df24-452f-4bbf-8b48-78e047bc243f>

32. The strategic planning framework does not effectively guide resource allocations to public investments in practice. Its effectiveness is hampered by the high fragmentation of the planning framework; limited coordination among initiatives without a focus on investment; and absence of a strong link between planning and the budget resource envelope. Numerous strategies are produced (e.g., an estimated 89 currently, down from 120 in 2017), with sectors served by varying numbers of strategies and timeframes, which either overlap or leave gaps. Some strategies focus on an individual policy (program) area within a specific sector or in the context of improving services in that sector. Sector strategies' action plans contain some projects found in the budget, with high-level cost information, but the strategies have not been produced within a resource constraint and the costing information covers only two years.

33. Despite some recent reductions in the number of strategies, improved alignment of strategies to capital programs and budgets is still a work-in-progress. The government's 2018 Decree on the Methodology and Procedure for Drafting, Aligning and Monitoring of the Implementation of Strategy Documents, and accompanying guidelines, sets out the minimum quality criteria for all strategy documents. While the details of some on-going and planned capital projects are set out in the Action Plan to the Development Directions, which is unusual in a high-level strategic document, spending units do not appear to use it when planning their investment resource allocations. The Action Plan itself is updated regularly, and its purpose appears to focus on reflecting what has been agreed rather than guiding forward planning decisions at spending unit level. The new program-budget format provides an opportunity for authorities to link capital budget expenditures explicitly to the government's strategic objectives. The Decision on the capital Budget and evaluation of criteria also requires that projects are included in a strategic document adopted by the government for its inclusion in the budget.

3. Coordination Between Entities (Design—Medium; Effectiveness—Medium)

There is no legal requirement for coordination of capital spending between SNGs and the central government, though it occurs indirectly through different channels. The existing framework ensures that information on SNGs' capital investments is shared with the MoF as part of the approval process for local budgets. Because the MoF does not approve which initiatives are included in the SNGs budgets, this sharing of information does not ensure that capital investment priorities between levels of government are aligned, nor complementarities are identified. Box 3.2 identifies some channels through which coordination takes place.

Box 3.2. Mechanisms that Support Coordination with SNG

Coordination of capital investments between central and SNGs takes place in an ad-hoc way. There are multiple instances that the central government could use to coordinate capital spending with SNGs such as:

Administrative procedures

- MoF issues technical instructions for the preparation of Capital Budget to the municipalities.
- Municipalities may take on long-term borrowings and issue guarantees with the prior consent of the Government, which is issued at the proposal of the MoF.
- MoF must give a positive opinion on the draft municipalities' budgets before municipal budgets can be adopted by each municipality's assembly.
- Requirement to obtain spatial planning and environmental permits from the Ministry of Ecology, Spatial Planning and Urbanism.
- Preparation of strategic sectoral plans.

Financial support

- Projects requiring financial support from the central government are included in the state budget
- On-lending and guarantees support is provided by the central administration to SNG investment projects.

Fiscal rules

- The 10 percent ceiling (see Institution 1) can be exceeded only for capital expenditure financing.

Given the limited technical and financial resources at the local level, these mechanisms increase the likelihood of information-sharing of major capital projects, enabling better coordination.

Source: LBFR, technical instructions on budget preparation, Guidelines on Macroeconomic and Fiscal Policies.

34. Coordination improves as projects become more complex and require additional central support, such as direct funding or debt guarantees. Major capital investments by SNGs are normally financed by the central government and are published as part of the state budget. This support gives the MoF a window to ensure that it approves only those initiatives that are aligned with and complementary to the central government's priorities. Projects financed directly from local budgets will not be found alongside central government investments, limiting the capacity of the MoF to develop a database of capital projects at the local level.

35. There are no capital transfers to SNGs, as financial support for SNGs capital projects is provided directly from the state budget. By March 15 SNGs must submit to the MoF the list of projects requiring central government support, with the final decision taken by government in July of the same year; the selected projects are implemented by the central government. The final amount available to projects proposed by SNGs will only be confirmed once the budget for the upcoming fiscal year is approved, which can be a few weeks before the start of the fiscal year, or even later as is the case with the budget for fiscal year 2021.

36. Information on contingent liabilities arising from the projects of SNGs, SOEs, and PPPs are not fully reported to the central government and are not presented in the budget

documents. The Directorate for Local Self-Government and State-Owned Companies maintains a register of SOEs and undertakes some basic financial analyses of SOEs, though a consolidated report on SOEs is not prepared. The contingent liabilities arising from PPPs and from capital projects financed by the municipalities are not reported to the government, either at central level or at the level of individual budgetary units. The debt department of the MoF does maintain an updated database on guarantees provided to SNGs, which is published in quarterly and annual debt reports, most of which are financing capital investments.

4. Project Appraisal (Design—Low; Effectiveness—Low)

37. Major capital projects are not subject to rigorous, technical, economic, and financial analysis. Few projects within the Single Project Pipeline (SPP) (see institution 10) are backed by robust feasibility studies. These studies are normally prepared by external consultants, following project appraisal methodologies and procedures of the financier, and not available to the public.¹¹ Institutional capacity for preparing feasibility studies or project proposals for major projects is limited. No central support or regular training for project appraisal is provided to line ministries or SNGs. The MoF lacks the capacity to assist institutions responsible for preparing pre- or feasibility studies. Basic parameters for project appraisal, such as the economic cost of capital or shadow price of labor, are not estimated or published by a central agency. Few projects include risk analysis in the appraisal studies. The SAI highlighted poor planning, costing, and preparation of projects in the education and health sectors.¹²

38. Actions to strengthen project appraisal have been adopted but fall short of ensuring a rigorous technical, economic, and financial analysis. The 2018 “Decision on drafting the capital budget and determining and evaluating criteria for selection of capital projects” (hereafter the Decision) established a methodology and a procedure for the preparation and planning of implementation of capital investment projects. The Decision requires investment proposals above EUR 5 million to at least have feasibility studies and cost-benefit analysis (Article 4). Preparation of project profiles or pre-feasibility studies are not required, reducing opportunities for screening projects at an early stage, making it difficult to discard sub-standard projects before they gain momentum (political or public support). Appendix 3 provides an example of the stepwise project appraisal process used in Chile.

39. The project appraisal indicators required by the Decision and complementing regulation are not a methodology for project appraisal.¹³ The project proposal form helps standardize the presentation of project information and the approval process, but do not guide public sector institutions for preparing a project appraisal at the concept, pre-feasibility or

¹¹ Parameters used in economic appraisal are usually calculated by the consulting firm following EU procedures.

¹² “Success audit: Project management of construction and reconstruction of educational and scientific facilities,” SAI, April 2018 and “Success audit: Efficiency of construction project management and reconstructions of health facilities,” SAI July 2020.

¹³ The “Form for Application for Capital Project Funding” summarizes relevant information for project evaluation and selection.

feasibility stages.¹⁴ Key aspects of a project appraisal methodology, like calculating financial and economic indicators, are not required as part of the Form for Application for Capital Project Funding. Project risk information could be more specific, particularly the quantitative one, to provide the MoF a better understanding of its project's risk profile. Risk analysis is available for major projects within feasibility studies prepared following EU or IFI guidelines, but not for domestically financed projects.

5. Alternative Infrastructure Financing (Design—Low; Effectiveness—Medium)

40. Competition in infrastructure markets is hampered by SOEs involvement in key economic sectors. SOEs are involved in multiple sectors of the economy but there has been progress in opening the market up to the private sector.¹⁵ A 2020 EBRD report estimates that SOEs represent 5.5 percent of GDP, which is slightly lower than for other countries in the Western Balkans.¹⁶ Monopolies in energy (EPCG), water supply and rail (ZPCG) dominate the provision of infrastructure in these sectors, though there have been recent private investments in hydro and wind power plants. There are also ongoing efforts for electricity generation by private citizens.

41. The overall SOE oversight framework is weak, with limited revision of investment plans and financial performance by the MoF. The Directorate of Local Self-Government and State-Owned Companies receives information on investment plans but does neither consolidate nor publish this information report. Information is mostly available for projects that receive government support through on-lending or guarantees. SOEs' business plans, which include investment initiatives, are not approved by supervisory bodies. A timeline of MoF's plans to improve the oversight function is not available.

42. The independence of economic infrastructure regulators is prescribed by Law but not guaranteed in practice. The Energy Regulatory Agency (ERA) regulates, approves, and publishes tariffs for electricity or gas supply based on a defined formula, but the Government can adjust a portion of the tariff.¹⁷ The ERA is also the regulator in the water sector, though it is still in the early stages of being operational. The railway company (ZPCG) is majority owned by the government and determines the pricing structure for rail services, which should cover the

¹⁴ Established in Article 6 of the Decision on Drafting the Capital Budget and Determining and Evaluating Criteria for Selection of Capital Projects. A list of the content of a capital project submission is presented in Article 12.

¹⁵ Prominent SOEs in operation include: Port of Bar, Montenegro Railways, Montenegro Airlines, EPCG and in Tourism industry.

¹⁶ European Bank of Reconstruction and Development (2020) Economic performance of state-owned enterprises in emerging economies: A cross study, February 2020.

¹⁷ The Energy Regulatory Agency was established by the Parliament of Montenegro on 22 January 2004 in accordance with the Energy Law, as an autonomous, non-profit organization, legally and functionally independent from the state authorities and energy undertakings.

operational cost, maintenance, and wages, but there is a possibility of subsidy from Government if needed, or cross-subsidization between passenger and freight transport services.¹⁸

43. Recent improvements to the PPP framework should support the development of PPPs. A new PPP law introduced on December 2019 has wide institutional and sectoral coverage and provides an institutional framework for the preparation and implementation of PPPs.¹⁹ The law established the Montenegrin Investment Agency (MIA), which took on the roles of several entities previously involved in the promotion of PPPs. The MoF is still in the process of compiling a PPP policy, which is expected to be completed by end-2021. The effectiveness of the new arrangement prescribed by the PPP law was not assessed as there are no PPP projects under the new PPP Law and guidance of MIA. There is no consolidated record of PPPs in Montenegro, and limited data about PPPs is available through the official reports of bodies in charge of their implementation, such as the Concession Commission.

44. PPPs are not fully integrated with the overall public investment management process. PPPs are implemented in accordance with the PPP law, which sets different procedures for project development, selection and appraisal compared with traditionally-procured projects. There is no explicit requirement for assessments of budget affordability beyond the medium-term fiscal framework, nor guidelines in place for doing so. Irrespective of the funding sources and procurement method, all projects should follow a unified gateway process to ensure projects proceed on their merits (Appendix 5). Fiscal risk assessment methodologies should be developed to ensure the government does not bear excessive risks and inform mitigation strategies.

Recommendations

Issue 1: Lack of a clear and cohesive strategic planning framework undermines the government capacity to identify the most efficient way to allocate public investment resources in the medium term.

Recommendation 1: Streamline and consolidate the current strategic framework into a hierarchy headed by a clear and achievable set of high-level policy goals, and a rationalized set of sector strategies which are directly aligned to achieving the high-level goals and which provide sufficient guidance to determine medium-term budget allocations. (December 2021; Secretariat-General's Office, MoF and sector ministries).

- Set out a formal strategic planning structure and hierarchy for the central government, based on a single national strategic anchor and a limited number of sector strategies (covering inter alia capital investment) to be specifically aligned to the anchor.

¹⁸ Based on Article 2 of the LBFR, the Independent Regulatory Authorities in Montenegro are: Agency for Electronic Communication and Postal Services; Energy Regulatory Agency (also responsible for water); Securities Commission of Montenegro; Insurance Supervision Agency; Agency for Drugs and Medical Devices.

¹⁹ Montenegro: Review of PPP Legal Framework, IMF, May 2020

- Undertake a stock-take of current strategies by sector and reduce the number of sector-specific strategic documents to only 1 per priority sector.
- Determine an overall public investment fiscal envelope for the duration of the strategic documents.
- Issue guidelines to spending units on aligning medium-term capital budget allocations with sector planning goals.

Issue 2: Contingent liabilities arising capital projects of SNGs, SOEs and PPPs are not regularly reported to the MoF and the legislature and not presented along with budget documentation (SNGs, SOEs, or PPP).

Recommendation 2: Improve management of contingent liabilities from capital projects sponsored by SNGs, SOEs, and those procured through PPPs (December 2022; MoF)

- Complete a stock take exercise to identify contingent liabilities from major projects.
- Include in the budget documentation a summary of contingent liabilities related to major projects, e.g., part of the fiscal risk statement/chapter in the Fiscal Policy Guidelines.

Issue 3: Lack of a standard methodology for appraising capital investment projects undermines quality project preparation and reduces effectiveness of a centralized project review function.

Recommendation 3: Develop appraisal methodologies for project preparation and provide centralized guidance on their implementation to increase quality of project proposals. (December 2022; MoF and NIC)

- Develop guidelines and manuals that guide project preparation.
- Estimate national parameters for economic appraisal.
- Train officers from line ministries and other agencies responsible on project preparation.

Issue 4: No central support is provided to line ministries on project preparation and review, who lack capacity to prepare projects or act as effective counterparts to external consultants undertaking complex project appraisals.

Recommendation 4: Strengthen central support provided to implementing ministries and agencies by creating a central team of professionals focused on project appraisal and review. (July 2022; MoF and NIC)

- The team of experts should be capable of providing support on:
 - i. preparing ToR's for contracting pre-feasibility or feasibility studies,
 - ii. acting as counterparts for the review of such studies,
 - iii. reviewing project appraisal documents of large projects to ensure initiatives projects provide public value before projects are presented for selection,
 - iv. preparing ex post evaluations of selected projects.

- The team of experts should define guidelines for project appraisal and national parameters to be used across all capital project regardless of sources of funding.

Issue 5: Independent external expert review of complex infrastructure projects is currently not required. This is a good practice to ensure that projects are thoroughly reviewed before starting.

Recommendation 5: Adjust regulation to require that projects meeting certain criteria be subject to an independent review by external experts. (July 2022; MoF)

- Establish the criteria and indicators to be used to identify which projects should be subject to this external evaluation process.

Issue 6: Central oversight of PPP projects and capital investment plans of SOEs is not comprehensive enough, and proper guidelines and procedures for central review and assessment not in place.

Recommendation 6: Develop guidelines and gateway procedures for the central review and assessment of PPP projects and capital investment plans of SOEs. (June 2022; MoF, Directorate for Local Self-Government and State-Owned Companies, PPP Unit)

- Develop methodologies and guidance for assessing value for money of different procurement options, budget affordability, and fiscal risk assessments.
- Establish gateway procedures for central review of projects.
- Report PPP commitments and contingent liabilities to MoF and in the Budget Message.
- SOEs' investment plans should be submitted to MoF during the budget preparation process.
- Publish SOEs' capital investment plans alongside the state budget documentation.

D. Investment Allocation

6. Multi-year Budgeting (Design—Medium; Effectiveness—Low)

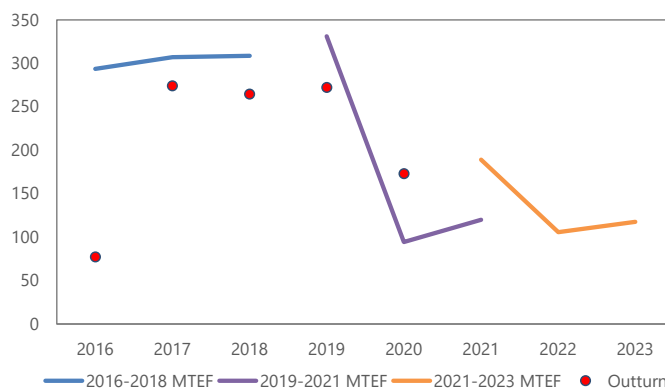
45. Montenegro's capital budget preparation process includes some elements of a baseline approach to medium-term projections (Article 30 of the LBFR). Rolling three-year ceilings for capital expenditures are provided annually in the Guidelines for Fiscal and Macroeconomic Projections (MTEF document). These ceilings are provided in aggregate form for two agencies, the DT and the PWA, which centralize project implementation. The rationale for such centralization is to streamline resource allocations for the implementing agencies with higher implementation capacity. In contrast, within the current budget medium-term ceilings are provided for each accountable institution (primarily, ministries) who are responsible for the execution.

46. The 2021 Annual Budget law introduced a new program budget format that is presented only for the budget year, with not publication of total constructions cost of major projects. In the 2021 Annual Budget Law projects are classified under the relevant

program and sub-program according to the relevant implementing agency. The estimated total construction cost for each capital project is provided in the narrative section of this document, as a lump sum under the relevant program and sub-program for each project. However, projections of the total construction costs of major capital projects are not disaggregated by year over a medium-term period.

47. In practice, the budget process does not provide consistent and credible multi-year projections for capital expenditures. Only first year ceilings are binding, with indicative ones for the outer years. Weak credibility is evidenced in the comparison of medium-term ceilings in successive MTEFs with actual expenditures in each year (Figure 3.6). For the datapoints available, the outturn fluctuated between 26 and 183 percent of the ceiling forecast. In the budget, an analysis of outer-year projections shows that there are multiple instances of the same projected amounts being included for both the second and third years, which may reflect implementation plan issues or the lack of reliable project information (Institution 14). Furthermore, changes in total project costs from one budget to the next are not explained in a published document.

Figure 3.6. Credibility of Medium-Term Ceilings Over Time (EUR million)



Source: Guidelines on Macroeconomic and Fiscal Policies (Capital Budget aggregate ceilings), and Annual Accounts (Capital Budget aggregate outturns), MoF

Note: The data are based on ceilings set out in the Macroeconomic and Fiscal Guidelines (MTEF). Some data are not included in the figure because the government did not adopt the 2017-20 Guidelines, and the 2016-19 Guidelines were prepared but not published.

7. Budget Comprehensiveness and Unity (Design—High; Effectiveness—Medium)

48. Public investment projects are prepared, budgeted and undertaken through the capital budget.²⁰ The capital budget focuses on the creation of new, or the reconstruction of existing, non-financial assets, while acquisitions of non-financial assets with a life-span of fewer

²⁰ The legal basis for the definition of the capital budget is set out in Article 4 of the LBFR: “Capital budget shall be the plan related to the period of one year or period exceeding one year, which increases the value of non-financial assets and covers the acquisition of infrastructure, building structures, land, and equipment of public or general interest” (at the State and local level).

than five years (across any sector) are included in the current budget.²¹ Coverage of capital projects is comprehensive of GoM resources, external loans and grants, with no capital project spending undertaken by extra-budgetary entities (indirect budget users) from their own resources. Both budgets use the program, functional and economic classifications, and source of funding.

49. However, despite good coverage of capital projects from these resources, more detailed information on projects by their financing source is not easily available. The budget documents do not include systematic breakdowns of financing information for all projects, or projects undertaken by SOEs; there are no ongoing PPPs on which to present information in the budget documents. The quarterly budget reporting forms request breakdowns by sources of financing but the examples provided to the team showed incomplete information, and more comprehensive information on disaggregated actual expenditures for the capital budget were not available.

50. Information on wider public sector investment, specifically that being undertaken by SOEs, is not provided in the budget. Despite the limited information on SOE public investments (Institution 5), the government has extended loan guarantees to SOEs for almost EUR 400 million (15 percent of GDP), of which EUR 140 million are still outstanding.²² Ensuring that Parliament considers the budget in the content of total public investment from all sources of funds would improve its legislative scrutiny and highlight areas of potential fiscal risk. Countries with comprehensive budget documentation, provide annexes with information on public investment projects undertaken by SOEs, PPP commitments, and multi-year expenditure information on sources of funds for all projects.

51. Budget unity is undermined by the institutional fragmentation of capital budget preparation and implementation, and its lack of integration with current budget process (Table 3.2). Spending institutions (e.g., ministries, departments, and agencies) do not have full control of their sectoral spending as capital budgets are appropriated and implemented through the DT and the PWA. While both capital and current budget preparation is managed by the MoF, the two budgets are presented in different sections in the Law on the Annual Budget and in the full budget documentation; both budgets are presented separately by accountable institution, program, and sub-program. Thus, capital, and current budget program expenditures are not shown together under each relevant spending unit, which may not always be informed or aware of the current implementation status of the projects in their sector. Some countries (e.g., Chile)

²¹ Article 2 of the Decision on Drafting the Capital Budget and Determining and Evaluating Criteria for Selection of Capital Projects states that capital budgeting shall include the preparation and planning of expenditures for the implementation of capital projects selected in accordance with the criteria set out in this Decision. Article 3 gives the definition of a project to include: preparation of planning, technical and project documentation; purchase of buildings, location, or provision of land for construction; construction of facilities and infrastructure facilities of interest to Montenegro; procurement of equipment with a life span of more than five years; and reconstruction and adaptation in order to preserve, maintain and improve existing and infrastructure facilities. Article 5 provides supplementary conditions related to Article 3.

²² Report on the General Government Debt of Montenegro 2020.

have used service agreements between policy ministries and implementing agencies, which allow the capital budget to be allocated to the former with the execution undertaken by the latter (Appendix 6).

Table 3.2. Main Institutional Responsibilities for Capital Budget Projects

Stage in project Cycle	Spending Unit	TD / PWA	MoF	Government / Parliament
Project concept development / initial design	X			
Pre-selection	X			
Project appraisal (no independent review)	X			
Project list compilation	X		X	
Project selection for budgeting			X	X (G)
Preparation of capital budget documentation		X	X	
Ceiling-setting/Budget appropriation		X	X	X (G,P)
Cashflow projections for projects in budget		X	X	
Virement (reallocations, e.g., btw projects)		X	X	X (G)
Reporting – financial and physical		X	X	X (G, P)

Source: IMF staff

8. Budgeting for Investment (Design – Medium; Effectiveness – Medium)

52. The existing PIM framework provides reasonable protection to investment projects during implementation. Within the medium-term capital budget framework, project expenditures are appropriated on an annual basis, with indicative projections for two outer years. Information on total project costs is included in the budget documentation, specifically in the narrative section of the capital budget for each project. This was first done for the 2021 budget, so there is no baseline with which to compare current forecasts and no explanations of changes in projects' costs. There are no multi-year appropriations or information on multi-year commitments. Transfers from capital to current budgets are prohibited by Article 47 of the LBFR and the SAI confirms that virements do not take place in practice.

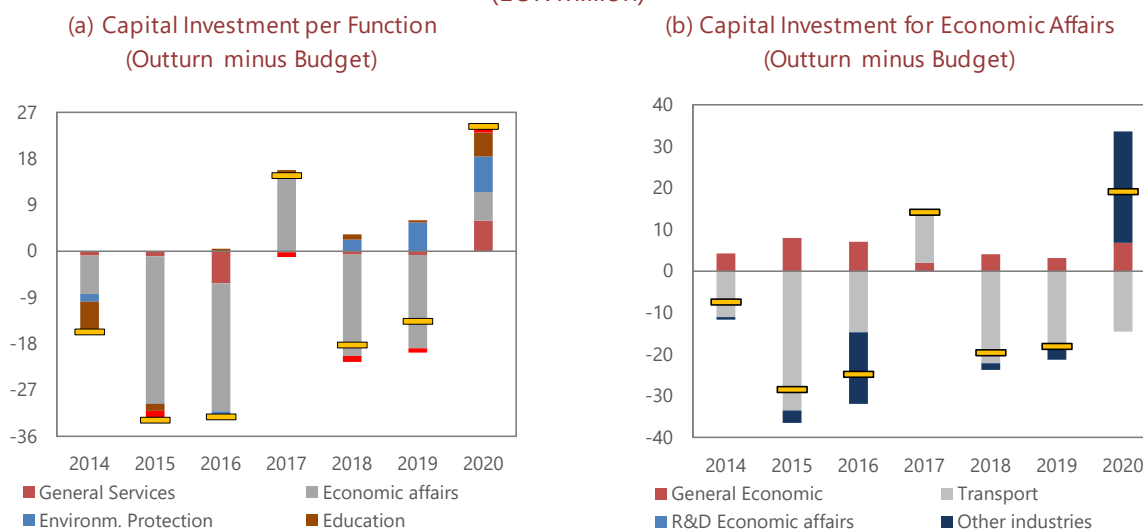
53. Completing on-going projects is an explicit priority for the government, for the length of project implementation. The Annual Budget Laws for the last three budgets (2019-2021) include a statement to the effect that the overwhelming majority of the capital budget is for the continuation and completion of ongoing projects.²³ Budget submission forms require spending units to provide separate submission requests for ongoing and new projects. There are no appropriation-based mechanisms in place to protect funding of ongoing projects (e.g., commitment appropriations). However, that a project is already under implementation is an explicit criterion in the budget selection process undertaken by the selection commission.²⁴

²³ The 2019 Annual budget Law stated that 95% of the capital budget was for project continuation and completion. Since 2015, this has been due to the expenditures for the Bar-Boljare project, which represents approximately 67% of total capital budget.

²⁴ The Commission's full name is "Commission for the evaluation of projects financed from the capital budget of the state".

54. Overall, there is reasonable protection for ongoing projects, but this is facilitated by the dominance in the capital budget of a single project whose completion is a priority (see Figure 3.7 for the effect on capital infrastructure investment deviations). In practice, this means that most projects in the capital budget (in terms of volume) are small, and it is more difficult for a broader group of projects of significance (in value terms) across sectors to be included. In particular, delays in the completion of the large project have a knock-on effect on the introduction of other priority infrastructure projects to the extent of remaining compliant with the fiscal rules.

Figure 3.7. Deviations in Capital Investments Between Outturns and Planned (EUR million)¹



Source: Government Final Accounts

¹ The data exclude capital equipment.

9. Maintenance Funding (Design—Low; Effectiveness—Medium)

55. Budget allocations for maintenance are not underpinned by minimum required standards covering each type of asset, for either current or capital maintenance. There are few methodologies in place to determine the minimum maintenance requirements for individual asset types, the associated cost calculations, and budget requirements. An example is the methodology used for routine maintenance of roads. Even when some sort of guidance exists, there are important gaps in the coverage of methodologies for certain high-cost types of infrastructure (e.g., bridges), which undermines the usefulness of these estimates. This is of particular concern given that the complexity of the BBH, which will likely require substantial maintenance expenses and are yet to be defined.

56. Investment maintenance is based on medium-term plans adopted by the government, but it is not clear if a methodology backs these estimates, and compliance is weak. In roads, for example, the authorities refer to the Plan for Regular and Investment Maintenance, Reconstruction and Construction of State Roads, which is adopted annually by the

government. This document is compiled by the DT based on data inputs, e.g., field conditions as assessed by manual visual inspections. However, a 2019 SAI performance audit²⁵ found that the DT did not prepare and submit to the government a medium-term program for the development and maintenance of state roads, as required. Thus, the choice of capital maintenance projects for state roads was not based on a prioritized list of maintenance activities, assessed against pre-defined objective criteria, covering traffic levels, technical, economic, and environmental criteria.

57. Both current (routine) and capital (investment) maintenance spending are planned over a medium-term period and are published in the Annual Budget Law and the associated budget documentation.

The presentation and reporting of maintenance expenditures is set out in Article 6 of the LBFR. Current maintenance is included in the Current Budget according to the economic classification, and capital maintenance is shown under individual projects in the 2021 Capital Budget.²⁶ In previous budget years, capital maintenance was shown not by individual projects but by programs. Actual expenditures for both current and capital maintenance are included in regular in-year and end-year (annual) budget execution reports by spending unit and program but not by individual project.

58. Despite the aforementioned shortcomings, planned and actual maintenance expenditures fared better than may have been expected.

Expenditures on infrastructure maintenance²⁷ (capital and current) averaged approximately 10 percent of total expenditures on infrastructure annually over the last four years (Figure 3.8). Trends in planned and actual maintenance on infrastructure are shown in Figure 3.9.

59. With the planned expansion in the financing sources for capital investment (e.g., PPPs) efforts are underway to develop a more systemized approach to maintenance planning and budgeting.

There are plans to develop methodologies for determining sector- and asset-specific maintenance requirements and the preparation of asset registers, including the identification of a periodic update process, has begun (Institution 15). This data should help determine the costs of required maintenance and underpin maintenance expenditure planning for the budget. (Appendix 7 discusses the implications of maintenance planning and budgeting for large and/or complex projects).

²⁵ Montenegro State Audit Institution (2021), "Efficiency of Regular and Investment Maintenance State Roads", Final report, Report number 02-035/21-221/14, Podgorica.

²⁶ Capital maintenance is referred to as "investment" maintenance" in the budget documents.

²⁷ Excluding maintenance on equipment.

Figure 3.8. Maintenance Spending on Infrastructure
(Share of total infrastructure expenditures)

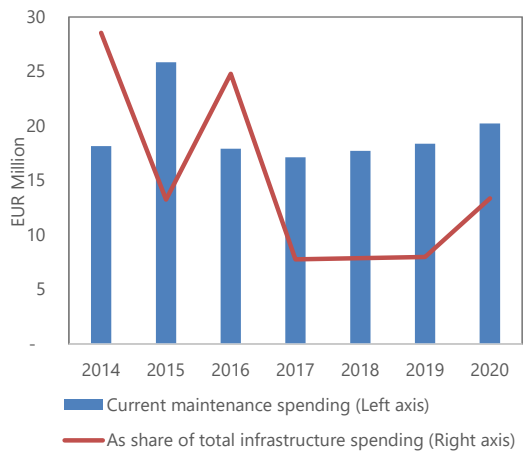
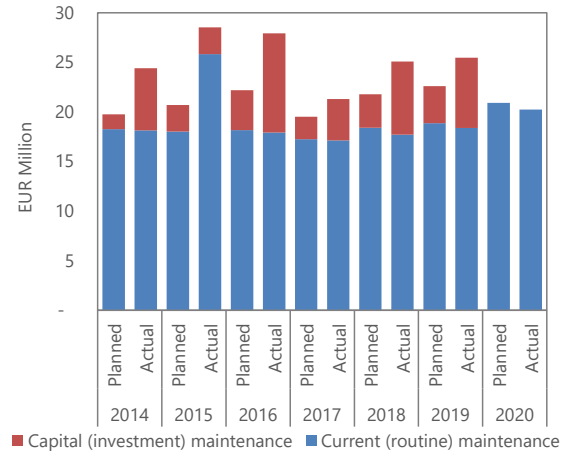


Figure 3.9. Planned and Actual Infrastructure Maintenance Expenditures¹



Source: Government Final Accounts

¹ Data exclude maintenance on equipment.

10. Project Selection (Design—Medium; Effectiveness—Medium)

60. Montenegro has taken steps to align project selection to international good practices. The Budget Law and the “Decision on Drafting the Capital Budget and Determining and Evaluating Criteria for Selection of Capital Projects” (the Decision) established a process, criteria and scoring parameters to guide project selection. The “Methodology for Selection and Prioritization of Infrastructure Projects” defines a process for the selection of strategically significant infrastructure projects to be included in a pipeline of investment projects, that classifies projects based on their level of preparedness (Appendix 7). Central entities were created or assigned the function of screening investment projects before selection for funding (e.g., domestic, external, or private). Standardization was enhanced through the creation of templates designed to capture key project information to be used in the selection process (e.g., a “Form” that must be submitted to the MoF for projects to be considered in the selection process).

61. Significant shortcomings in project information undermines the selection process. Supporting documentation, such as feasibility or environmental studies, is not required to be sent to the screening entities, even though project templates require the sponsor to indicate if these have been prepared. Even if the studies are available, the weaknesses in project appraisal (see Institution 4), raises concerns on the quality of the information; cost information can be preliminary and implementation plans may need revision or are non-existent.²⁸ It is common for projects to be presented without having supporting pre-feasibility or feasibility studies, or at

²⁸ This issue is reflected in note of the document prepared by the Commission: “The PWA and the DT are instructed to make an assessment of the value of ranked projects and the planned dynamics of project implementation within the scope of their competencies and to the Government (by the end of August) in order to include them within the Draft Budget Law for 2021.”

least a good project concept (project profile) for smaller projects.²⁹ Major projects should be assessed by an independent expert, but these documents are not published. These issues imply that decisions are taken limited information, or that the quality of the supporting studies cannot be assessed. As a result, the centralized project screening process has become focused not on the quality of the appraisals but on whether basic information was prepared.

62. The procedures and criteria defined for project selection are not fully guiding the process. Projects can be selected for inclusion in the capital budget, as assessed by the government, even if they do not comply with all appraisal requirements established in the Decision or achieve a low score in the screening process done by the Commission. A review of the “Proposal of the List of Priority Capital Projects (LPCP) financed from the capital budget of the state in 2021” prepared by the Commission in July 2020 showed that, out of a total of 112 projects submitted for consideration, only 21 were included in the list submitted to Government.

63. The existing lists of projects cannot be considered a single project pipeline of projects ready for implementation. The main challenge is that projects fall into one of two lists depending on the potential funding source. The Unified List of Priority Infrastructure Projects (SPP) was created in 2015 following EU recommendations but only registers projects that are candidate for available EU funds, primarily the Western Balkan Investment Framework.³⁰ The LCPC prepared by the Commission based on the project submitted to the MoF contains initiatives only financed by from the state budget.

64. Key risk parameters for project selection are not part of the criteria for selecting projects to enter the project pipelines. Selection criteria do not include Indicators of a project’s risk are not within the selection criteria.³¹ The level of maturity of the project is a criterion for prioritizing the SPP, but it is not considered for projects which are candidates for government financing.³² The information on which the Commission scores projects are preliminary and incomplete given that preparatory studies are missing.

Recommendations

Issue 7 The lack of an effective medium-term budgeting process hampers the government’s ability to plan the appropriate resource flows to multi-year capital projects over the lifetime of both the projects themselves as well as of the constructed assets.

²⁹ Recent Government Decision 67/2021 of 22 June 2021 requires that a “Feasibility Study that contains, including but not limited to, analysis of technical, economic, financial, environmental, and other solutions” be presented with a candidate project.

³⁰ However, a project in the SPP can be fully funded from Capital Budget, in which case it is deleted from the SPP.

³¹ Even if a risk assessment for the project is requested as part of the content of the form for nominating projects.

³² Except in criteria about resolved legal and property issues, which should be a binding condition and not a scoring criterion.

Recommendation 7: Improve the credibility of medium-term capital budget ceilings and forward projections and incorporate the calculation of life-cycle costs in medium-term budget plans. (December 2021; MoF and sector ministries)

- Include in the capital budget guidelines the requirement for spending units to include estimates of life-cycle costs for new and on-going capital budget projects as part of their budget submissions and to include medium-term operational and maintenance projections in the current budget under the relevant program for projects nearing completion
- Use a baseline approach to improve the credibility of medium-term capital budget ceilings

Issue 8: The lack of complete information on public capital investments hampers full legislative scrutiny and early warnings of areas of potential fiscal risk.

Recommendation 8: Improve the transparency of total public investments by including information on all sources of funds for public sector investments in the budget documents. (December 2021; MoF)

- Compile information on existing capital projects being implemented by SOEs and on future PPP projects.
- Include in the budget documents an annex containing information for SOE-managed capital project investments and their relationship to national strategic priorities.

Issue 9: The separation of current and capital budget planning hinders spending units from using resources efficiently to achieve government's key public investment policy objectives.

Recommendation 9: Ensure responsibility for setting capital budget ceilings and determining budget appropriations, and thereby accountability to Parliament for these resources, is provided to the relevant sector ministries, instead of to the implementing Administrations, as currently. (December 2021; MoF)

- Revise the budget guidelines (overall and capital budget) to reflect these changes.
- Establish a mechanism (e.g., service agreement) for enabling the Administrations to have a role in implementing spending ministries' projects.

Issue 10: The absence of a systematic approach to planning maintenance requirements risks higher public investment costs through the under-provision of necessary maintenance.

Recommendation 10: Introduce a systematized approach to maintenance planning for the budget supported by more comprehensive information on asset values, and quality, sector- and asset-specific methodologies. (June 2022; MoF, Ministry of Capital Investment and Ministry of Ecology, Spatial Planning and Urbanism)

- Prepare a prioritized list of key infrastructure assets
- Compile information on values and current conditions of priority infrastructure assets

- Prepare and document methodologies for maintenance planning and budgeting for the major infrastructure asset types, covering both routine (current) maintenance and major rehabilitation or reconstruction (capital or investment maintenance).

Issue 11: There are two pipelines of projects, most lacking good pre-investment studies, as candidates for budget resources or IPA funds. Selection criteria are not based on economic indicators and do not adequately consider important aspect like risks and project maturity.

Recommendation 11: Develop a single project pipeline independent of funding sources, which should incorporate additional criteria to inform project selection. (December 2022; MoF)

- Prepare list of all projects in current pipelines.
- Classify list of all projects in current pipelines according to their financing sources.

Recommendation 12: Improve existing criteria for project selection incorporating those aspects that are not currently being considered but are of key importance, including at least economic indicators, risk assessment and project maturity. (December 2022; MoF)

- Identify relevant additional criteria (economic, risk and project maturity)
- Incorporate these criteria into the regulations for project selection procedures

E. Investment Implementation

11. Procurement (Design— High; Effectiveness—High)

65. The public procurement process in Montenegro is open and transparent and major projects are tendered in a competitive process. The Public Procurement Law,³³ adopted in December 2019 and entered into force in July 2020, is broadly aligned with the EU acquis³⁴ and sets a legal framework for public procurement to be transparent and open to all companies based on non-discrimination and equal treatment. The law introduced competitive dialogue, partnership for innovation, and competitive negotiation procedures. It strengthened transparency and efficiency through the introduction of an e-procurement system, and simplified procedures, while enhancing monitoring and remedy systems. In 2020, Montenegro’s public procurement of goods, works, and services accounted for 13 percent of GDP, with over 73 percent of all procurement procedures completed through an open and competitive process.³⁵ The number of contracting authorities remained relatively high at 660, but the average number of bids submitted per tender offer increased to 2.3 from 2 in 2019.

³³ [Official Gazette of Montenegro, No. 74/2019](#)

³⁴ [European Commission, Montenegro Report 2020](#)

³⁵ Ministry of Finance, [2020 Report on public procurement](#)

66. The law outlines comprehensive transparency requirements, and the public has access to complete procurement information, but monitoring should be strengthened.

An e-procurement system became fully operational in January 2021, and the entire public procurement process is now automated, with all information published in the system.³⁶ No major project has been fully tendered since the e-procurement system is still in its early stage of implementation, and, due to the delays in adopting the 2021 budget, no major project has yet been fully tendered electronically. The procurement procedures that started in 2020 are still carried out in a paper-based manner, but information on all its stages is available on the procurement portal.³⁷ Although the law stipulates that public procurement plans must be submitted to the Ministry of Finance by January 31, the PWA had not submitted one as of the beginning of July 2021.³⁸ Procurement is monitored by contracting authorities, the Ministry of Finance, the Commission for the Control of Public Procurement, and the SAI. The Public Procurement Inspectorate is performing inspection control, and in the period July-December 2020 executed 152 controls in 141 entities,³⁹ finding 44 irregularities.⁴⁰ The Ministry of Finance publishes annual reports on public procurement. Furthermore, the law prescribes contracting authorities to produce and submit to the Ministry of Finance semi-annual reports on implementation of public procurement. However, these are yet to be submitted⁴¹ and published, since in the first semi-annual period from the entry into force of the new law, contracting authorities were only asked to submit statistical reports.⁴² The e-procurement system does not yet produce standard statistical and analytical reports.

67. Procurement complaints are reviewed by an independent body and their recommendations are timely and published. The State Commission for the Control of Public Procurement is an independent body responsible for reviewing appeals related to public procurement, reporting to the Parliament. The new law introduced mandatory submission of public procurement appeals via the e-procurement system and increased the number of days for solving complaints to 30 calendar days from 15 in the former law, which can be extended by an additional 10 calendar days. In 2020, a total of 269 complaints were handled, and the Commission made timely decisions on each of them, reducing the average response time for

³⁶ Including procurement plans, decisions on appeals, and even small value procurement contracts, the publication of which is not mandatory by law. The e-system available at: <https://cejn.gov.me>

³⁷ <https://portal.ujn.gov.me/>

³⁸ Without the procurement plan, no procurement procedure can start. Thus, the PWA has not initiated any procurement procedure in 2021, because the 2021 budget was adopted only in end-June.

³⁹ [Report on Public Procurement Inspections for the period July-December 2020](#)

⁴⁰ Of which 34 were resolved, while the remaining 10 could not be resolved. Out of 10 unresolved, 6 were related to small value procurements artificially split, for which the Inspection issued monetary penalties.

⁴¹ The full reports covering period January 1 – June 30, 2021, should be submitted by July 30.

⁴² [Announcement on preparing and submitting reports on public procurement](#)

deciding on a complaint from 30 and 21 days in 2018 and 2019, respectively, to 18 in 2020.⁴³ All decisions are published on the Commission's website⁴⁴ and the e-procurement platform. Appeals against the Commission for the Control of Public Procurement can be made to the Administrative Court, the number of which was reduced to 38 in 2020 from 52 in 2019.

12. Availability of Funding (Design—High; Effectiveness—High)

68. Updated cash-flow forecasts are prepared monthly, and budget organizations are provided with commitment ceilings for the full fiscal year. Cash flow reports are prepared and, alongside monthly user expenditure reports, are submitted to the Treasury, which uses them to determine where funds can be re-allocated to other areas. The Treasury regularly prepares cash forecasts based on revenue and expenditure forecasts provided by the tax and customs administration and budgetary forecasts. There is day-to-day communication with the Budget Department and Contracting Agencies. Reports are prepared on a daily and monthly basis for internal use and cash monitoring.

69. Cash for project outlays is provided in a timely manner based on approved appropriations. There are no instances of cash rationing. According to the Treasury's information, there are no significant arrears on investments and the average cash balance ensures timely payment of investment spending. A couple of projects under implementation were put on a reduced execution rate for two months in 2021, awaiting budget approval, but this caused only minor delays.

70. External financing is partially integrated in the main government bank account structure. There is a treasury single account (TSA) through which all central government payments are made. However, donor funding can be deposited in private commercial bank accounts as per the specific donor agreements. The funds in these accounts are transferred to the TSA before distribution for expenditure by the contracting agencies.

13. Portfolio Management and Oversight (Design – Medium; Effectiveness - Low)

There is portfolio oversight for major projects at Ministry and Agency Level, but not centrally. Systems are in place at the Directorate of Economic Policy and Development to gather timely data centrally, but the detail of the data is not adequate for decision-making, and there is no centralized oversight. Completed projects have only recently been incorporated in the reports. The data are documented in a quarterly report. Annual progress reports are monitored to ensure that there is oversight for projects. The latest progress report was issued in 2019. The

⁴³ Commission for the Control of Public Procurement, Annual Report for 2020.

⁴⁴<http://www.kontrola-nabavki.me>

Ministry of Education as well as the Ministry of Ecology, Spatial Planning and Urbanism both have portfolio management principles in place.

71. Funds can be re-allocated between domestically budget-funded projects, but not between projects with international funding. Re-allocation of funds is ruled by the LBFR, which allows fund re-allocation during implementation of up to 10 percent of the total amount between projects and program that are funded from the capital budget (LBFR Article 45), with the approval of MoF. All re-allocations are monitored and approved by the MoF.

72. Ex-post reviews are not conducted regularly for all major projects. Externally-financed projects are likely to be reviewed ex-post at the request of the lender, but reports are not necessarily published. Projects funded domestically are subject to the regular inspections required to close contracts, but these do not cover all of the issues covered in an ex-post review. Representatives from MoF, Ministries, and Agencies that met with the mission confirmed that ex-post reviews were not conducted regularly. The SAI has recommended that ex-post reviews be conducted for adjustments in the project implementation policies.

14. Management of Project Implementation (Design – Medium; Effectiveness – Medium)

73. There are multiple layers of project monitoring by senior officials, both of physical progress as well as financial costs, but implementation plans are not prepared in detail. Responsibility for monitoring physical and financial progress of projects rests with the respective Implementing Agencies.⁴⁵ The PWA commences with contracting, implementing, and commissioning once the capital budget is approved, but is not closely involved in the planning phase. Project managers from PWA conduct the management of project implementation and are joined by officials acting as project managers from line ministries (e.g., Education or Health). The extent of the contents of implementation plans could not be verified but officials from PWA and TA acknowledged the low quality, or non-existence, of plans when initiating the contracting process. Implementation plans are important for implementation readiness, as well as project maturity. Typical elements of a project implementation plan are illustrated in Appendix 9.

74. Management of project implementation by the Agency for Transport is conducted in detail. The Roads section in the Agency for Transport monitors project implementation by means of an Excel spreadsheet in all the required details to make management decisions as well as to track progress on a month-to-month basis. The report tracks physical progress, description of activities implemented so far, as well as financial progress, with applicable remarks for

⁴⁵ The PWA carries out technical activities related to construction, reconstruction, rehabilitation, and renovation of facilities for Health, Education, Culture and Sport, all other Ministries, and some Municipal projects. The DT carries out similar activities for projects in the transportation sector.

management decisions. Risks can also be identified. The report is a good example that could be implemented by other Agencies and Line Ministries as well.

75. There are rules for project cost adjustments, including a review of project rationale, but it is not systematically applied. The rules for project cost adjustment are clearly defined in the Law on Procurement, Article 151. Project costs for infrastructure projects may be adjusted by a maximum of 20 percent of the original contract value, without changing the scope of the original contract. Once the project cost adjustment exceeds 20 percent, the balance of the work must be advertised in an open tender. Approval from MoF is required before a cost adjustment is made. These rules are not utilized much as projects are relatively small and not adjusted regularly. Implementation of the cost adjustment procedure for a mega-project such as the Bar-Boljare Highway could not be verified. However, the overall cost of the project has increased due to additional works and currency depreciation without a review being published.

76. Ex post performance audits for nationally-funded projects are conducted on a yearly basis and audit reports are published. The SAI conducts performance audits on both on-going and completed projects. The audits deal with projects in detail, describe conclusions and require that the audited entities shall, within 30 days, submit to the SAI an action plan for the implementation of the recommendations, which contains measures, stakeholders, and deadlines. The Audit reports are also submitted to Parliament, for discussion. The performance audits currently do not include an audit of the planning and appraisal process of projects, which is a shortfall, as this is a critical stage of the project development.

15. Monitoring of Public Assets (Design—Medium; Effectiveness—Low)

77. Existing regulations provide support for relatively sound management of asset registers. The government's Regulation on the Manner of Keeping Register of Movable and Immovable Property and the Stock-taking of State-Owned Assets requires that state institutions maintain a register of movable and immovable assets, and of shares. The registers should be updated through annual stock taking exercises and include, but are not limited to, data on inventory number, asset acquisition procedure, purchase, and book value. The updated records should be submitted to the Cadastre and State Property Administration (CDPA) by the end of February each year. The regulation also foresees that depreciation should be taking place.⁴⁶

78. Despite the existing regulations, monitoring of public assets is weak. Surveys of public assets are regularly conducted but condition assessments are not done. The government does not produce consolidated financial accounts including the value of non-financial assets and depreciation. Currently, the CDPA holds information on more than 500,000 assets but it does not consolidate it in a way that allows it to report or prepare any type of analysis. There is neither an

⁴⁶ As per the authorities' comments, the straight-line method should be used, but no evidence of this was provided to the mission.

assessment of the values nor conditions of reported assets, which are needed to have accurate depreciation figures and asset write-off dates.

79. The government is adopting measures to improve the management of asset registers. With the reorganization of the government at the beginning of 2021 two administrations responsible for asset registers were merged into the CDPA, reducing fragmentation. The CDPA is moving forward with developing the Asset Registry System (ARS), a centralized register of movable and immovable property, the development of which started in 2014, and is expected to be completed by the end of 2021. The new system should give access to direct (approximately 100) and indirect (approximately 350) users, including municipalities. The ARS is planned to be linked to the FMIS system managed by the Treasury, supporting timeliness of information, which should allow for developing practices for reporting and analyses. However, further upgrades would be needed for the system to register assets from SOEs.

Recommendations

Issue 13: The portfolio of major capital projects is not monitored in adequate detail and frequency to compile a progress report that is helpful for senior management to take well-informed decisions to ensure timely and within budget project implementation. Risks are also not managed.

Recommendation 13: Consolidate and review the portfolio of major projects to enable government to have an overview on the performance of all major projects. (December 2021; MoF, Line Ministries, Implementing Agencies)

- Detailed reports should be issued at least quarterly with all performance indicators required for informed management decisions regarding adjustments to project implementation.
- Progress reports should be submitted to MoF, Line Ministries and Agencies for their review and actions where required.

Issue 14: There is no systematic procedures for ex-post review which would enable government to adjust implementation policies and procedures on the basis of implementation experience.

Recommendation 14: Develop procedures for ensuring ex-post evaluations of major capital projects are completed and results shared with relevant stakeholders. (December 2021; Line Ministries, Implementing Agencies, MoF, Public Procurement)

- Establish regulatory requirement for ex-post reviews of investment projects that includes basic quantitative and qualitative performance assessment.

Issue 15: Detailed progress reports on the execution of major capital projects are not prepared in a timely manner and relevant information on project progress (e.g., projects risks) is not available to support management decision-making.

Recommendation 15: Develop a framework for reporting on major capital projects to ensure appropriate monitoring by implementing Agencies, MoF, and Line Ministries. (October 2021; Implementing Agencies, MoF, Line Ministries)

- Determine the periodicity of progress reports to be prepared by Implementing Agencies.
- Identify the physical and financial progress information required to support decision making that should be covered by these reports.
- Develop templates for the progress reports to ensure uniformity and allow comparisons across initiatives.

IV. CROSS-CUTTING ISSUES

A. Legal Framework

80. The existing legal framework related to PIM is quite comprehensive and recent, with some laws and regulations following EU standards. Appendix 10 presents a complete overview of legal framework in relation to PIMA Institutions. Some key issues to highlight are:

- The LBFR, published initially in 2014 and updated in 2017 and 2018, is the main law regulating PIM in Montenegro covering multiple across several PIMA institutions.
- The Decision, published in 2014 and updated in June 2021, regulates project appraisal and selection. It established centralized project screening, based on pre-defined procedures and criteria for the evaluation, selection, and prioritization of projects to be included in the capital budget, as well as quarterly reports on capital projects' implementation.
- A Law on PPP was approved in 2019 with subsequent bylaws approved in 2020, covering both user- and government-funded projects to provide public works or services.
- A new Public Procurement Law was published in 2019, bringing legislation closer to EU standards. It is complemented by Rulebooks and Ordinances; for example, for the procurement of lower-cost goods and services a rulebook simplifying procedures and problem-solving mechanisms.

81. There are however some gaps in the regulation that should be addressed. The LBFR does not address PIM topics such as project appraisal, project portfolio management, and registration of public assets. Though some of these are covered in other regulation, such as the Decision, future amendments to the LBFR should address these issues. On PPPs, a recent IMF desk review of the law⁴⁷ identified gaps and inconsistencies with international good practice, the most relevant ones being that the PPP process provided for in the PPP Law is not aligned with the public investment process: a project that is not part of the SPP could still be implemented as

⁴⁷ Montenegro: Review of PPP Legal Framework, IMF, May 2020.

a PPP, nor does it empower MoF to assess fiscal affordability of or veto a project, undermining its ability to ensure fiscal sustainability.

B. IT Systems and Data Management

82. Existing IT systems are fragmented and do not provide good integral support to the Government in performing key PIM functions. At the MoF, the FMIS system supports the Budget Directorate and Treasury but needs improvements regarding project information. The SAI relies on data downloaded from the FMIS to Excel for audits. There is no centralized register of projects and the existing databases are not designed to support decision-making by senior management nor the production of statistical reports. The DT uses different IT systems for budget execution, managing contracts, and maintenance.⁴⁸

83. Recent software developments and the use of out-of-the-box solutions have contributed to improvements in the activities related to some PIMA Institutions. The Directorate for Public Procurement Policies implemented an e-procurement system following EU standards. The Property Directorate is populating the Asset Registry System.⁴⁹ The Montenegrin Investment Agency has a publicly available register of PPP projects, though none have been registered to date. The DT uses CapEx® software for managing capital expenditures and the SAI employs IDEA® Data Analysis Software for selecting projects to be audited.

84. Planned or ongoing IT investments should support PIM but fail to address existing fragmentation. The new systems could also help enhance transparency if public access is allowed. The MoF's Public Investment Unit is developing a PIMIS with IPA funding and the Agency for Transport a registry of projects that will include complete info about individual project. This would lead to the existence of at least nine databases on investment projects, which is clearly an inefficient situation that should be addressed (Appendix 11).

C. Capacity Building

85. A significant capacity weakness is related to project preparation, appraisal, and selection. The NIC indicated that there is no institutional capacity for preparing feasibility studies, while the NIPAC Office outsources the analysis of projects for the same reason. The PWA does not have enough staff to support cost estimation and preparation of implementation plans, at an early stage of project design.

86. Building capacity could be achieved through a multi-pronged approach. Improving PIM processes, strengthening technical skills, creating centralized support teams, and relying on the independent private sector consultants could be part of this strategy. For example:

⁴⁸ HDM 4, a computer program that is the main tool for the analysis, planning, management and evaluation of maintenance, improvement and decision-making related to road improvement investments.

⁴⁹ It was mentioned to the mission that lack of funding has delayed full implementation of the system.

- *Improving PIM processes.* Training aimed to improve the quality of project proposals and early project screening capacity, following detailed centrally-provided guidelines should lead to discarding projects in the early stages of preparation, would allow staff more time to analyze the best or more complex projects.
- *Better technical skills.* Implement a regular and wide-ranging training program and to create well-staffed units in charge of different aspects of PIM.
- *Centralized support.* Creating specialized units with highly skilled staff to support line ministries with project preparation or discard projects early on.⁵⁰
- *Private sector support.* Specialized consulting services, either local or international can support preparation of feasibility studies for large infrastructure projects; staff could focus on preparing good terms of reference for studies, develop an effective selection process, and be a demanding counterpart during the study.

87. A small team of skilled professionals in project preparation and appraisal could assume the following tasks in a unit ascribed to the MoF or as part of the NIPAC office:

- Develop guidelines and methodologies for project preparation and appraisal at the level of proposal (project concept), pre-feasibility or feasibility⁵¹;
- Determine key parameters for project appraisals, including at least the economic cost of capital, shadow price of labor, economic value of foreign currency and the value of time.
- Support preparation and appraisal of projects at the project proposal level by providing basic training to staff from ministries, local self-governments, and other agencies.
- Oversee experts/consultants contracted to provide technical support for prefeasibility or feasibility project design and appraisal studies.
- Effectively prepare and prioritize projects within overall fiscal and budgetary constraints.
- Conduct an ex post evaluation of project outputs and outcomes.

⁵⁰ As has been done with project implementation by centralizing it in the PWA for many sectors.

⁵¹ Working together in ad-hoc commissions with sector technical experts and engineers from the PWA or the DT.

Appendix I. Montenegro: Proposed Action Plan

Action	2022	2023	2024	Responsible agency
Improve and strengthen compliance with strategic and fiscal framework for more sustainable investment resource allocations				
Streamline and consolidate current strategic framework to guide medium-term capital budget allocations	Set out formal strategic planning structure and hierarchy, based on single national strategic anchor and limited set of aligned sector strategies			Secretariat-General's Office, MoF and sector ministries
	Complete stock-take of current strategies by sector; reduce number of sector-specific strategic documents to 1 per priority sector.			
	Determine overall fiscal envelope on public investment for duration of strategic documents.	Issue guidelines to spending units on aligning medium-term capital budget allocations with sector planning goals		MoF
Establish process for identifying and collecting information on contingent liabilities of major projects.	Complete a stock take exercise to identify contingent liabilities from major projects.	Include in budget documentation a summary of contingent liabilities related to major projects, e.g., part of fiscal risk statement/ in the Fiscal Policy Guidelines.		MoF
Develop general methodology for appraising capital investment projects and determine national parameters for economic appraisal.		Develop guidelines and manuals for guiding project preparation.	Train officers from line ministries and other agencies responsible on project preparation. Estimate national parameters for economic appraisal.	MoF and NIC
Strengthen central support provided to implementing ministries and agencies		Create a central team of professionals focused on project appraisal and review.	Define guidelines for project appraisal and national parameters for	MoF and NIC, unit housing team of experts

Action	2022	2023	2024	Responsible agency
			use with all capital projects regardless of sources of funding.	
Introduce regulation requiring projects meeting certain criteria to be subject to review by independent experts.		Establish the criteria and indicators to be used to identify which projects should be subject to this external evaluation process.		MoF
Develop guidelines and gateway procedures for central review and assessment of PPP projects and capital investment plans of SOEs.	Establish gateway procedures for central review of projects.	Develop methodologies and guidance for assessing value for money of different procurement options, budget affordability, and fiscal risk assessments.		MoF, PPP Unit
	Report PPP commitments and contingent liabilities to MoF and in Budget Message.			
	Require SOEs' investment plans to be submitted to MoF once a year during the budget preparation process.	Publish SOEs' investment plans alongside the state budget documentation. Require financial statements of SOEs to be submitted to MoF quarterly (for non-audited entities) and annually (for audited entities).		Directorate for Local Self-Government and SOEs

Action	2022	2023	2024	Responsible agency
Strengthen capital budget processes to improve accountability, transparency, and credibility of public investment spending.				
Improve credibility of medium-term capital budget ceilings and forward projections; incorporate life-cycle costs in medium-term budget plans.	Include in capital budget guidelines requirements for spending units to include: (i) estimates of life-cycle costs for new and on-going capital budget projects in budget submissions; (ii) medium-term operational and maintenance projections in current budget under relevant program for projects nearing completion.	Use a baseline approach to improve credibility of medium-term capital budget ceilings and projections.		MoF, sector ministries
Improve transparency of total public investment by including information on all sources of funds in budget documents.	Compile information on existing capital projects implemented by SOEs.	Include a budget annex with project and expenditure information for SOE-managed capital project investments.		MoF
Transfer responsibility for capital budget ceilings and appropriations to sector ministries.	Revise budget guidelines (overall and for capital budget) to reflect these changes.	Establish a mechanism enabling Implementing Administrations to implement spending ministries' projects.		MoF
Introduce a systematized approach to maintenance budget planning supported by information on asset values, quality, sector- and asset-specific methodologies.	Prepare a prioritized list of key infrastructure assets	Prepare and document methodologies for maintenance budget planning for major infrastructure assets, covering both routine (current) maintenance and major rehabilitation or reconstruction	Compile information on values and current conditions of infrastructure assets	MoF, Ministry of Capital Investment and Ministry of Ecology, Spatial Planning and Urbanism
Merge existing project pipelines in single pipeline covering all sectors and all funding sources, indicating if each project can be candidate for IPA funds or Capital Budget.	Prepare list of all projects in current pipelines.	Classify list of all projects in current pipelines according to their financing sources.		MoF
Improve criteria for project selection, incorporating aspects for economic i, risk assessment and project maturity.		Identify relevant additional criteria (economic indicators, risk assessment and project maturity)	Include criteria in project selection regulation.	MoF

Action	2022	2023	2024	Responsible agency
Improve the monitoring, management, and oversight of public investments				
Review portfolio of major projects so government has an overview of the performance of all major projects.	<p>Require reports to be issued at least quarterly with all performance indicators required for informed management decisions.</p> <p>Require reports submission to MoF, Line Ministries and Agencies for their review and actions where required.</p>			MoF, Line Ministries, Implementing Agencies
Develop procedures for ensuring ex-post evaluations and auditing of major capital projects completed and results shared with relevant stakeholders.	Establish regulatory requirement for ex-post reviews of investment projects to include basic quantitative and qualitative performance assessment.			Line Ministries, Implementing Agencies, MoF, Public Procurement
Develop a framework for reporting on major capital projects to ensure appropriate monitoring by implementing Agencies, MoF, and Line Ministries	<p>Determine the periodicity of progress reports prepared by Implementing Agencies.</p> <p>Identify physical and financial progress information required for reports to support decision making.</p>	Develop templates for the progress reports to ensure uniformity and allow comparisons across initiatives.		Implementing Agencies, MoF, Line Ministries

Appendix II. PIMA Questionnaire

	PIMA Framework	Low	Medium	High
A	Planning Sustainable Levels of Public Investment			
1	Fiscal targets and rules: Does the government have fiscal institutions to support fiscal sustainability and to facilitate medium-term planning for public investment?			
1.a.	Is there a target or limit for government to ensure debt sustainability?	There is no target or limit to ensure debt sustainability.	There is at least one target or limit to ensure central government debt sustainability.	There is at least one target or limit to ensure general government debt sustainability.
1.b.	Is fiscal policy guided by one or more permanent fiscal rules?	There are no permanent fiscal rules.	There is at least one permanent fiscal rule applicable to central government.	There is at least one permanent fiscal rule applicable to central government, and at least one comparable rule applicable to a major additional component of general government, such as subnational government (SNG).
1.c.	Is there a medium-term fiscal framework (MTFF) to align budget preparation with fiscal policy?	There is no MTFF prepared prior to budget preparation.	There is an MTFF prepared prior to budget preparation but it is limited to fiscal aggregates, such as expenditure, revenue, the deficit, or total borrowing.	There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending, and ongoing and new projects.
2	National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?			
2.a.	Does the government prepare national and sectoral strategies for public investment?	National or sectoral public investment strategies or plans are prepared, covering only some projects found in the budget.	National or sectoral public investment strategies or plans are published covering projects funded through the budget.	Both national and sectoral public investment strategies or plans are published and cover all projects funded through the budget regardless of financing source (e.g., donor, public corporation (PC), or PPP financing).
2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment.	The government's investment strategies include broad estimates of aggregate and sectoral investment plans.	The government's investment strategies include costing of individual, major investment projects within an overall financial constraint.
3.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes.	Sector strategies include measurable targets for outputs (e.g., miles of roads constructed).	Sector strategies include measurable targets for both outputs and outcomes (e.g., reduction in traffic congestion).

	PIMA Framework	Low	Medium	High
3	Coordination between Entities: Is there effective coordination of the investment plans of central and other government entities?			
3.a.	Is capital spending by SNGs, coordinated with the central government?	Capital spending plans of SNGs are not submitted to, nor discussed with central government.	Major SNG capital spending plans are published alongside central government investments, but there are no formal discussions, between the central government and SNGs on investment priorities.	Major SNG capital spending plans are published alongside central government investments, and there are formal discussions between central government and SNGs on investment priorities.
3.b.	Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	The central government does not have a transparent rule-based system for making capital transfers to SNGs.	The central government uses a transparent rule-based system for making capital transfers to SNGs, but SNGs are notified about expected transfers less than six months before the start of each fiscal year.	The central government uses a transparent rule-based system for making capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year.
3.c	Are contingent liabilities arising from capital projects of SNGs, PCs, and PPPs reported to the central government?	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are not reported to the central government.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, but are generally not presented in the central government's budget documents.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, and are presented in full in the central government's budget documents.
4	Project Appraisal: Are project proposals subject to systematic project appraisal?			
4.a.	Are major capital projects subject to rigorous technical, economic, and financial analysis?	Major capital projects are not systematically subject to rigorous, technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis, and selected results of this analysis are published or undergo independent external review.
4.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no standard methodology or central support for project appraisal.	There is either a standard methodology or central support for project appraisal.	There is both a standard methodology and central support for project appraisal.
4.c.	Are risks taken into account in conducting project appraisals?	Risks are not systematically assessed as part of the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal, and plans are prepared to mitigate these risks.

	PIMA Framework	Low	Medium	High
5	Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?			
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.
5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.
B	Ensuring Public Investment is Allocated to the Right Sectors and Projects			
6	Multiyear Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?			
6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year.	Projections of total capital spending are published over a three to five-year horizon.	Projections of capital spending disaggregated by ministry or sector are published over a three to five-year horizon.
6.b.	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.
6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three-five-year horizon.

	PIMA Framework	Low	Medium	High
7	Budget Comprehensiveness and Unity: To what extent is capital spending, and related recurrent spending, undertaken through the budget process?			
7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extra-budgetary entities with no legislative authorization or disclosure in the budget documentation.	Significant capital spending is undertaken by extra-budgetary entities, but with legislative authorization and disclosure in the budget documentation.	Little or no capital spending is undertaken by extra-budgetary entities.
7.b.	Are all capital projects, regardless of financing source, shown in the budget documentation?	Capital projects are not comprehensively presented in the budget documentation, including PPPs, externally financed, and PCs' projects.	Most capital projects are included in the budget documentation, but either PPPs, externally financed, or PCs' projects are not shown.	All capital projects, regardless of financing sources, are included in the budget documentation.
7.c.	Are capital and recurrent budgets prepared and presented together in the budget?	Capital and recurrent budgets are prepared by separate ministries, and/or presented in separate budget documents.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, but without using a program or functional classification.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, using a program or functional classification.
8	Budgeting for Investment: Are investment projects protected during budget implementation?			
8.a.	Are total project outlays appropriated by the legislature at the time of a project's commencement?	Outlays are appropriated on an annual basis, but information on total project costs is not included in the budget documentation.	Outlays are appropriated on an annual basis, and information on total project costs is included in the budget documentation.	Outlays are appropriated on an annual basis and information on total project costs, and multiyear commitments is included in the budget documentation.
8.b.	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending.	The finance ministry may approve virement from capital to current spending.	Virement from capital to current spending requires the approval of the legislature.
8.c.	Is the completion of ongoing projects given priority over starting new projects?	There is no mechanism in place to protect funding of ongoing projects.	There is a mechanism to protect funding for ongoing projects in the annual budget.	There is a mechanism to protect funding for ongoing projects in the annual budget and over the medium term.

	PIMA Framework	Low	Medium	High
9	Maintenance Funding: Is maintenance receiving adequate funding?			
9.a.	Is there a standard methodology for estimating routine maintenance needs and budget funding?	There is no standard methodology for determining the needs for routine maintenance.	There is a standard methodology for determining the needs for routine maintenance and its cost.	There is a standard methodology for determining the needs for routine maintenance and its cost, and the appropriate amounts are generally allocated in the budget.
9.b.	Is there a standard methodology for determining capital maintenance projects, and are they included in national and sectoral investment plans?	There is no standard methodology for determining major improvements, and they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, but they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, and they are included in national or sectoral plans.
9.c.	Can expenditures relating to maintenance be identified in the budget?	Routine maintenance and major improvements are not systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget, and are reported.
10	Project Selection: Are there institutions and procedures in place to guide project selection?			
10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Major projects (including donor- or PPP-funded) are not reviewed by a central ministry prior to inclusion in the budget.	Major projects (including donor- or PPP-funded) are reviewed by a central ministry prior to inclusion in the budget.	All major projects (including donor- or PPP-funded) are scrutinized by a central ministry, with input from an independent agency or experts prior to inclusion in the budget.
10.b.	Does the government publish and adhere to standard criteria, and stipulate a required process for project selection?	There are no published criteria or a required process for project selection.	There are published criteria for project selection, but projects can be selected without going through the required process.	There are published criteria for project selection, and generally projects are selected through the required process.
10.c.	Does the government maintain a pipeline of appraised investment projects for inclusion in the annual budget?	The government does not maintain a pipeline of appraised investment projects.	The government maintains a pipeline of appraised investment projects but other projects may be selected for financing through the annual budget.	The government maintains a comprehensive pipeline of appraised investment projects, which is used for selecting projects for inclusion in the annual budget, and over the medium term.

	PIMA Framework	Low	Medium	High
C	Delivering Productive and Durable Public Assets			
11	Procurement			
11.a.	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process, and the public has limited access to procurement information.	Many major projects are tendered in a competitive process, but the public has only limited access to procurement information.	Most major projects are tendered in a competitive process, and the public has access to complete, reliable, and timely procurement information.
11.b.	Is there a system in place to ensure that procurement is monitored adequately?	There is no procurement database, or the information is incomplete or not timely for most phases of the procurement process.	There is a procurement database with reasonably complete information, but no standard analytical reports are produced from the database.	There is a procurement database with reasonably complete information, and standard analytical reports are produced to support a formal monitoring system.
11.c.	Are procurement complaints review process conducted in a fair and timely manner?	Procurement complaints are not reviewed by an independent body.	Procurement complaints are reviewed by an independent body, but the recommendations of this body are not produced on a timely basis, nor published, nor rigorously enforced.	Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced.
12	Availability of Funding: Is financing for capital spending made available in a timely manner?			
12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash-flow forecasts?	Cash-flow forecasts are not prepared or updated regularly, and ministries/agencies are not provided with commitment ceilings in a timely manner.	Cash-flow forecasts are prepared or updated quarterly, and ministries/agencies are provided with commitment ceilings at least a quarter in advance.	Cash-flow forecasts are prepared or updated monthly, and ministries/agencies are provided with commitment ceilings for the full fiscal year.
12.b.	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing.	Cash for project outlays is sometimes released with delays.	Cash for project outlays is normally released in a timely manner, based on the appropriation.
12.c.	Is external (donor) funding of capital projects fully integrated into the main government bank account structure?	External financing is largely held in commercial bank accounts outside the central bank.	External financing is held at the central bank, but is not part of the main government bank account structure.	External financing is fully integrated into the main government bank account structure.

	PIMA Framework	Low	Medium	High
13	Portfolio Management and Oversight: Is adequate oversight exercised over implementation of the entire public investment portfolio?			
13.a.	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation.	For most major projects, annual project costs, as well as physical progress, are monitored during project implementation.	For all major projects, total project costs, as well as physical progress, are centrally monitored during project implementation.
13.b.	Can funds be re-allocated between investment projects during implementation?	Funds cannot be re-allocated between projects during implementation.	Funds can be reallocated between projects during implementation, but not using systematic monitoring and transparent procedures.	Funds can be re-allocated between projects during implementation, using systematic monitoring and transparent procedures.
13.c.	Does the government adjust project implementation policies and procedures by systematically conducting ex-post reviews of projects that have completed their construction phase?	Ex post reviews of major projects are neither systematically required, nor frequently conducted.	Ex post reviews of major projects, focusing on project costs, deliverables, and outputs, are sometimes conducted.	Ex post reviews of major projects focusing on project costs, deliverables, and outputs are conducted regularly by an independent entity or experts and are used to adjust project implementation policies and procedures.
14	Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?			
14.a.	Do ministries/agencies have effective project management arrangements in place?	Ministries/agencies do not systematically identify senior responsible officers for major investment projects, and implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, but implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval.
14.b.	Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	There are no standardized rules and procedures for project adjustments.	For major projects, there are standardized rules and procedures for project adjustments, but do not include, if required, a fundamental review and reappraisal of a project's rationale, costs, and expected outputs.	For all projects, there are standardized rules and procedures for project adjustments and, if required, include a fundamental review of the project's rationale, costs, and expected outputs.

	PIMA Framework	Low	Medium	High
14.c.	Are ex post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex post external audits.	Some major capital projects are subject to ex post external audit, information on which is published by the external auditor.	Most major capital projects are subject to ex post external audit information on which is regularly published and scrutinized by the legislature.
15 Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?				
15.a.	Are asset registers updated by surveys of the stocks, values, and conditions of public assets regularly?	Asset registers are neither comprehensive nor updated regularly.	Asset registers are either comprehensive or updated regularly at reasonable intervals.	Asset registers are comprehensive and updated regularly at reasonable intervals.
15.b.	Are nonfinancial asset values recorded in the government financial accounts?	Government financial accounts do not include the value of non-financial assets.	Government financial accounts include the value of some non-financial assets, which are revalued irregularly.	Government financial accounts include the value of most nonfinancial assets, which are revalued regularly.
15.c.	Is the depreciation of fixed assets captured in the government's operating statements?	The depreciation of fixed assets is not recorded in operating statements.	The depreciation of fixed assets is recorded in operating statements, based on statistical estimates.	The depreciation of fixed assets is recorded in operating expenditures, based on asset-specific assumptions.
Cross-cutting Issues				
A	IT support. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			
B	Legal Framework. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, procedures, standards, and accountability for effective PIM?			
C	Staff capacity. Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective PIM institutions?			

Appendix III. Stepwise Project Appraisal in Chile

The established procedures for selecting public investment projects in Chile require that the execution of any investment project must be preceded by the completion of one or more studies, depending on the complexity, costs and sector associated with the project. Less costly and complex projects—the threshold varies per sector—may proceed directly to execution, with the sponsoring institution providing a project profile following the corresponding project methodology. The following table presents the requisites for moving through the stages in the project life cycle.

Type of project	Study required to move to a more advanced stage in the project life cycle	Stage to which the project can apply
Low-cost project with standard pre-approved design or design developed	Profile	Execution
Low-cost project that must develop the design separately before execution.	Profile	Design
	Design	Execution
High-cost or high-complexity project that due to its nature should develop the full life cycle.	Profile	Pre-feasibility
	Pre-feasibility	Feasibility
	Feasibility	Design
	Design	Execution
Project with referential design (pre-design), which applies to the implementation stage, including cost of design.	Profile, Pre-feasibility, or Feasibility (depending on cost and complexity)	Design and Execution

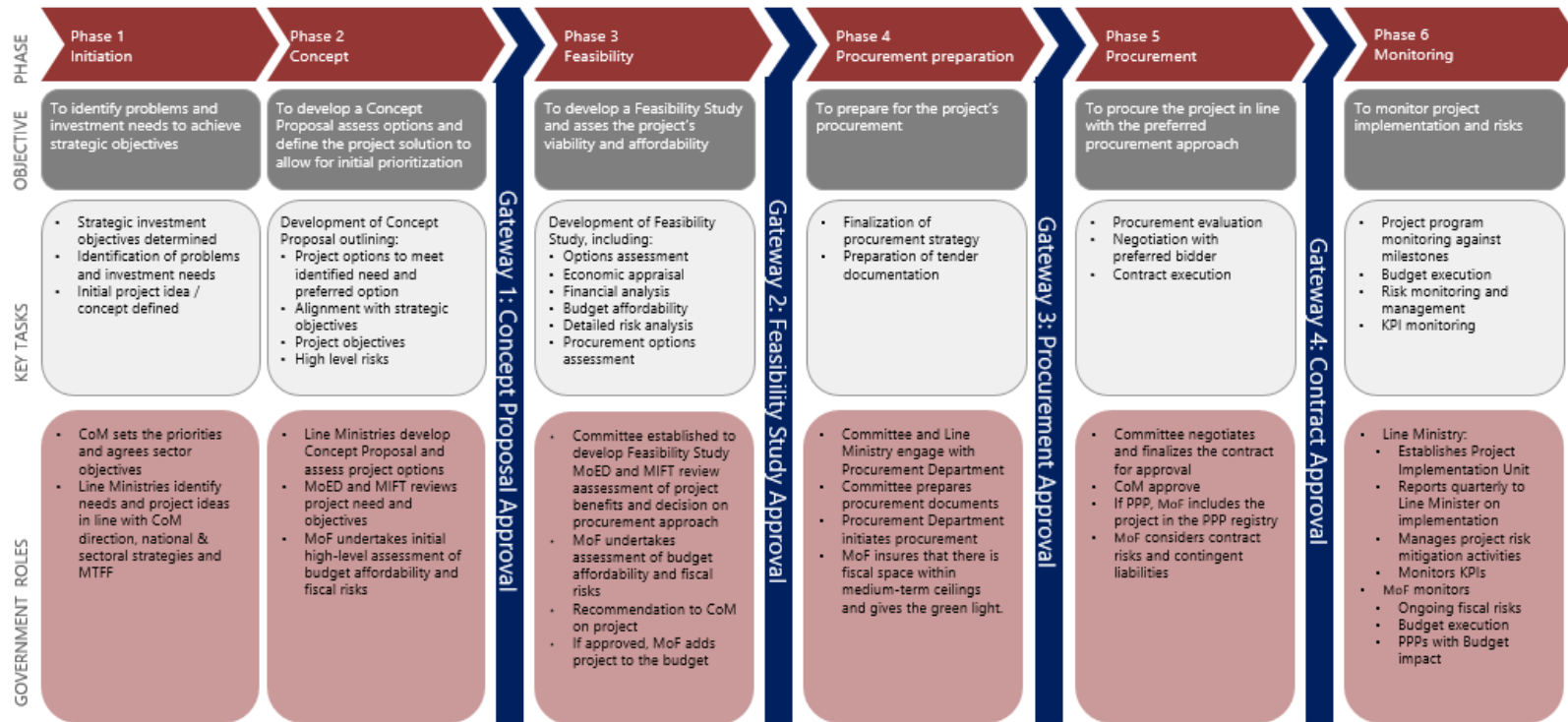
Source: Rules, Instructions and Procedures for the Process of Public Investment (NIP), Ministry of Social Development - Ministry of Finance, May 2020, and Mission.

Appendix IV. Illustration of Gateway Process for PPPs and Public Investments

A gateway process is an institutional mechanism that empowers central ministries of finance and/or economy to ensure that projects meet certain critical criteria before advancing through successive stages in the PPP approval process. For example, projects that might not offer value for money, are not affordable from a fiscal perspective, or impose an excessive risk burden on government, should be stopped as early in the process as possible. To achieve this, ministries of finance and economy should assess and approve projects at key points (gateways) in the project development process. Establishing a first review early in the preparation process is important to ensure that a certain project has not built up so much political momentum that it is hard to stop. Below is a brief description of how a gateway process could work, while Figure A5 provides an illustration of a gateway process.

- **Gateway 1:** focuses on whether the project is aligned with government priorities and strategic objectives and whether it can be funded in the short to medium term. Projects approved at this gateway proceed for further assessment, ensuring that internal resources are not expended on projects that do not have strong alignment with government priorities.
- **Gateway 2:** centers on assessment of a proposed project's feasibility study as prepared by the project proponent. Key elements include ensuring that the analysis of the project's anticipated economic and financial impact is acceptable; that sufficient technical analysis has been undertaken; that the project is consistent with medium-term expenditure ceilings and medium-term fiscal sustainability; that it does not impose excessive project, technical, legal, or fiscal risks; and that the recommended procurement approach will support the achievement of value for money. Once the feasibility study is approved, procurement documentation is prepared.
- **Gateway 3:** ensures that the procurement documentation reflects the previous analysis, will support the achievement of the project objectives and is sufficient to proceed to tender. A key decision at this gateway is to decide whether the project can be included in the medium-term budget framework. Additionally, the MoF should review fiscal risks contained in tender documents to ensure they are appropriate and allocated to the party best able to manage and mitigate the risk.
- **Gateway 4:** ensures that the contract position is acceptable prior to finalization and aligns with the feasibility study. At this gateway the MoF should assess the final risk allocation and fiscal costs and risk to ensure they are appropriate and that the project objectives are achieved. This assessment should be used as a basis for ongoing risk monitoring.

Figure A4. Indicative Gateway and Project Management Process



Gateways description

Gateway 1: Concept Proposal Approval
Confirmation that the project aligns with government priorities and is a realistic project that can be funded at some stage

Gateway 2: Feasibility Study Approval
Confirmation that the project has been thoroughly assessed and should proceed based on consideration of the project's CBA, legal, technical, and project risk; procurement assessment and budget affordability.

Gateway 3: Procurement Approval
Confirmation that the procurement strategy and documentation aligns with previous assessments

Gateway 4: Contract Approval
Confirmation that the proposed contractual arrangement achieves objectives and risk allocation is appropriate

Appendix V. Service Agreements for Project Implementation

In Montenegro, the DT and the PWA are responsible for implementation of public investment projects. This is not an uncommon practice in countries with limited capacities in sector ministries, being sensible to pool resources for specialized public investment preparation and implementation activities in one or two ministries with the best capacity, which undertake certain activities on behalf of other ministries.

In such cases, in line with appropriate governance principles, it is critical to maintain the sponsoring ministry's overall accountability (to the government, to the legislature and to the public) for the investment resources. This ensures that the sponsoring (accountable) ministry retains responsibility for decisions on overall project planning and budget allocations, in line with government policies and priority objectives for the sector. The partnering ministry takes on the role of an out-sourced contractor for specified services.

This is not the case in Montenegro, where the partnering Administrations are accountable for line ministries' capital budget resources, which undermines the appropriate resource accountability and can lead to poor communication and consultations with the sponsoring ministries about the projects in their sector.

Other countries have addressed this problem by implementing service agreements between the sponsoring ministry and the partnering ministry. The agreement should stipulate the services that the implementing partner will provide to the sponsoring ministry (e.g., the construction of a non-financial asset). This allows the line ministry to retain accountability and overall responsibility (ceilings and appropriations) for the capital projects in its sector, but to benefit from the construction expertise of the partnering ministry (agency or administration).

This solution is used successfully in some countries, for example in Chile. In this country the Ministry of Public Works is authorized to provide certain activities (e.g., undertaking some aspects of project implementation or providing technical assistance for project preparation) to spending ministries or sub-national governments. In Chile's case, this type of delegated service provision is materialized through an Administrative Act ("Resolución"), which is regulated by law (Law 19880). Responsibility for budgetary resources stays with the sponsoring ministry, and the specific financial arrangements to the partnering agency are set out in the agreement ("convenio").

Appendix VI. Maintenance Planning and Budgeting Implications of Large and/or Complex Projects

Large and/or complex projects characteristically involve more than one type of infrastructure asset with different maintenance requirements (e.g., one roads project may include road surfaces, bridges, and tunnels). Regular maintenance planning throughout the life cycle of an asset is a key part of the effective management of infrastructure assets. Such planning helps preserve the expected useful life of the infrastructure asset and prevent costly failures (e.g., dams, or electricity supply sub-stations).

Maintenance planning for a large and/or complex infrastructure project starts at the design stage of the project concept. When considering different project designs and options, the potential impact of expected maintenance requirements and the estimated costs of each option should be an integral part of feasibility studies. When construction of each section or part an infrastructure asset has been completed, information on its maintenance requirements should be provided by the contractor and design engineers (e.g., the operations manual) in order to inform maintenance planning.

Maintenance planning during the expected useful life of the newly-created infrastructure asset requires the preparation of annual and medium-term infrastructure maintenance plans for each type of asset depending on their specific maintenance requirements (e.g., sections of roads, bridges, and tunnels, with their different maintenance requirements). The expected associated costs of these plans should be prepared, considering factors such as its size and type, likely demand for the infrastructure (e.g., traffic and vehicle loads), relative ease of access for undertaking maintenance work, type of maintenance equipment and materials required, as well as external factors (e.g., environmental). The required maintenance costs for each type of asset (works, materials, labor) are related to the value of the asset itself.

In order to ensure resources are available for these plans, sponsoring ministries should incorporate the costs of these maintenance plans into their annual and medium-term budget plans. More broadly, a systematized approach to maintenance planning and budgeting for the infrastructure portfolio as a whole (focusing particularly on critical infrastructure initially) would help preserve Montenegro's infrastructure stock and minimize costly major reconstruction works. Such an approach would involve undertaking detailed needs and costs analyses for the maintenance for each type of infrastructure (involving assessments of current infrastructure quality and estimates of the values of each infrastructure asset) and incorporating the costs of the resulting annual and medium-term maintenance requirements into medium-term budget planning (baselines, ceilings, and budget projections).

Appendix VII. Two Lists of Projects, Different Selection Process and Criteria

The List of Priority Capital Projects (LPCP) Financed from the Capital Budget of the State¹

In June 2018, the Government adopted the Decision which created the “Commission for Evaluation of Projects Financed from the Capital Budget of the State” (Article 16), made up of seven members appointed by Government (June 2021 Government Decision increased members to 9). The Commission prepares a list of projects eligible for budget funding, following the criteria established in the Decision (Articles 9-11); professional and administrative tasks of the Commission are done by the MoF. The state administration authorities in charge of sustainable development, of tourism affairs, and of transport and maritime affairs, are responsible for the control and validation of technical documentation for capital projects, depending on the type of the project. Each of these authorities has 2 representatives in the Commission.

A proposal seeking government funding must complete and submit to the MoF a template (“Form”) that summarizes and standardizes key project information, which are then submitted to the Commission for evaluation. Projects are assessed using multi-criteria analysis, which is made up of 10 basic and 2 supplementary criteria. The two most relevant criteria evaluate whether “extra-budgetary resources were provided to finance the project” and if the initiative will “contribute to more even regional and economic development, increase in the quality of public service delivery and improvement of citizens' quality of life”. 20 out of 100 possible points are assigned to each of these criteria. Four additional criteria are assigned 10 points each, and four more five. For every project, the criteria are assessed as fulfilled or not, depending on which it will receive a rating of 1 or 0 (the criteria “resolved property-legal relations” is multiplied by -1 if not met, or 0 otherwise). There are also two supplementary evaluation criteria established in Article 8 of the Decision, each of which can add 5 points to the total score calculated for the project.

The Commission should assess all projects for which funding requests are submitted to the MoF and prepare a *Proposal of the List of Priority Projects for Financing from the State Capital Budget*. The Proposal should include the best ranked projects according to the criteria in the Decision and submitted in July through the MoF to the Government for final consideration, approval, and inclusion in the annual budget. Projects that were not submitted in time to the MoF or that received a low score should not be included in the final Proposal.

The Unified List of Priority Infrastructure Projects or Single Project Pipeline - SPP

The National Investment Commission (NIC), a high-level commission chaired by the Prime Minister, was created in 2015 following EU recommendations. It defines the Unified List of Priority Infrastructure projects (or Single Project Pipeline-SPP), which is a list of candidate

¹ Source: Government decisions of 28 June 2018, 07-2988/4 from June 4, 2020, and 67/2021 of 22 June 2021.

projects for IPAC funding. These are considered strategically significant, which will make the largest contributions towards the achievement of national policy objectives for accession to the European Union, and for socio-economic development. Therefore, the SPP only includes some projects within selected sectors.

Additionally, four Sector Working Groups² (SWG) were created for the transport, energy, environment, and social activities (education, health, justice). SWGs are in charge of identifying relevant infrastructure projects, completing Project Identification Forms³, undertaking a Strategic Relevance Assessment (SRA), and creating Sector Single Project Pipelines (SSPPs). The latter are sent to the NIPAC office for consolidation and presented to the NIC for consideration for inclusion in the SPP, and for providing funds for the implementation of projects.

The “Methodology for Selection and Prioritization of Infrastructure Projects” proposes a standardized approach for creating and updating the SPP. The NIPAC office in cooperation with SWGs assesses the completeness of the project documentation and divides projects into two groups and subgroups according to their degree of maturity, namely:

- Group 1 – Ready for tendering and investment realization
 - Group 1a –technical documentation prepared, ready for tender preparation or tendering.
 - Group 1b –with preparation of technical documentation ongoing, and ready for tendering when it is finished, or some final approvals/permits are missing.
- Group 2 – Ready for preparation of technical documentation
 - Group 2a –spatial planning documentation complete and no property-related issues.
 - Group 2b – projects with spatial planning documentation completed and resolving of property-related issues ongoing or property-related issues unresolved.
 - Group 2c – projects with gaps in spatial planning documentation and resolving of property-related issues ongoing or property-related issues unresolved.

The SPP shared with the mission was endorsed by the NIC in July 2020 and includes 131 projects. However, some projects in the SPP are in fact investment programs⁴ where the cost of the individual projects has not been estimated and strategic relevance has been assigned to the program and not to individual projects. However, project appraisal studies are not required, and, although some may have studies, such as in the roads sector, it was indicated to the mission that most projects in the SPP do not have economic appraisals, which limits the effectiveness of the selection process. All projects in the SPP are classified according to the two groups mentioned above: there are currently 50 projects in Group 1 and 78 projects in Group 2.

² It was mentioned to the mission that due to the recent change of authorities the sector working groups have been nominated by July 1 and are just starting to get acquainted with tasks to do.

³ Which is different from the form mentioned in the first paragraph.

⁴ Meaning a group of similar small projects. For example, the project “Preschool education” is a group of 8 different kindergartens or nurseries in different cities.

Appendix VIII. Common Elements of a Project Implementation Plan

The Project Implementation Plan is a document which sets the key arrangements for the implementation of an investment project, to be then managed and monitored during the implementation stage.

The following is a non-comprehensive list of the elements that should be contained in an implementation plan:

- Description of Project Management Approach
- Project category (Civil engineering, mining, energy, etc.)
- Project status (Planning, development, appraisal, selection, or implementation)
- Priority (Strategic priority)
- Date project to be initiated. (Earliest date)
- Date project to be completed. (Contractual completion date as well as expected completion date)
- Operating and maintenance cost (Operating and maintenance cost for first 5-10 years after completion)
- Scope statement (Description of the scope of the project)
- Work breakdown structure (WBS) (Deliverable-oriented breakdown of a project into smaller components)
- Cost-estimates scheduled start dates and responsibility assignment.
- Performance measure baselines for schedules and cost
- Major milestones and target dates for each milestone
- Key staff requirement
- Key risks and possible mitigations
- Procurement plan

Appendix IX. Overview of Legal Framework Related to PIMA Institutions

Institution	Law/Guidelines	Comments
1. MTFF	Law on Budget and Fiscal Responsibility (2014, last update in 2018), Section III Fiscal Policy and Responsibility.	Art. 20 and 21 regulate public debt. Art. 24 on spending ceilings. Art. 29 requires that a 3-year fiscal ceiling be determined. https://www.paragraf.me/propisi-crnegore/zakon-o-budzetu-i-fiskalnoj-odgovornosti.html
2. Planning	No legal framework	Decree on the manner and procedure of drafting, harmonizing, and monitoring the implementation of strategic documents
3. Coordination between entities.	Law on Budget and Fiscal Responsibility (2014, last update in 2018)	Art. 27 sets fiscal rules for local administration bodies. Art. 35 indicates that prior to the adoption of the proposal of the Decision on Municipal Budget, the municipal body shall obtain an opinion of the MoF. Art. 49 gives authority to the Minister of Finance on municipal budgets. Art. 57 requires previous GoM consent, based on proposal by the MoF for borrowing and guaranties by municipalities. Art. 64 requires spending units, municipalities, and other public sector entities to submit a financial report upon the order of the MoF.
	Law on local self-government financing (2017)	Articles 3, 4, 29, 36, 37, 38 and 62 are related to capital investments and transfer from the state budget. https://www.gov.me/dokumenta/de1a049d-e1b8-4a6f-b1d4-77de9c8c6b8c
4. Project appraisal	Decision on drafting the capital budget and determining and evaluating criteria for selection of capital projects (2018 & 2021)	Art, 12 regulates content of project proposal submissions. http://www.sluzbenilist.me/pregled-dokumenta/?id={5AB1A39A-1B8D-47E8-B7B3-32CF95C7FD6C}
5. Alternative infrastructure financing	Law about Companies (2020, update in 2021)	https://www.paragraf.me/propisi-crnegore/zakon-o-privrednim-drustvima.html
	Law on Public-Private Partnership (2019)	https://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/827/2121-12571-05-19-3.pdf
	Law on Public - Private Partnership and PPP bylaws.	https://mia.gov.me/me/javno-privatno-partnerstvo/
6. Multiyear Budgeting	Law on Budget and Fiscal Responsibility (2014, last update in 2018)	Article 30 requires budget users to submit to MoF expenditures for 3 years (budget+2). Article 34 reinforces the 1+2 framework and 36 requires that a 3-year overview of planned receipts and expenditures be submitted to parliament. Article 40 requires preapproval of MoF for assuming multiyear commitments

Institution	Law/Guidelines	Comments
7. Budget comprehensiveness and unity	LBFR (2014, last update in 2018)	Articles 4 (Contents) and 6 (Expenditures) define what should be part of the budget
8. Budgeting for investment	LBFR (2014, last update in 2018)	Art. 45 regulates virements. Art. 47 prohibits reallocation of funds from the Capital Budget to the Current Budget and to the budgets of Funds.
	Decision on drafting the capital budget and determining and evaluating criteria for selection of capital projects (2018 and 2021)	Art. 20 prioritizes funding to projects being implemented. No need for reevaluating.
9. Maintenance funding	No general legal framework	Mentioned as an expenditure category to be included in the Budget (LBFR Art. 6)
	Roads Act (2004, last update in 2017)	Mentions maintenance in multiple articles as part of duites. http://www.sluzbenilist.me/pregled-dokumenta/?id={FF59FA77-3909-4720-8D97-40DE5D514562}
10. Project selection	Decision on drafting the capital budget and determining and evaluating criteria for selection of capital projects (2018 and 2021)	Articles 7 to 11 Art. 15 to 18
	Methodology for selection and Prioritization of Infrastructure Projects.	
11. Procurement	Law on Public Procurement (2019)	Complemented by various Rulebooks and Ordinances published after the law. http://www.ujn.gov.me/en/novi-zakon-o-javnim-nabavkama-sluzbeni-list-crne-gore-br-074-19-od-30-12-2019/
12. Availability of funding	LBFR (2014)	Art. 71 -(State treasury) 14- Ensure that sufficient monetary funds remain in the Treasury Consolidated Account to pay planned liabilities in a timely manner
13. Portfolio management and oversight	No legal framework	
14. Management of project implementation	Decision on drafting the capital budget and determining and evaluating criteria for selection of capital projects (2018 and 2021)	Art. 19 requires quarterly reports on the implementation of capital projects to be submitted to the MoF
15. Monitoring of Public Assets	Law on Public Sector Accounting	Art. 14 requires existence of a supporting book of non-financial assets Art. 22 classifies assets including contingent. Art. 25 regulates depreciation of assets. https://www.gov.me/dokumenta/7dc441ab-66b6-4e7d-956f-ad4475620fc3

Appendix X. Overview of PIM-Related IT Systems

Institution	System	Comments
1. MTFF	Budget Planning Management Information System (BMS),	Debt management module Poor data about projects
2. Planning	None	
3. Coordination between entities.	Database about projects of municipalities Database on budgets of SOEs	Operated by the Directorate for Self-governments and SOE Does not include data about projects
4. Project appraisal	None	
5. Alternative infrastructure financing	Register of PPP projects	https://mia.gov.me/public-private-partnership/# No projects registered (see projects) Operated by the Montenegrin Investment Agency
6. Multiyear Budgeting	Budget Planning Management Information System (BMS),	
7. Budget comprehensiveness and unity	Budget Planning Management Information System (BMS)	Budget split in current and capital
8. Budgeting for investment	Budget Planning Management Information System (BMS),	
9. Maintenance funding	Agency for transport system for management of maintenance	
10. Project selection	NIPAC database for the SPP	PIMIS being developed with IPA funding by the Public Investment Unit of MoF.
11. Procurement	CeJN (Crnogorske Elektronske Javne Nabavke)	https://cejn.gov.me/landingPage ; e-procurement system implemented since 2018 with the support of the European Commission, and financed from IPA funds.
12. Availability of funding	Treasury's uses SAP FMIS system	
13. Portfolio management and oversight	MoF FMIS	Used for budget management by the SAI
14. Management of project implementation	Public works IT system for project management	System needs improvements Agency for Transport is preparing a registry of projects which should be completed by year end
15. Monitoring of Public Assets	Asset Registry System (ARS)	Operated by the Register of property; Being populated