



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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**I. BASIC INFORMATION****A. Basic Operation Data**

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P512709	Investment Project Financing (IPF)	WASEC Phase 1	2027
Operation Name	Montenegro Water Security and Climate Adaptation Phase 1 Project		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Montenegro	Montenegro	EUROPE AND CENTRAL ASIA	Water
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Montenegro	Ministry of Agriculture, Forestry and Water Management, Ministry of Ecology, Sustainable Development and Northern Region Development	14-Jul-2026	30-Oct-2026
Estimated Concept Review Date	Total Project Cost		
09-Mar-2026	63,032,949.00		

Proposed Development Objective

The Project development objective is to improve climate resilient water services in selected municipalities and enhance near-term water security in the coastal region of Montenegro.

B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project Activities

The proposed operation is the first phase under the Montenegro Water Services and Climate Resilience Multiphase Programmatic Approach (MPA), a two-phase engagement designed to support the long-term transformation of the water sector in Montenegro. The total estimated program cost is approximately EUR 200 million, with a proposed IBRD financing envelope of approximately USD 90 million — USD 35 million for Phase 1 and USD 55 million for Phase 2 - complemented by contributions from other development partners including the OPEC Fund for International



Development and, from Phase 2 onwards, EU funds and contributions from other development partners. Phase 1 (late 2026–2031) will focus on priority water supply and wastewater investments in municipalities across Montenegro, emergency and near-term measures to secure coastal water supply, technical assistance to identify long-term solutions for Morača River basin management and Bolje Sestre spring discharge stabilization, and foundational governance and regulatory reforms. Phase 2 (~2029/2030–2035), becoming effective in parallel with the later stages of Phase 1 and triggered by the completion of key analytical and reform milestones and Montenegro's EU accession, will implement the long-term coastal water security solution, scale up water supply and wastewater infrastructure investments in support of EU water directives compliance, and support water service development strategy implementation. Phase 1 is organized into four components: Component 1 — Strategic Investments in Water Services Infrastructure and Resilience aims to rehabilitate, modernize, and expand water services infrastructure across priority municipalities. Activities focus on: rehabilitation and expansion of centralized water supply systems to reduce water losses, construction of sewer networks connecting households to existing wastewater treatment plants; and modernization of decentralized water services infrastructure to serve rural populations in remote areas. Component 2 — Integrated Approaches for Coastal Water Security addresses the growing risk to coastal water supply posed by the declining discharge of the Bolje Sestre spring, linked to extensive gravel extraction from the Morača River. It includes: expansion of Lake Skadar water abstraction and treatment capacity by 250 liters per second to address near-term supply shortfalls during peak summer seasons; and comprehensive hydromorphological and sediment assessments, monitoring, and modeling of the Morača River to identify and design a long-term solution for spring discharge stabilization, to be implemented under Phase 2. Component 3 — Strengthening the Enabling Environment for Effective Water Sector Governance and Management finances the policy, regulatory, and capacity reforms essential to making water sector investments sustainable and effective. Activities are organized around three clusters: policy and legislative support, including the Techno-Economic Analysis and National Strategy for Water Services Development mandated by the new Law on Water Services; regulatory support, including revision of REGAGEN's tariff methodology and development of a national digital platform for utility performance data collection and benchmarking; and capacity building for utilities and local governments focused on multi-annual business planning, NRW management, and performance data reporting. Component 4 — Project Management supports effective coordination and oversight of all project activities through the PIU within PROCON, with fiduciary functions handled by the Technical Services Unit within the Ministry of Finance.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

This operation follows a Multiphase Programmatic Approach (MPA), and this ESRS assesses the E&S risks and impacts of Phase 1 only, consistent with the phased project design. The Project is implemented country-wide. Montenegro is a water-rich country with abundant resources and high precipitation shaped by its mountainous terrain. Despite this, the water sector faces major challenges in achieving water security and climate resilience. These challenges stem from complex hydrological conditions influenced by the Dinaric Karst and are intensified by growing climate variability. Efficiency of water supply systems and long-term infrastructure sustainability remain key concerns.

Phase 1 focuses on coastal water security due to pressures from intensive tourism in coastal areas. Seasonal tourism drives peak water demand, increases wastewater volumes, and strains existing systems, exposing critical limitations in ensuring reliable and sustainable services. Less than half of wastewater is treated, and many treatment plants face operational difficulties, especially with sludge management and rising energy costs. Water infrastructure development is governed by a national framework aligned with EU directives, including laws on Environmental Impact Assessment, Strategic Environmental Assessment, Waters, Environmental Protection, and Spatial Planning and Construction. These regulate environmental, spatial, and water-use aspects. Affordability and equity are important social considerations, as



tariffs vary across regions and may burden low-income or rural households. Vulnerable groups—such as residents of remote areas, elderly persons, and Roma communities—may face unequal access to safe and reliable services. Public participation and transparency in utility operations are improving but remain limited, contributing at times to public dissatisfaction or misunderstandings regarding tariffs and service quality.

D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

The Project will be implemented by a newly established Project Implementation Unit (PIU) within the Ministry of Ecology. The PIU is planned under "Project – Consulting" (PROCON) in Podgorica, designated by the Government of Montenegro as the National Unit for implementing projects in communal services and environmental protection. The PIU will include a Head of PIU, Environmental and Social (E&S) Specialist(s), Occupational Health and Safety Specialist a Monitoring and Evaluation Specialist, and a technical support team of engineers. For activities under Component 1 (rural water services) and Component 2 (Morača River restoration), the Ministry of Agriculture will deploy its existing SDIP PIU to coordinate ministry-specific activities. Regional water utility will provide technical support and assistance to PROCON in all activities related to expansion of water intake at Bolje Sestre spring.

The PROCON and LSG's have limited ESF capacity. The capacity of the PIU and other implementing entities will be further assessed during preparation and implementation. Targeted capacity building and technical assistance will be provided as needed. The project will adopt adaptive management principles, allowing adjustments to E&S measures as new information or circumstances arise.

In Environmental risk management oversight is structured across competent authorities: the Ministry of Ecology leads EIA and spatial planning; the Environmental Protection Agency reviews EIA/ESIA The Ministry of Ecology, Sustainable Development and Northern Region Development sets environmental policy and oversees spatial planning, while the Environmental Protection Agency manages EIAs, environmental permits, and compliance monitoring. Municipal authorities handle local approvals, construction permits, and public utilities, and sectoral ministries, such as Agriculture and Water Management, issue sector-specific permits. Technical institutes provide expert guidance on biodiversity, water, and climate.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Substantial

A.1 Environmental Risk Rating

Substantial

The project entails multi-site civil works to rehabilitate, modernize, and expand water and wastewater infrastructure nationwide, including potential replacement of asbestos-containing pipes, expansion/reconstruction of WWTPs, extensive network works in urban and rural areas, capacity expansion at Malo Blato near sensitive water bodies, and TA for the Morača River basin. A substantial risk classification is warranted due to: (i) hazardous materials and legacy risks (asbestos, sludge) requiring licensed handling, transport, and disposal; (ii) dispersed construction interfaces with communities leading to CHS risks (open trenches, traffic conflicts, dust, noise, vibration, utility strikes); (iii) works near and discharges to sensitive aquatic systems with hydrology and waterquality risks; and (iv) uncertainty and oversight complexity across multiple implementing entities, contractors, and remote sites. While risks are largely site specific and mitigable with known measures, they necessitate robust instruments, capacity, and supervision. Mitigation will include an ESMF with screening and exclusion of high risk activities; site specific ESMPs and contractor CESMPs; and



any other instruments to be prepared prior to any on ground works based on risk screening of each sub-project activity. TA ToR for the Morača River basin will embed ESF consistent assessment of hydrology, sediment, biodiversity, ecosystem services, and cumulative impacts to manage downstream risk. For expansion of lake water treatment facility audit will be conducted prior to negotiations to identify compliance gaps, legacy issues, and corrective actions. Its findings will inform the ESCP and the choice of instrument for the expansion.

Substantial

A.2 Social Risk Rating

The Project entails multi-site water and sanitation works with predominantly site-specific, predictable, and reversible social impacts that are mitigable with known measures; however, limited borrower/municipal social safeguards capacity and the multi-site modality elevate implementation risk. Anticipated impacts include temporary service interruptions; construction-related community health and safety risks. Health and Safety risks may arise from temporary water service disruptions or quality fluctuations during system upgrades, and exposure to hazardous materials, including asbestos and biological pollutants. There is also a potential risk that vulnerable groups—such as rural, low-income, and Roma households—could face unequal access to quality service or higher costs. Construction or infrastructure expansion may involve limited land acquisition or temporary land use (ESS5), with minor physical or economic displacement that will require Resettlement Policy Frameworks (RPFs) or Resettlement Action Plans (RAPs). Temporary disruptions to access, livelihoods, and local businesses may occur, especially in rural or remote areas. Increased abstraction from the Bolje Sestre spring may reduce water availability for downstream users and sensitive habitats. Even though larger subprojects may temporarily increase non-local labor; labor and OHS risks are typical and manageable under national regulations and a project LMP with a worker GRM. ESS10 risks include uneven stakeholder engagement and weak/fragmented grievance mechanisms, potentially contributing to social tension where service quality or tariffs change. Mitigation measures will focus on strengthening municipal capacity, ensuring CHS conducting inclusive consultations, minimizing land impacts, and establishing effective grievance mechanisms with clear coordination across authorities. With standard instruments, qualified social specialists, and phased planning, social risks will be identified, monitored, and managed.

B. Relevance of Standards and Policies at Concept Stage

B.1 Relevance of Environmental and Social Standards

ESS1 - Assessment and Management of Environmental and Social Risks and Impacts

Relevant

Project interventions are expected to generate a range of E&S risks and impacts, primarily associated with construction activities, community health and safety, water service and quality access, public perception, potential land acquisition and grievance management. In addition, the main implementing entities, Procon and LSGs have limited ESF capacity. As the exact locations of all project activities are not yet known, ESMF will be prepared prior to appraisal to guide the identification and management of site-specific risks during implementation. SEP, LMP and RPF will also be prepared before appraisal. For expansion of lake water treatment facility audit will be conducted prior to negotiations to identify compliance gaps, legacy issues, and corrective actions. Its findings will inform the ESCP and the choice of instrument for the expansion. The Project will emphasize adaptive management and meaningful stakeholder engagement to manage risks and enhance positive E&S outcomes.

ESS10 - Stakeholder Engagement and Information Disclosure

Relevant



Stakeholder engagement will be undertaken throughout the project lifecycle to ensure that the views and concerns of project-affected parties (PAPs) and other interested parties (OIPs) inform project design and implementation, and to support effective management of E&S risks. Likely stakeholders include local communities near water infrastructure sites (including rural and coastal populations), water utilities, relevant government agencies (e.g., Ministries of Ecology, Agriculture and Finance), civil society organizations (CSOs), sector associations, municipal tourist organisations, tourists and vulnerable groups such as rural households and those with limited access to water and sanitation services. The grievance mechanism will be managed through a cascade model involving all implementing parties and ensuring coordinated and effective resolution of grievances at all levels. Stakeholder Engagement Plan (SEP), will be prepared, disclosed, and implemented prior to project appraisal.

ESS2 - Labor and Working Conditions

Relevant

The Project will engage direct and contracted workers and, where applicable, primary supply workers. Labor risks are moderate. Most works will use local contractors and labor, limiting influx. Larger subprojects may bring some non-local workers, posing risks to community health and safety and potential social tensions. Reconstruction of water infrastructure presents moderate labor risks, primarily OHS-related (slips, trips, falls; restricted movement; physical injuries; hazardous conditions). These risks are predictable and manageable with standard safety measures. Montenegro's labor legislation, aligned with ILO conventions, provides an adequate risk-management framework. To strengthen implementation of ESS2, an LMP will be prepared. The Borrower will ensure all contractors and subcontractors comply with ESS2. A dedicated Labor GM will be established for workers to raise concerns.

ESS3 - Resource Efficiency and Pollution Prevention and Management

Relevant

The Project will apply the waste hierarchy and GIIP across design, construction, and operations. Pre works surveys will be conducted to identify presence of asbestos and where present, either avoid its removal or require licensed companies to manage it in to authorized disposal. ACM procedures and spill response will be included in C ESMPs. For sludge/residuals end to end sludge plans will be prepared. To minimize impact during construction works it will be needed to implement dust/noise control, erosion/sediment and stormwater management, fuel/chemical containment, spoil/waste segregation with licensed off take, and prevent runoff to sensitive receptors. ESS3 requirements will be embedded in bidding, C ESMPs will be approved by the Bank and regularly supervised with corrective actions captured in the ESCP.

ESS4 - Community Health and Safety

Relevant

The construction, upgrading and operation of water treatment facilities in urban and rural areas will directly affect communities, creating potential health and safety risks in particular during construction. Key risks include exposure to noise, dust, traffic, hazardous materials (e.g., asbestos, biological pollutants), and temporary disruptions to water supply and quality. In line with WB standards, these risks will be addressed through an Environmental and Social Management Plan (ESMP) and, as needed, Community Health and Safety (CHS) plans, Traffic Management Plans, Emergency Response Plans, Labor Management Procedures and other targeted measures, with special attention to vulnerable groups to ensure equitable protection and minimize disproportionate impacts.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Relevant



The Project will finance strategic investments in the rehabilitation, modernization, and expansion of water supply and wastewater infrastructure, including centralized and decentralized systems, as well as the expansion of water treatment capacity and potential works in the coastal region. These activities may require land acquisition and could result in physical and/or economic displacement of households, businesses, or land users, particularly where new or expanded infrastructure is planned. While the specific locations and scope of investments will be determined during project preparation, the potential for land-related impacts cannot be excluded at this stage. Resettlement Policy Framework (RPF) will be prepared prior to Appraisal to guide land acquisition and resettlement processes, with site-specific RAPs developed as needed during implementation. All land acquisition and resettlement activities will follow ESS5 principles.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources

Relevant

Several project activities may occur near or within sensitive aquatic and riparian areas, where construction and operations could affect habitats, ecological flows, water quality, and species. Expanding water treatment and future river basin interventions may alter abstraction/discharge regimes, disturb riparian vegetation, and increase sedimentation/turbidity, affecting fish, birds, and wetlands. At concept stage, with designs not finalized, exact impacts are hard to determine; the upcoming audit will detail expected risks and impacts. Network works in rural/remote areas may fragment habitats or remove vegetation. For eligible sites, biodiversity-sensitive design, ecological flow maintenance, timing restrictions, sediment and erosion controls, and restoration plans will be applied as needed. Environmental assessments will include baseline biodiversity surveys, cumulative impact analysis, and monitoring to ensure no net loss of biodiversity and sustained ecosystem services.

ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

Not Currently Relevant

There are no Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities within the Project area.

ESS8 - Cultural Heritage

Relevant

While the project does not target areas of known cultural heritage significance, infrastructure works—particularly in rural or historic areas—may encounter tangible or intangible cultural resources. Standard procedures for chance finds and consultation with relevant authorities will be incorporated into project E & S instruments such as the ESMF as an annex.

ESS9 - Financial Intermediaries

Not Currently Relevant

There will be no financial intermediaries.

B.2 Legal Operational Policies that Apply

OP 7.50 Operations on International Waterways

Yes

OP 7.60 Operations in Disputed Areas

No



B.3 Other Salient Features

Use of Borrower Framework

In Part

The Project will primarily apply the World Bank ESF. National laws broadly reflect EU principles but are not fully equivalent to EU directives, and enforcement and institutional capacity are still being strengthened. This justifies continued reliance on ESF instruments to ensure robust environmental and social performance.

For ESS8, the Project will fully rely on the Borrower's cultural heritage framework, which is aligned with ESS8. For ESS2, the Project will partially rely on the Borrower's framework: Montenegro's labor laws broadly align with ILO conventions, but residual gaps will be addressed through a Labor Management Procedures (LMP) and a project-level labor grievance mechanism (LGM). In addition, a Stakeholder Engagement Plan (SEP) will be prepared and implemented to ensure systematic engagement and strengthen compliance with ESS10.

Use of Common Approach

No

It is not envisaged to include any financial partners.

C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by Appraisal?

At a minimum, by Appraisal the Borrower must have prepared, consulted, and disclosed a draft Environmental and Social Commitment Plan (ESCP) and a Stakeholder Engagement Plan (SEP), alongside the Bank's Appraisal-stage ESRS. Additional Borrower instruments to be ready by Appraisal for substantial risk project are ESMF, RPF and LMP. During implementation site specific ESMP's and site specific SEPs will be prepared. For expansion of lake water treatment facility E&S audit will be conducted prior to negotiations to identify compliance gaps, legacy issues, and corrective actions. Its findings will inform the ESCP and the choice of instrument for the expansion.

III. CONTACT POINT

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