



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Oct-2020 | Report No: PIDC30493

**BASIC INFORMATION****A. Basic Project Data**

Country Montenegro	Project ID P175387	Project Name Montenegro COVID-19 Emergency DPL (P175387)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Feb 18, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Ministry of Finance	Implementing Agency The Ministry of Finance		

Proposed Development Objective(s)

The World Bank aims to support Montenegro in this crisis with the proposed US\$35 million COVID-19 emergency DPL to support Montenegro to (i) mitigate the immediate social and economic impact of the COVID-19 crisis, and (ii) enable a resilient economic recovery.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	35.00
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DETAILS

Total World Bank Group Financing	35.00
World Bank Lending	35.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context**Country Context**

Due to the COVID-19 Montenegro is facing the deepest recession in the last two decades. The COVID-19 crisis has exposed Montenegro's vulnerability to external shocks, including its limited fiscal buffers. Being heavily dependent on tourism (accounting for almost a quarter of GDP), the hardest hit sector by the crisis, Montenegro's economy is projected to contract by 12.4 percent in 2020. It is assumed that 2020 international tourism revenues will be at 25 percent of 2019



revenues, as the strong second wave of COVID-19 during peak summer season halted international travel. Although Montenegro entered 2020 with employment and participation rates at historical highs, the crisis has wiped out the employment gains in recent years. Declining employment and income due to the crisis is hurting household welfare, but the support measures prevented worse outcomes. Due to fiscal consolidation in recent years, Montenegro's fiscal position was better than three years ago, but a sharp plunge in revenues after the COVID-19 shock and the additional spending needed to mitigate the social impact of the crisis are projected to increase the general government deficit to 11.7 percent of GDP in 2020, raising public debt to 93 percent in 2020. Before the pandemic, the 2020 financing needs were largely pre-financed through the Eurobonds issuance in September 2019. The unanticipated 2020 financing gap due to the crisis is equivalent to the estimated budget deficit increase of EUR 450 million (10.5 percent of GDP). The authorities have secured financing and the IFIs have closely coordinated to ensure the complementary support to help address the country's significant unanticipated financing needs.

This operations supports reforms that mitigate the negative social and economic impact of the COVID-19 crisis and enable a resilient economic recovery. The authorities adopted a set of measures to mitigate the impact of the crisis. In line with policy responses in the EU, the measures intended to provide liquidity to firms to reduce lay-offs and bankruptcies and thus minimize the social and economic impact and enable a strong recovery. Consistent with Montenegro's limited fiscal space, the crisis response measures are fiscally responsible in that they are time-bound and targeted to workers and firms in the most affected economic sectors. Despite the COVID-19 crisis, the authorities have advanced several reforms that are milestones in the EU harmonization process, including the preparation of the secondary legislation for implementation of the new Labor Law, Climate Change Law, Public Procurement Law, among other.

In the parliamentary elections held on 30 August, the opposition-led coalitions have won the parliamentary majority. The team will continue the preparation of this operation with the new government.

Relationship to CPF

The proposed emergency DPL is fully consistent with the 2016–20 Country Partnership Framework. The proposed policy program helps the authorities alleviate public finance pressure caused by the COVID crisis and is supporting the immediate support to mitigate the impacts of the crisis on households and private sector and is supporting strengthening the regulatory framework for the post-COVID economic recovery. By supporting macroeconomic and fiscal stability, a top priority identified in the 2016 Systematic Country Diagnostic, the operation enforces critical elements for sustained shared prosperity. The reforms supported by this DPL are necessary to avoid abrupt adjustments that could reverse welfare gains for the population.

C. Proposed Development Objective(s)

The proposed COVID-19 emergency Development Policy Loan of US\$35 million supports Montenegro to (i) mitigate the immediate social and economic impact of the COVID-19 crisis, and (ii) enable a resilient economic recovery. The DPL is part of a forward-looking approach supporting Montenegro in responding to the COVID-19 crisis in mitigating the short-term crisis impact, facilitating restructuring in the economy and systems, and building resilience to future crises over the medium-term. The operation supports the measures providing short-term liquidity and thus relief from the immediate crisis impact on vulnerable households and affected firms. They are designed to preserve incomes and productive capacities in this crisis which is essential to ensure a swift economic recovery. Moreover, the envisioned program aims to support a recovery encouraging fiscally and environmentally sustainable economic growth that is based on the creation of formal jobs in a more productive private sector. The operation further helps the country to address the unanticipated financing gap from the COVID-19 shock and securing expenditures needed to mitigate the



crisis and facilitate a resilient economic recovery.

Key Results

1. The number of employees that benefited from the wage subsidy program increased from 0 in 2019 to 70,000 in 2020.
2. The number of newly registered employees through the wage subsidy program increased from 0 in 2019 to 1,000 in 2020.
3. The amount of liquidity provided to micro, small, and medium enterprises during the COVID-19 crisis increased from EURO in 2019 to EUR50 million in 2020.
4. The number of FMS/MOP beneficiaries that received the supplemental cash transfers increased from 0 in 2019 to 8,500 in 2020.
5. The number of unemployed that received the supplemental cash transfers increased from 0 in 2019 to 17,000 in 2020.
6. The number of pensioners with the minimum pension that received the supplemental cash transfers increased from 0 in 2019 to 12,000 in 2020.
7. The number of workers hired through temporary agencies increased from XXX on August 31, 2020 to XXX on August 31, 2021.
8. Establishment of an operative registry for greenhouse gas emissions in 2021
9. The number of average bids per tender increased from 2 in 2019 to 3 in 2021.

D. Concept Description

The proposed operation is organized under two pillars (i) mitigate the social and economic impact of the COVID-19 crisis; and (ii) enable a resilient economic recovery, that underpin and inform the authorities reform agenda. These pillars closely complement each other reinforcing the impact of the reform program to mitigate the adverse social impacts and facilitate a strong and sustainable economic recovery from the crisis. The program is thus essential to minimize the poverty impact of the crisis and to strengthen shared prosperity in the short- and medium- term. The reforms supported by this operation benefit from the coordinated support and targeted technical assistance from the EC, the IMF, and the World Bank.

The first pillar supports necessary, targeted, and fiscally responsible mitigation measures of the authorities to maintain incomes and the productivity of the most affected households and firms. The measures are designed to preserve incomes and productive capacities by minimizing the number of mass layoffs and bankruptcies in this current crisis phase. For example, the authorities introduced time-bound and targeted wage subsidies for firms in affected (lockdown and tourism) sectors, one-off cash transfers to poor and vulnerable groups, and credit lines for micro, small, and medium size firms with favorable terms. The supported measures have been designed to provide effective relief from the immediate crisis impact and helped to preserve jobs, incomes, and labor productivity in the private sector—a prerequisite for a resilient economic recovery moving forward.

The second pillar supports the implementation of the structural reform program the authorities have undertaken before and during the crisis to ensure a sustainable economic recovery as temporary crisis relief measures are phasing out. The new legislation provides important milestones in implementing the major reforms and comprehensive new laws supported by the recent World Bank PBG2 that was designed to strengthen Montenegro's medium-term fiscal and financial sector resilience by harmonizing key legislation regulating the private sector with international best practice. Specifically, the reforms supported in this pillar improve the flexibility of labor markets to promote private sector job



creation during the recovery, enable a trading and crediting system for firms' greenhouse gas emissions, and facilitate more efficient, transparent, and competitive public procurement procedures to level the playing field for private sector firms in accessing contracts. They complement the first pillar's immediate crisis response measures that aimed to maintain productive capacities in the private sector by facilitating a resilient economic recovery that relies on inclusive growth in sustainable private sector activities.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Most of the DPL prior actions, particularly Pillar 1 aimed at minimizing the immediate adverse impacts of the COVID-19 crisis, are expected to have positive poverty, social, and distributional impacts. The wage subsidies (Prior Action 1) and cash transfers (Prior Action 2) have provided direct relief to vulnerable individuals and families by partly compensating for income losses due to the crisis. Rapid social assessment before the implementation of the support measures indicated that many households faced difficulty in meeting basic needs. In the absence of a policy response, around 20,000 Montenegrins could fall into poverty (measured as income below \$5.5/day in 2011PPP) in 2020. The swift implementation of the wage subsidies and cash transfers, targeted to the most affected sectors and vulnerable populations, provided timely support to cushion the poverty and social impacts. The expected increase in the poverty rate is 1 percentage point less than what it would have been without a policy response. These prior actions are also expected to help poorer households protect critical investments in health and education to avoid larger losses in the future. Other prior actions are expected to have positive poverty and distributional impacts by supporting firms where the poor and low-income individuals are more likely to work.

Environmental, Forests, and Other Natural Resource Aspects

The specific policies supported by this operation are not likely to have significant effects on Montenegro's environmental resources (e.g. forests, water resources, etc.) and natural habitats, but is expected to bring positive climate benefits. The implementation of the Law on Protection Against the Adverse Impacts of Climate Change through the established regulatory framework for greenhouse gas emission credits and trading for industrial and energy plants prepares the country to move towards a resilient and low-carbon economy preparing it for future challenges related to a changing climate. The allocated budget resource intended for the sustainable management of natural resources, the enforcement of environmental requirements, and the provision of environmental services have been preserved during this crisis. Moreover, Montenegro's medical and hospital waste managed system is on par with European standards and well prepared to manage the potential surge in hazardous medical waste resulting from the COVID-19 health support services. That is, it is managed through a concession system for the treatment of health care waste, organized and monitored by the Ministry of Health to ensure that the management is carried out through competent and licensed companies that manage the collection, treatment, and safe disposal of infectious and noninfectious hazardous waste.

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APPROVAL

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Approved By

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